THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold all your shares in China Public Healthcare (Holding) Limited, you should at once hand this circular and the accompanied proxy form to the purchaser or to the licensed securities dealer, the bank or other agent through whom the sale was effected for transmission to the purchaser.

PublicHealthcare
中國公共醫療

CHINA PUBLIC HEALTHCARE (HOLDING) LIMITED

（中國公共醫療（控股）有限公司）

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8116)

MAJOR TRANSACTION
ACQUISITION OF MILLION ZONE HOLDINGS LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening the extraordinary general meeting of the Company to be held at Room 2204, 22/F, Mass Mutual Tower, 38 Gloucester Road, Wanchai, Hong Kong on 9 May 2012 at 11:00 a.m., is set out on pages 157 to 158 of this circular. Whether or not you propose to attend the meeting, you are advised to complete the form of proxy attached to the notice of the extraordinary general meeting in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

27 March 2012

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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In this circular, unless the context requires otherwise, the expressions as stated below will have the following meanings:

"Acquisition"	the acquisition of the Sale Shares pursuant to the Agreement
"Agreement"	the sale and purchase agreement dated 20 January 2012 made between the Vendors, the Purchaser and the Company relating to the sale and purchase of the entire issued share capital of the Target as amended by the Supplemental Agreement
"associates"	has the meaning ascribed to it in the GEM Listing Rules
"Beijing Company"	北京全城熱戀商場有限公司 (Beijing City-In-Love Market Limited), a company incorporated in the PRC
"Beijing Shareholders"	Ma Yuliang, Wan Zihong, Chang Chun, He Ling, Wang Yong, Xue Huixuan, Chu Yajun and Chi Aimin, being all the shareholders of the Beijing Company immediately prior to completion of the Reorganization
"Board"	the board of Directors or a duly authorised committee thereof
"Company"	China Public Healthcare (Holding) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM
"connected persons"	has the meaning ascribed to it in the GEM Listing Rules
"Completion"	completion of the transactions contemplated under the Agreement
"Consideration"	the consideration of HK$600 million payable by the Purchaser for the Sale Shares under the Agreement, subject to adjustment provided therein
"Conversion Shares"	the Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds

"Convertible Bonds"	the convertible bonds in the agreed form up to the principal amount of HK$520 million, to be issued by the Company in favour of the Vendors to satisfy part of the Consideration
"Directors"	the directors of the Company and each a "Director"
"EGM"	the extraordinary general meeting of the Company to be convened to approve the Acquisition
"Enlarged Group"	the Group immediately after completion of the Acquisition
"GEM"	The Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HK Subsidiary"	Great Rise Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Target
"Hong Kong"	the Hong Kong Special Administration Region of the People's Republic of China
"Latest Practicable Date"	22 March 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Independent Third Party(ies)"	an independent third party, to the best of the Directors' knowledge, information and belief having made reasonable enquiry, who is not connected with the Company and its connected persons
"Jiangyin Company"	江陰宏誠珠寶有限公司 (Jiangyin Hongcheng Jewelry Limited), a company incorporated in the PRC

"Jiangyin Shareholders"	Chang Chun and He Ling being all the shareholders of the Jiangyin Company immediately prior to completion of the Reorganization
"RMB"	Renminbi, the lawful currency of the PRC
"PRC"	The People's Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Purchaser"	Ample Rich Capital Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
"Reorganization"	(i) the acquisition of the entire equity interest of the Beijing Company by the Jiangyin Company and (ii) the acquisition of the entire equity interest of the Jiangyin Company by the HK Subsidiary
"Sale Shares"	the 10 ordinary shares of US$1.00 each of and in the issued share capital of the Target held and beneficially owned by the Vendors, representing the entire issued share capital of the Target
"SFO"	The Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of nominal value of HK$0.01 each in the share capital of the Company
"Shareholders"	registered holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement dated 16 March 2012 made between the Vendors, the Purchaser and the Company amending the Agreement

"Takeovers Code"	the Code on Takeovers and Mergers
"Target"	Million Zone Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by the Vendors
"Target Group"	the Target, HK Subsidiary, Jiangyin Company and Beijing Company
"Valuation Report"	the valuation report on the Beijing Company by Grant Sherman Appraisal Limited, independent valuer set out in Appendix IV hereto
"Vendors"	(1) Value Vibrant Investments Limited, (2) Twin Wins Capital Limited and (3) Radiance Glory International Limited
"%"	per cent

CHINA PUBLIC HEALTHCARE (HOLDING) LIMITED

（中國公共醫療（控股）有限公司）

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8116)

Executive Directors:
Stephen William Frostick *(Chairman)*
Lu Chunming *(Chief Executive Officer)*
Cheng Chun Tak

Independent non-executive Directors:
Chang Jun
Tso Hon Sai Bosco
Lee Chu Hwa Joshua

Registered office:
Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal place of business in Hong Kong:
Room 2204, 22/F.,
MassMutual Tower,
38 Gloucester Road,
Wanchai,
Hong Kong

27 March 2012

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ACQUISITION OF MILLION ZONE HOLDINGS LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

The Board announced on 20 January 2012 that the Purchaser, the Company and the Vendors entered into the Agreement pursuant to which the Purchaser has conditionally agreed to acquire from the Vendors the entire issued share capital of the Target at a consideration of HK$600 million (subject to adjustment), which is to be satisfied as to HK$80 million in cash, and HK$520 million by the issue of the Convertible Bonds by the Company to the Vendors.

The purpose of this circular is to provide you with, among other things, information of the Acquisition and to give you a notice of the EGM at which a resolution will be proposed to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder.

THE AGREEMENT

Date: 20 January 2012

Parties:

1. Value Vibrant Investments Limited, Twin Wins Capital Limited and Radiance Glory International Limited as vendors;

2. Ample Rich Capital Limited as purchaser; and

3. the Company

Value Vibrant Investments Limited is an investment holding company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Kwok Sum Kan Jason. Twin Wins Capital Limited is an investment holding company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Liu Qiang. Radiance Glory International Limited is an investment holding company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Sun Chian Yi. To the best information and belief of the Directors after having made all reasonable enquiries, as at the date of this announcement, the Vendors and their ultimate beneficial owners are Independent Third Parties. The Vendors were introduced to the Company through Cheong Lee Securities Limited, a licensed corporation to carry out Type 1,2,4 and 5 regulated activities under the SFO and is an Independent Third Party.

On 16 March 2012, the Vendors, the Purchaser and the Company entered into the Supplemental Agreement pursuant to which the parties agreed to amend the Agreement to the effect that the 1st Year Profit (as defined under the section "Profit guarantee and consideration adjustment" below) shall refer to the audited net profit (before tax and all extraordinary and exceptional items as defined or recognised under generally accepted accounting principles and practices in Hong Kong) of the Target Group instead of the Beijing Company. The said amendment is to reflect the intention of the parties as the Company is acquiring the entire Target Group and therefore the relevant profit guarantee should be applicable to the Target Group instead of the Beijing Company. The Directors consider that the terms of the Supplemental Agreement are fair and reasonable and in the interest of the Company and Shareholders as a whole.

Assets to be acquired

Under the Agreement, the Company has conditionally agreed to acquire from the Vendors the Sale Shares, representing the entire issued share capital of the Target, together with all shareholders loans due from the Target to the Vendors as at Completion.

Consideration

The consideration for the Acquisition is HK$600 million, which is subject to adjustment as set out under the section headed "Profit Guarantee and Consideration Adjustment" below.

The Consideration is to be satisfied by the Purchaser in the following manner:

(i) HK$80 million in cash to be paid upon Completion;

(ii) HK$208 million by procuring the Company to issue the Convertible Bonds in the equivalent amount to the Vendors or their nominees upon Completion;

(iii) the balance in the sum of HK$312 million ("**Balance Consideration**"), subject to adjustment as set out under the section headed "Profit guarantee and consideration adjustment" below, by procuring the Company to issue the Convertible Bonds in the equivalent amount to the Vendors or their nominees within 3 business days after determination of the adjusted Balance Consideration.

The Consideration was determined after arm's length negotiations between the Vendors, the Company and the Purchaser, and taking into consideration of (i) the preliminary indicative market value of the Beijing Company as at 31 December 2011 of approximately HK$613 million as advised by Grant Sherman Appraisal Limited, an independent valuation firm, (ii) the latest financial position of the Beijing Company as shown in the management accounts of the Beijing Company as at 31 December 2011, (iii) the profit guarantee provided by the Vendors under the Agreement as set out under the section headed "Profit Guarantee and Consideration Adjustment" below, and (iv) the outlook of the diamond and jewelry retail industry in the PRC.

According to the Valuation Report by Grant Sherman Appraisal Limited, the market value of 100% of the Beijing Company was HK$613 million as at 15 February 2012. The valuation method used for the value of the Beijing Company was market approach method. Grant Sherman Appraisal Limited first determined the market value of invested capital to earning multiples of the comparable companies whose core business operations are similar to the Beijing Company. Then they applied the market value of invested capital to earning multiples to the Beijing Company to determine its fair market value. The valuation method does not involves any discounted cash flow or projections of profit, earnings or cash flows which is regarded as profit forecast under Rule 19.61 of the GEM Listing Rules. The Valuation Report is set out in Appendix IV of the Circular.

Profit guarantee and consideration adjustment

The Vendors guarantee to the Purchaser that the audited net profit (before tax and all extraordinary and exceptional items as defined or recognised under generally accepted accounting principles and practices in Hong Kong) of the Target Group for the period of one year immediately after the Completion Date ("**1st Year Profit**") shall be no less than HK$70 million.

If the 1st Year Profit shall be less than HK$70 million, the Balance Consideration shall be reduced and adjusted according to the following formula:

$$A = \text{Balance Consideration} \times \frac{\text{1st Year Profit}}{70{,}000{,}000}$$

where A is the adjusted Balance Consideration

No adjustment will be made to the Balance Consideration if the 1st Year Profit is more than HK$70 million. If the Target Group records a loss for the first year, the entire Balance Consideration shall become zero and the Company will not be obliged to pay the entire Balance Consideration.

The aforesaid profit guarantee and consideration adjustment was determined after arm's length negotiation between the Company and the Vendors having taking into account of (i) the terms and conditions of the Agreement as a whole; (ii) the financial information of the Target Group provided by the Vendors; (iii) the projected price/earnings ratio of the Target Group based on the profit guarantee of approximately 8.6 times which is lower than those of comparable companies listed on the Stock Exchange engaging in similar business and (iv) the business plan and prospects of the Target Group. The Directors consider that the aforesaid profit guarantee and consideration adjustment are fair and reasonable. In view of current trend of the Target Group's financial performance, the Directors consider that it has a reasonable prospect of achieving the targeted 1st Year Profit.

Conditions precedent

The completion of the Agreement is subject to the following conditions precedent:

(a) the Purchaser being reasonably satisfied with the results of the due diligence review of the assets, liabilities, operations and affairs of the Target Group;

(b) all necessary consents and approvals required to be obtained on the part of the Vendors, the Company and the Purchaser in respect of the Agreement and the transactions contemplated thereby having been obtained;

(c) all necessary waiver, consent, approval, licence, authorisation, permission, order and exemption (if required) from the relevant governmental or regulatory authorities or other third parties which are necessary in connection with the Agreement and the transactions contemplated thereby having been obtained;

(d) the passing by the shareholders of the Company at the EGM of an ordinary resolution to approve the Agreement and the transactions contemplated hereunder, including but not limited to the issue of the Convertible Bonds to the Vendors;

(e) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) in relation to the transactions contemplated under the Agreement;

(f) the warranties by the Vendors set out in the Agreement remaining true and accurate in all respects; and

(g) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares.

If the above conditions are not satisfied (or as the case may be, waived by the Purchaser in respect of (a), (e) and (f) only) on or before 5:00 p.m. on 30 June 2012, or such later date as the Vendors and the Purchaser may agree, the Agreement shall cease and determine and thereafter neither party shall have any obligations and liabilities towards each other hereunder save for any antecedent breaches of the terms hereof. Although the Purchaser is entitled to waive the conditions (a), (e) and (f) above, the Purchaser has no intention of waiving the same and will not do so which would adversely affect the interest of the Purchaser and the Company.

Completion

Completion shall take place on the date falling on the third Business Day following the day on which all the conditions precedent of the Agreement are satisfied in full (or the case may be, waived by the Purchaser), or such other date as the Vendors and the Purchaser may agree in writing.

After Completion, the Target will become a wholly owned subsidiary of the Company.

Convertible Bonds

The principal terms of the Convertible Bonds are as follows:

Issuer

The Company

Principal amount

Up to HK$520 million

Interest

The Convertible Bonds do not bear any interest.

Maturity

On the 5th anniversary of the date of issue of the Convertible Bonds.

Conversion price

The conversion price is HK$0.049 per Share, subject to adjustments arising from share consolidation, share subdivision and capitalisation issue as provided in the terms of the Convertible Bonds.

The conversion price represents:

(a) a discount of approximately 15.52% to the closing price of HK$0.058 per Share as quoted on the Stock Exchange on 20 January 2012, being the date of the Agreement;

(b) a discount of approximately 19.93% to the average closing price of approximately HK$0.0612 per Share as quoted on the Stock Exchange for the 5 consecutive trading days immediately prior to the date of the Agreement; and

(c) a discount of approximately 7.55% to the closing price of HK$0.053 per share quoted on the Stock Exchange on the Latest Practicable Date.

The conversion price was determined after arm's length negotiations between the Company and the Vendors with reference to, among other things, the recent trend of the Share price performance and the prevailing market price of the Shares.

Conversion

Provided that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder of the Convertible Bonds and parties acting in concert with it (as defined under the Takeovers Code) and (ii) does not result in the Company's non-compliance with the minimum public shareholding requirement under Rule 11.23 or other similar provisions of the GEM Listing Rules, each holder of the Convertible Bonds has the right to convert the whole or part of the outstanding principal amount of the Convertible Bonds (in the amount of HK$100,000 or integral multiples thereof) on any business day after the date of issuance of the Convertible Bonds up to the maturity date.

Ranking of Conversion Shares

The Conversion Shares will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of such Shares.

Transferability

The Convertible Bonds are freely transferable in denominations of the principal amount of HK$100,000 subject to prior notification to the Company, provided that any transfer to a connected person of the Company shall be subject to the consent of the Company and compliance with all requirements of the GEM Listing Rules and/or the Hong Kong Stock Exchange.

Redemption

The Company may redeem the Convertible Bonds at 105% of the principal outstanding amount at any time from the date of issue to the maturity date. Any Convertible Bonds outstanding on the maturity date shall be redeemed by the Company at 105% of the outstanding principal amount.

Listing

No application will be made for the listing of the Convertible Bonds.

Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares which may fall to be issued upon conversion of the Convertible Bonds.

EFFECT ON THE SHAREHOLDING STRUCTURE

The maximum of 10,612,244,898 Conversion Shares to be issued upon full conversion of the Convertible Bonds represent approximately:

(a) 94.14% of the existing issued share capital of the Company; and

(b) 48.49% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Bonds.

The Directors noted that there will be a substantial dilution to the Company's existing shareholders upon full conversion of the Convertible Bonds. However after considering (i) that the Convertible Bonds relieve the Company from substantial cash outflow upon Completion and will not result in immediate dilution to the Company's shareholders; (ii) the profit guarantee and Consideration adjustment set out under the section "Profit guarantee and consideration adjustment" above and (iii) the potential benefit to the Group's financial position as a result of the Acquisition, the Directors are of the view that the issue of the Convertible Bonds are fair and reasonable in the interest of the Company and Shareholders as a whole.

The following table sets out the effects of the Conversion Shares on the shareholding structure of the Company based on (i) the issued share capital and shareholding structure of the Company as at the Latest Practicable Date and (ii) assuming conversion in full of the Convertible Bonds into Conversion Shares at the conversion price of HK$0.049 per Share and (iii) assuming conversion of the Convertible Bonds into Conversion Shares at the conversion price of HK$0.049 per Share subject to the conversion restrictions, assuming that no further issue of new Shares after the Latest Practicable Date:

Shareholders	As at the date of the Latest Practicable Date		Immediately after issue and conversion of all Convertible Bonds at the conversion price of HK$0.049 per Share *(note 1)*		Immediately after issue and conversion of the Convertible Bonds at the conversion price of HK$0.049 per Share subject to the conversion restrictions	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Way Capital Investments Limited	1,482,142,857	13.15	1,482,142,857	6.77	1,482,142,857	9.22
Lu Chunming *(note 2)*	830,000	0.01	830,000	0.00	830,000	0.00
Vendors	0	0.00	10,612,244,898	48.49	4,808,098,667	29.90
Public shareholders	9,789,526,025	86.84	9,789,526,025	44.74	9,789,526,025	60.88
Total	11,272,498,882	100.00	21,884,743,780	100.00	16,080,597,549	100.00

Notes:

1. This column for illustration purpose only as pursuant to the terms of the Convertible Bonds, the right to convert the Convertible Bonds is subject to the proviso that any conversion of the Convertible Bonds (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder of the Convertible Bonds and parties acting in concert with it (as defined under the Takeovers Code) and (ii) does not result in the Company's non-compliance with the minimum public shareholding requirement under Rule 11.23 or other similar provisions of the GEM Listing Rules.

2. Mr. Lu Chunming is an executive director of the Company.

There will not be any change of control of the Company resulting from the completion of the Acquisition or the issuance of the Conversion Shares.

INFORMATION ON THE TARGET GROUP

The Target and the HK subsidiary

The Target is an investment holding company incorporated in the British Virgin Islands and is wholly owned by the Vendors. The Target is being held by the Vendors as to 70% by Value Vibrant Investments Limited, 20% by Twin Wins Capital Limited and 10% by Radiance Glory International Limited.

The Target has no business activity other than the holding of the equity interest in the HK Subsidiary.

The HK Subsidiary is a company incorporated in Hong Kong and is wholly owned by the Target. The HK Subsidiary has no business activity other than the holding of the equity interest in the Jiangyin Company.

According to the accountants' report on the Target and HK Subsidiary set out in Appendix II-A to this circular, the audited loss before and after taxation for the year ended 31 December 2010 were both approximately HK$25,015. The audited loss before and after taxation for the year ended 31 December 2011 were both approximately HK$17,065. The audited net liability of the Target and HK Subsidiary as at 31 December 2011 was approximately HK$42,002.

Jiangyin Company

The Jiangyin Company is a company incorporated in the PRC with limited liability. Upon completion of the Reorganization, it will be wholly owned by the HK Subsidiary. The principal activities of the Jiangyin Company will be the holding of the equity interest in the Beijing Company and as the purchasing arm for the Beijing Company.

According to the accountants' report on the Jiangyin Company set out in Appendix II-B to this circular, the audited profit before and after taxation from 12 December 2011 (date of incorporation) to 31 December 2011 were both approximately RMB627,000 and the audited net assets value of the Jiangyin Company as at 31 December 2011 was approximately RMB10.63 million.

Beijing Company

The Beijing Company is a company incorporated in the PRC with limited liability. Upon completion of the Reorganization, it will be wholly owned by the Jiangyin Company. The Beijing Company is principally engaged in the sale of diamond, gemstone and related jewellery through chain retail stores in the PRC.

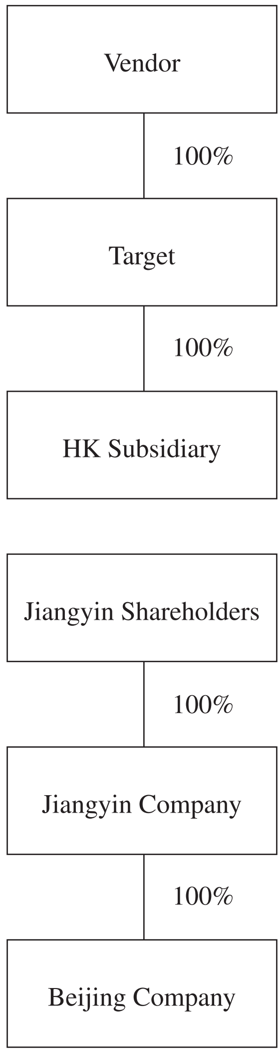
According to the accountants' report on the Beijing Company set out in Apprndix II-C to this circualr, the audited loss before and after taxation for the year ended 31 December 2010 were both approximately RMB1.10 million. The audited profit before and after taxation for the year ended 31 December 2011 were approximately RMB19.97 million and RMB14.97 million respectively. The audited net assets value of the Beijing Company as at 31 December 2011 was approximately RMB32.68 million.

The Reorganization

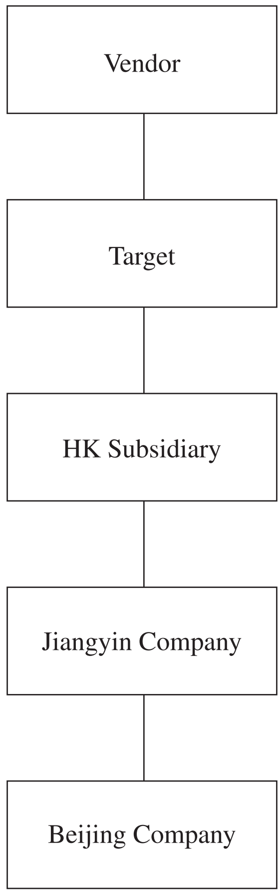
On 26 December 2011, the Jiang Company entered into agreements with the Beijing Shareholders, who are Independent Third Parties to the best of the Directors information and belief, for the transfer of the entire equity interest in the Beijing Company to the Jiangyin Company. The total consideration paid by the Jiangyin Company was RMB9.9 million which was determined by Jiangyin Company and the Beijing Shareholders with reference to the registered capital of the Jiangyin Company for the purpose of the Reorganization and did not reflect the market value of the Target Group. The acquisition of the entire equity interest in the Beijing Company by the Jiangyin Company has been completed and the relevant business licence has been issued on 21 February 2012.

On 15 December 2011, the HK Subsidiary has entered into agreements with the Jiangyin Shareholders, who are Independent Third Parties to the best of the Directors information and belief, for the transfer of the entire equity interest in the Jiangyin Company to the HK Subsidiary. The relevant certificate of approval from the Municipal Government of Jiangsu Province, PRC has been issued on 30 December 2011. It is expected that the relevant business licence will be issued in March 2012.

The structure of the Target Group as at the Latest Practicable Date is as follows:



The structure of the Target Group immediately after completion of the Reorganization is as follows:



Principal business activities and business model

The Target Group principally engages in retail sales of diamond, jade and other gemstones and related jewellery through the Beijing Company as its principal operating company in Beijing, PRC. The Target Group is only involved in trading of diamonds, gemstones and jewelleries and does not involve in the manufacturing, design or processing of such products.

Products

The principal products of the Target Group are loose diamonds and diamond-set jewelleries which made up the majority of the Target Group's sales. All jewellery products are enclosed with certificates issued by the National Gem Testing Centre ("NGTC") of the PRC in accordance with the applicable PRC rules and regulations. Most of the diamonds sold by the Target Group are enclosed with certificates issued by the Gemological Institute of America ("GIA") or HRD Antwerp ("HRD") or International Gemological Institute ("IGI") or European Gemological Laboratory ("EGL").

GIA was established in 1931 and is the world's foremost authority on diamonds, colored stones, and pearls. GIA developed the "4Cs" and the GIA International Diamond Grading System to objectively compare and evaluate diamonds.

HRD Antwerp's primary shareholder is the Antwerp World Diamond Centre which is a private foundation established in 1973 and represents the Belgian diamond industry. Nowadays, 80% of all rough diamonds in the world are handled in the city of Antwerp in Belgium, while 50% of all cut diamonds pass through Antwerp.

IGI was established in 1975 and is the world's largest independent gem certification and appraisal institute for diamonds, colored gemstones and jewelry.

EGL was founded in 1974 in Belgium and consists of an international network of gemmological laboratories, with branches in Israel, the United States, Belgium, South Africa, France, Britain, Korea, India and Hong Kong. It is the third largest provider of gemmological services in the world.

Suppliers

The Target Group sourced its supply of loose diamonds and diamond-set jewelleries from over 40 suppliers, including both local and overseas suppliers from countries such as Israel, Japan, India and USA. The Target Group is able to ensure a continuous supply of quality products at competitive prices from such broad base of suppliers.

Among all the suppliers, the Target Group has entered into strategic supply agreements with approximately 20 selected suppliers pursuant to which the Target Group agreed to give priority to the selected suppliers when placing orders and the selected suppliers agreed to give the best prices to the Target Group. The strategic suppliers were selected based on their past relationships with the Target Group. The Target Group believes that by entering into the strategic supply agreements, it can strengthen its relationships with the selected suppliers. It is also expected that the number of strategic suppliers will increase in line with the growth in the Target Group's sales.

The Target Group used to source new suppliers among members of the Shanghai Diamond Exchange, which provides full contact information of all its members on its website. In addition, most of the suppliers for diamond-set jwelleries are based in Shenzhen, Panyu and Guangzhou of Guangdong Province, PRC. The Target Group makes regular visits to these areas to identify new suppliers. Currently the Target Group's purchasing department has a work force of 20 persons.

Target customers

The target customers of the Target Group range from low end (spending under RMB10,000) to high end (spending over RMB100,000) located in tier-1 cities in the PRC who are mostly event-driven (such as wedding and celebrations), investment oriented or influenced by fashion trends.

Besides traditional advertising channels such as print and electronic media, the opening of trendy chain stores at strategic locations is itself an important channel for promoting the Target Group's image. The theme of advertising is to promote the Target Group's branding "全城熱戀" and "In Love" as offering competitive pricing for good quality products and as a trusted brand for diamonds and jewelleries. The Target Group regularly organizes promotional events in the stores such as cocktail reception and lucky draw to increase customer inflow. The Target Group will also organize joint promotional activities with reputable third parties to raise the Target Group's image and brand awareness.

Retail stores

The Target Group currently operates 5 self-operated chain retail stores in Beijing. Its first and head store located at Chaoyang district, Beijing, commenced business in March 2011 and occupies a floor area of approximately 3,000 sq. m. Another store is also located at Chaoyang district, while 2 others are located at Xicheng district and the remaining is located at Dongcheng district. All the retail stores are situated at leased premises with lease terms ranging from 2 to 5 years. It is the Target Group's strategy to open stores with trendy decorations in core commercial districts to attract target customers. The Target Group aims to continue to open chain stores in the core commercial districts of other tire-1 cities such as Shanghai, Shenyang and Chengdu in order to expand its geographical coverage. The Target Group intends to fund the costs of opening new stores mainly from its internally generated cashflow.

Revenue and costs

The Target Group's major revenue comes from the sales of loose diamonds and diamond-set jewelleries through its retail stores. Such revenue will be affected mainly by a number of factors including the price and quality of the goods offered, the quality of services provided, the effectiveness of marketing strategies, competition from competitors, the general economic conditions and the spending power and confidence of consumers.

The major component of the Target Group's operating costs being the costs of goods from suppliers, rental expenses and staff salaries. The operating costs will be affected mainly by the fluctuations in the costs of goods from suppliers, the number of leased premises and the amount of rental expenses and the amount of staff salaries.

Business strategies

The business strategy of the Target Group is to offer quality diamonds at low prices through self-operated chain stores. Traditionally customers shopping for luxury consumer goods such as diamonds and jewellery mainly do so through outlets in large and reputable department stores. Invariably the retails prices of diamonds will be marked up several times to include the costs of the intermediate department store operators in addition to the cost from suppliers. The Target Group's business model through self-operated chain stores removes the costs of intermediate department stores operators. Therefore the Target Group is able to offer the same quality of diamonds at lower prices to customers.

Going forward, the Target Group intends to achieve growth in revenue and profits through (i) attracting new customers; (ii) expanding product range and (iii) expanding geographical coverage of retail stores. The Target Group will stick to its strategy of offering low prices for quality diamonds. It will continue to promote its brand and attract new customers through advertising and organizing marketing campaigns and events including joint functions with other reputable parties. The Target Group aims to offer more variety of products such as diamonds with different colour and shapes, large size diamonds (over 3.0 carats) top-end jade and other gemstones. The Target Group also intends to expand its number of retail stores to other tier-1 cities. The preliminary plan is to set up retail stores in Shanghai, Shenyang and Chengdu. However no timetable has been fixed for such expansion. The Target Group intends to fund the new stores from its internally generated cashflow. The Target Group will only implement such expansion after carefully studying the cashflow status of the Target Group, the capital expenditures involved and the feasibility of the new store location.

The Directors have discussed with the Vendors on the business plan of the Target Group and as at the Latest Practicable Date, have conducted appropriate due diligence work and assessments on the Target Group which include:

- engaging legal advisers to conduct legal due diligence on each member of the Target Group and all material contracts entered into by the Target Group and being satisfied with the due diligence result;

- engaging an independent valuer to prepare the Valuation Report. The Directors have reviewed the bases and assumptions adopted in the Valuation Report and consider them to be fair and reasonable. The Directors have also assessed the independence and qualifications of the valuer and are satisfied that the valuer is an Independent Third Party and possesses the necessary qualifications to carry out the valuation;

- engaging the Company's auditor to conduct an audit on the Target Group's financial position;

- engaging a financial adviser to advise the Company on the Acquisition;

- reviewing all material contracts entered into by the Target Group;

- researching on the diamond and jewellery retail market in the PRC and are of the view that the prospects of the same are promising;

- reviewing the business plan and business model of the Target Group including the revenue source, target customers, costs element, strengths and weaknesses;

- conducting site visits on the Target Group's chain store network in the PRC and meeting and discussing with the key personnel responsible of the Target Group's management and operation and understanding their views on the affairs and prospects of the Target Group;

- reviewing the financial projections for the Target Group's business and discussing the same with the Company's auditor and financial adviser.

As at the Latest Practicable Date, the aforesaid due diligence exercises have not revealed any significant issues which will materially and adversely affect the operations or financial conditions of the Target Group.

It is intended that the current key management of the Target Group will stay on after Completion. The key personnel of the Target Group are:

Mr. Wan Zihong (萬子紅), aged 47, chairman of the Target Group. Mr. Wan has over 10 years experience in project management and marketing in retail sales in the PRC. He has been responsible for launching a large scale shopping arcade for women in Beijing and similar projects in Hebei and Tianjin, PRC. Mr. Wan had also been actively engaged in the retail sales of luxury products such as gold and diamonds in the PRC.

Mr. Chang Chun (常春), aged 47, deputy chairman of the Target Group. Mr. Chang has over 23 years experience in the wholesale and trading of diamonds in Japan and the PRC. Prior to joining the Target Group, Mr. Chang worked for a Japanese corporation in its diamond wholesale business in the PRC.

Mr. Chi Aimin（遲愛民）, aged 40, chief executive officer of the Target Group. Mr. Chi has extensive experience in business management. Prior to joining the Target Group, he had been the president of the Beijing branch of Changchun Guoxin Investment Group of the PRC and the managing director of a foreign enterprise engaging in car rental in the PRC. Mr. Chi had also been the managing director of a joint venture with an Italian investor engaging in natural and organic food in the PRC.

INDUSTRY OVERVIEW

According to Shanghai Diamond Exchange ("SDE"), the import of polished diamond amounted to USD1.70 billion, representing an increase of 64% year on year. In addition, for the first 10 months in 2011, the trading volume of diamond on SDE increased significantly by 64% to USD3.57 billion.

Jewelry sales in the PRC amounted to RMB250 billion in 2010 and its sales increased by 69% year on year in the first 10 months of 2011. According to the National Jewelry Management Center, the PRC is expected to be the world's number one jewelry market by 2020, replacing the US. The prospect of diamond continues to be positive in coming years.

Competitive landscape

The PRC diamond and jewellery retail market includes both domestic and foreign brands. Well known foreign brands such as Van Cleef & Arpels, Cartier, Bulgari and Tiffany are among the top end of the luxury jewellery market. Domestic brands (including those from Hong Kong) such as Chow Tai Fook, Chow Sang Sang, Luk Fook, Chow Tai Seng and Laofengxiang enjoy broad market coverage offering middle to high end jewellery products.

Reputable foreign and domestic retailers typically have strong brand recognition, extensive capital resources, strong operational experience and global purchasing and sales networks. The major sales channels for diamonds and jewellery in the PRC are through department stores and self-operated stores.

The Target Group strategically focuses its competitive front on domestic diamond retailers through department stores. The Target Group's business model through self-operated chain stores removes the costs of intermediate department stores operators. Therefore the Target Group is able to offer the same quality of diamonds at lower prices to customers. The Target Group aims to build its branding on offering competitive prices for a comprehensive range of quality diamond products and as a nationwide trusted brand for diamonds and jewellery.

REGULATORY OVERVIEW

The Target Group's operations are entirely in the PRC. The following is a brief overview of the major PRC laws, rules and regulations relevant to the Target Group's business:

Industrial Policy

On 24 December 2011, the National Development and Reform Commission (the "**NDRC**") and the Ministry of Commerce (the "**MOFCOM**") jointly issued the Foreign Industrial Guidance Catalogue (amended in 2011) (the "Catalogue")（外商投資產業指導目錄（2011年修訂））which came into effect on 30 January 2012. The Catalogue classifies industries into three categories, which are encouraged, restricted and prohibited.

Foreign Investment in Commercial Sectors

The principal PRC law governing foreign investment in retail enterprises is the Administrative Measures on Foreign Investment in Commercial Sectors（外商投資投商業領域管理辦法）(the "**Measures**") which was promulgated by MOFCOM on 16 April 2004 and came into effect on 1 June 2004, pursuant to which, foreign investors are permitted to engage in the operation of distribution services on a wholly foreign-owned basis from 11 December 2004.

Foreign Exchange Control

The PRC State Council promulgated the PRC Regulation for the Foreign Exchange (the "**Foreign Exchange Regulations**")（中華人民共和國外匯管理條例）on 29 January 1996, which was then amended on 5 August 2008. On 20 June 1996, the PBOC further promulgated the Regulation on the Foreign Exchange Settlement, Sales and Payment（結匯、售匯及付匯管理規定）(the "**Settlement Regulations**"), which came into effect on 1 July 1996. Pursuant to the Foreign Exchange Regulation and the Settlement Regulation, foreign exchanges required for distribution of profits and payment of dividends may be purchased from designated foreign exchange banks in the PRC upon presentation of board resolution authorizing distribution of profits or payment of dividends. The Settlement Regulations remove the previous restrictions on convertibility of foreign exchange in respect of current account items, including the distribution of dividends, interest and royalty payments, trade and service-related foreign exchange transactions, while foreign exchange transaction in respect of capital account items, such as direct investment, loan, securities investment and repatriation of investment remain subject to the approval of the State Administration of Foreign Exchange.

Dividend Distribution

The principal regulations governing dividend distribution of foreign invested enterprises include the Company Law of the PRC (中華人民共和國公司法) promulgated in 1993 and amended in 1999, 2004 and 2005, the Foreign Investment Enterprise Law of the PRC (中華人民共和國外資企業法) promulgated in 1986 and amended in 2000, Rules for the Implementation of the Foreign Investment Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) promulgated in 1990 and amended in 2001. Under these laws and regulations, foreign invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulation. In addition, these foreign invested enterprises are required to allocate certain amount of their accumulated profits after tax each year, if any, to fund certain reserve funds.

Taxation

Enterprise Income Tax

According to the New Tax Law which came into effect on 1 January 2008, enterprises incorporated in the PRC shall be subject to the rate of 25% on their income from 1 January 2008 onwards. Income such as dividends and profits distribution sourced within the PRC by a non-resident enterprise which does not have an establishment or place of business in the PRC or, which despite the existence of establishment or place of business in the PRC, the relevant income is not effectively connected with such establishment or place of business in the PRC, is subject to a 10% enterprise income tax, subject to reduction as provided by any applicable tax treaties or arrangements.

Value-added Tax

The Provisional Regulations of the PRC on Value-added Tax (中華人民共和國增值稅暫行條例) (the "**Provisional VAT Regulations**") was promulgated on 13 December 1993 and came into effect on 1 January 1994 and were amended on 10 November 2008. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (中華人民共和國增值稅暫行條例實施細則) ("the "**Provisional VAT Implementation Rules**") were promulgated on 25 December 1993 and were amended and came into effect on 1 January 2009, and were further amended on 28 October 2011. According to the Provisional VAT Regulations and the Provisional VAT Implementation Rules, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. For taxpayers selling or importing goods other than those specifically listed in the Provisional VAT Regulations, or for taxpayers providing processing, repairs and replacement services, the value-added tax rate is 17%.

Business Tax

Pursuant to the Provisional Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例) effective from 1 January 1994 (amended on 10 November 2008) and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay business tax.

Consumption tax

Under the Provisional Regulations on Consumption Tax of the People's Republic of China (issued in 1993, revised on 5 November 2008, effective since 1 January 2009), organization or individual engaging in production, commissioned processing and import of the consumer goods listed under this regulation, and other organizations and individuals prescribed by the State Council selling consumer goods listed under this regulation, shall be liable to pay consumption tax pursuant to this regulation.

Labour and Social Insurance

The People's Republic of China Labor Contract Law (enacted in 2007 and implemented since January 1, 2008) is applicable to enterprises, individual economic organizations, private non-enterprise units and other organizations within the PRC establishing labour relations with workers, making, performing, changing, discharging or terminating labor contracts.

On 28 October 2010, the Standing Committee of the National People's Congress of the PRC promulgated the Law on Social Insurance of the PRC (中華人民共和國社會保險法), effective as of 1 July 2011. Under this law, the State shall establish basic pension insurance, basic medical insurance, occupational injury insurance, unemployment insurance, maternity insurance and other social insurance system. According to the Law of Social Insurance of the PRC, employers and employees shall pay social insurance contributions in accordance with the law.

RISKS RELATED TO THE TARGET GROUP'S BUSINESS

Reliance on certain key management personnel

The Target Group maintains an experienced and stable management team, most of whom have been with the Target Group since inception and have extensive experience working in the PRC luxury products and retail market. The success has been, and will continue to be, heavily dependent upon the strategies and vision of our key management team. If one or more of the key management personnel or other members of the senior management team were unable or unwilling to continue in their present positions, the Target Group's business, results of operations and financial condition may be materially and adversely affected.

No assurance of sufficient supply of diamond with good quality

The sales volume and operation results of the Target Group may be adversely affected if the diamonds and diamond-set jewelleries supplied by the suppliers fail to meet the Target Group's requirements, in particular, the size and quality standard of the diamond. The ability of the Target Group to meet the demand of its customers may also be adversely affected if its major suppliers are unable to supply sufficient amount of diamonds and jewelleries to the Target Group on a timely basis. This may in turn affect the operations and financial results of the Target.

Non-renewal of leases of the Target Group's retail stores

All the 5 self-operated chain retail stores of the Target Group are situated at premises leased from Independent Third Parties with lease terms ranging from 2 to 5 years. There is no assurance that each of these leases can be renewed upon expiry or can be renewed at terms and conditions which are favourable to the Target Group. Failure to renew the existing leases upon expiry may hence have an adverse effect on the Target Group's performance and future development.

Failure to effectively market and promote chain retail stores

The Target Group believes that its promotional and marketing activities have not only increased its sales volume but have also promoted and enhanced the brand name and market image of the Target Group. There is no assurance that the Target Group will be able to continue to design, develop and organize promotional activities that are effective in attracting its target customers.

Artificial products

The Target is a retailer of luxurious jewelry, jade and other gemstones products. There is no assurance that there will not be any significant artificial products being sold in the market in the future and that the demand for the Target's products will be affected by those artificial products. In such cases, the performance and business operations of the Target may be adversely affected.

RISKS RELATED TO THE INDUSTRY

Changes in the PRC economic, political and social conditions and the PRC government policies can affect the Target Group's business

The Target Group derives all of its sales volume from operations in the PRC market. Accordingly, its business, financial condition or results of operations are subject, to a significant degree, to economic, political and legal developments in the PRC. There is no assurance that changes in the PRC economic, political and social conditions, laws, regulations and policies will not have any adverse effect on the Target Group's current or future business and financial conditions.

The Target Group faces intense competition in the PRC retail industry

The retail industry in the PRC is highly competitive. The Target Group faces strong competition from both domestic and international retailers of diamonds and gemstones jewelleries. There is no assurance that the Target Group's strategies will remain competitive or that it will continue to be successful in the future. If the Target Group is unable to compete successfully with existing or new competitors, its business, financial condition and results of operations may be materially and adversely affected.

RISKS RELATED TO THE TRANSACTION

Completion of the Acquisition is subject to satisfaction of the conditions under the Agreement

Completion of the Acquisition under the Agreement is subject to the satisfaction of the conditions set out in the Agreement (or in the case of a limited number of those conditions, the waiver by the Purchaser if any of them is not satisfied). Details of those conditions are set out in the section headed "Letter from the Board – Conditions precedent" in this circular. The fulfillment of certain of the conditions set out in the Agreement is dependent on the decision of government or regulatory authorities with respect to which none of the Group will be able to exercise any control. There is no assurance that all of those conditions will be fulfilled within the deadline specified in the Agreement or at all. If any of those conditions is not satisfied (and if it is capable of being waived by the Purchaser as provided under the Agreement, but not waived by the Purchaser), completion of the Acquisition will not proceed.

Unidentified risks relating to the Acquisition

Although the Purchaser has conducted due diligence with respect to the Acquisition, the Purchaser may not identify all material risks associated with the Acquisition due to inherent limitations of due diligence, including, among other things, unforeseen contingent risks or latent liabilities relating to the entities acquired or to be acquired that may not become apparent until in the future. Any such unidentified risk could have a material adverse impact on the Target's business, financial condition and results of operations after the completion of the Acquisition.

Substantial dilution to shareholdings of existing Shareholders

Pursuant to the Agreement, the Company will issue the Convertible Bonds to satisfy part of the Consideration. Assuming full conversion of the Convertible Bonds, a maximum of 10,612,244,898 Conversion Shares will be issued which represents approximately 48.49% of the enlarged issued share capital of the Company. As a result, the shareholdings of the existing Shareholders in the Company will be substantially diluted upon full conversion of the Convertible Bonds.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the provision of hospital information technology systems and medical data processing applications, radio trunking systems integration and provision of telecommunication-related technical services and mining of mineral resources. The Acquisition allows the Group to further expand its business lines by diversifying into the retail sector of luxury products in the PRC.

As announced by the National Bureau of Statistics of China (the "**Bureau**"), the PRC has experienced a growth in gross domestic products (the "**GDP**") in the previous years. In 2010, its GDP rose by approximately 16.74% as compared to the figure in 2009. In addition to the growth in GDP, the Bureau announced that the price of gems and jewelry was recorded an increase of over 10% in November 2011 as compared with the same period of 2010. As such, the Directors considered that the economy of the PRC is growing stably.

In line with such growing affluence, the consumer price index in the PRC was also increased by approximately 5.5% in November 2011 as compared to the last corresponding period. Referring to an article announced by the Gems & Jewelry Trade Association of China dated 4 March 2011, the amount of trading of diamonds through Shanghai Diamond Exchange was approximately US$2.86 billion, representing an increase of over 80% from the previous year. Given that, comparing to the same period in 2010, the PRC consumers have increased over 17% in spending on consumer goods in November 2011. The Directors thus believed that the PRC consumers are increasing in demand for quality goods and willing to spend on luxury consumer goods.

It has been the Group's operation strategy to integrate its resources and make adjustment to its business and to explore business with brighter prospect, striving to achieve rapid development and healthy growth of the Group's business. The Acquisition provides a unique opportunity to enable the Group to acquire a profitable and fast growing business and to diversify into the PRC retail market with a promising future. The Board believes that the Target Group will provide another key driver for the Group's revenue and profits in the PRC retail sector in addition to the Group's existing business in the healthcare IT sector.

The Directors are of the view that the terms and conditions of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

After Completion, each member of the Target Group will become a wholly owned subsidiary of the Company.

FINANCIAL IMPACT OF THE ACQUISITION

Based on the pro forma financial information of the Enlarged Group set out in Appendix III to this circular and the bases and assumptions taken into account in preparing such pro forma financial information, the Group's total assets and total liabilities would be increased by approximately HK$733 million and approximately HK$425 million respectively while its profit for the year would be increased by approximately HK$960,000 as a result of the Acquisition. The details of the financial effect of the Acquisition on the financial position and results of the Group together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out, for illustration purpose only, in Appendix III to this circular.

MANAGEMENT DISCUSSION AND ANALYSIS

The accountants' report on the Target, Jiangjin Company and Beijing Company are set out in Appendix II-A, II-B and II-C respectively. The following are the respective management discussion and analysis.

(A) Management Discussion and Analysis of the Target

Business Review

The Target is an investment holding company incorporated in the British Virgin Islands and is wholly owned by the Vendors. The Target has no business activity other than the holding of the equity interest in the HK Subsidiary.

The HK Subsidiary is a company incorporated in Hong Kong and is wholly owned by the Target. The HK Subsidiary has no business activity other than the holding of the equity interest in the Jiangyin Company.

Financial Review

The Target and HK Subsidiary (together "Target (HK) Group") has not recorded any turnover since its incorporation. According to the audited management accounts of Target Group prepared in accordance with HKFRSs issued by the HKICPA, the loss for period from 6 November 2009 (date of incorporation) to 31 December 2009 and for the two years ended 31 December 2010 and 2011 were both approximately HK$Nil, HK$25,000 and HK$17,000 respectively and the audited net assets (liabilities) of Target (HK) Group as at 31 December 2009, 2010 and 2011 was approximately HK$8, HK$(25,000) and HK$(42,000) respectively.

Liquidity and financial resources

Target (HK) Group generally financed its operations with its internally generated cash flows. No bank borrowing was obtained during the Relevant Periods.

Charge on company assets

As at 31 December 2011, no assets of Target Group (HK) were pledged.

Foreign exchange exposure

Since Target (HK) Group sales, purchases and loans were substantially denominated in HK$, the board of Directors considers that that potential foreign exchange exposure of Target (HK) Group is limited.

Contingent liabilities

As at 31 December 2011, the Board of Directors was not aware of any material contingent liabilities.

Staff and remuneration policies

As at 31 December 2011, Target (HK) Group had not employed any workforce. Target (HK) Group would be appreciate to launch remuneration policy in line with the prevailing market practice including discretionary bonus and remunerates based on its employees performance and contribution.

Capital structure

There was no change in the capital structure of Target (HK) Group since 6 November 2009 (date of incorporation) to 31 December 2011.

Future plans for material investments or capital assets

Target (HK) Group did not have any future plans for material investments or capital assets as at 31 December 2011.

Significant investment

During the period there was no significant investment held by Target (HK) Group.

Acquisitions and disposals of subsidiaries and affiliated company

Target (HK) Group had no acquisitions or disposals of subsidiaries and affiliated companies for the year ended 31 December 2011.

(B) Management Discussion and Analysis of the Jiangyin Company

Business Review

The Jiangyin Company is a company incorporated in the PRC with limited liability on 12 December 2011. The principal activities of the Jiangyin Company will be the holding of the equity interest in the Beijing Company and as the purchasing arm for the Beijing Company.

Financial Review

According to the audited management accounts of Jiangyin Company prepared in accordance with HKFRSs issued by the HKICPA, the profit for the period from 12 December 2011 (the date of incorporation) to 31 December 2011 were both approximately RMB627,000 and the audited net assets value of Jiangyin Company as at 31 December 2011 was approximately RMB10,627,000.

Liquidity and financial resources

Jiangyin Company generally financed its operations with its internally generated cash flows. No bank borrowing was obtained during the period.

Charge on company assets

As at 31 December 2011, no assets of Jiangyin Company were pledged.

Foreign exchange exposure

Since the Jiangyin Company sales, purchases and loans were substantially denominated in RMB, the board of Director considers that that potential foreign exchange exposure of Jiangyin Company is limited.

Contingent liabilities

As at 31 December 2011, the Board of Directors was not aware of any material contingent liabilities.

Staff and remuneration policies

As at 31 December 2011, Jiangyin Company had not employed any workforce. Jiangyin Company would be appreciate to launch remuneration policy in line with the prevailing market practice including discretionary bonus and remunerates based on its employees performance and contribution.

Capital structure

There was no change in the capital structure of Jiangyin Company as at 31 December 2011 as compared with that as at 12 December 2011 (date of incorporation).

Future plans for material investments or capital assets

Jiangyin Company would invest the entire interest in the Diamond's retail chain shops in the PRC after the period ended 31 December 2011.

Significant investment

During the period there is no investment held by Jiangyin Company.

Acquisitions and disposals of subsidiaries and affiliated company

Jiangyin Company had no acquisitions or disposals of subsidiaries and affiliated companies for year ended 31 December 2011.

(C) Management Discussion and Analysis of the Beijing Company

Business Review

Beijing Company is incorporated in the PRC with limited liability. Upon completion of the Reorganization, it will be wholly owned by the Jiangyin Company. The Beijing Company principally engages in retail sales of diamond, jade and other gemstones and related jewellery. The Beijing Company currently operates 5 self-operated chain retail stores in Beijing.

Financial Review

According to the audited accounts of Beijing Company prepared in accordance with HKFRSs issued by the HKICPA, the profit (loss) before and after taxation for the years ended 31 December 2009, 2010 and 2011 was approximately RMB(473,000), RMB(1,096,000) and RMB14,971,000 respectively and the audited net assets value of Beijing Company as at 31 December 2009, 2010 and 2011 was approximately RMB8,805,000, RMB17,709,000 and RMB32,680,000 respectively.

Since Beijing Company has different shareholders and director at individual companies as at 31 December 2009, 2010 and 2011, therefore, the Beijing Company have no common control under which was required under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations". Thus, the Group adopted the acquisition method accounting for preparation of Accountants' Reports and no consolidation is prepared under acquisition method under HKFRS 3 "Business combinations".

Turnover

Turnover for the year ended 31 December 2011 was RMB 122 million and it increase over 120 million as compared to the turnover in year 2009 and 2010. The increase in turnover as the Beijing Company started to operate 5 Jewelry retail stores in Beijing, PRC in 2011.

Cost of goods sold

As the Beijing Company only involves in trading jewelry products and cost of sales mainly reflect the cost of jewelry products purchased from the suppliers.

Gross profit margin

The gross profit margin in 2011 was approximately 33% which is higher as compared to the gross profit margin in year 2009 and 2010.

Other income

The other income mainly represents (i) Interest income from banks (ii) Consultancy service income and (iii) Commission Income.

Selling and distribution costs

The selling and distribution cost primarily consist of salary, bonus and other benefits to the sales staff, rental expense and building management fee for the retail stores and other selling related expenses.

Administrative costs

The administrative cost primarily consists of salary, bonus and other benefits to administrative staff and other administrative costs.

Property, plant and equipment

Property, plant and equipment mainly consist of (i) Leasehold improvement for 5 retail stores (ii) Equipment, furniture and fixtures acquired for the stores and (iii) Motor vehicle.

Inventories

The inventories mainly represent the Diamond, gemstone, gold and related accessories and it is stated at the lower of cost and net realisable value.

Other receivables, deposits and prepayments

It mainly represents (i) Trade and other deposit paid (ii) Prepayment to supplier for purchasing the inventories and (iii) Other receivables.

Cash and bank balances

The cash and bank balances of Beijing Company denominated in RMB which is the functional and presentation currency of Beijing Company.

Deposit received

The deposit received represents the sales amount prepaid by the customers.

Borrowings and other amounts due to related company

In the year ended 2011, loan borrowed from a financial institution is unsecured 1 year term loan and bearing 21.86% per annum interest rate. The amount due to related company is unsecured, non-interest bearing and has no fixed term of payment.

Liquidity and financial resources

Beijing Company generally financed its operations with its internally generated cash flows. As at 31 December 2011, the Beijing Company had outstanding unsecured borrowings of approximately RMB11,270,000.

Charge on company assets

As at 31 December 2009, 2010 and 2011, no assets of Beijing Company were pledged.

Foreign exchange exposure

Since Beijing Company's sales, purchases and loans were substantially denominated in RMB, the board of Director considers that potential foreign exchange exposure of Beijing Company is limited.

Contingent liabilities

As at 31 December 2009, 2010, and 2011, there was no material contingent liabilities.

Staff and remuneration policies

As at 31 December 2011, Beijing Company had employed around 350 employees. The total staff cost of Beijing Company for the years ended 31 December 2009, 2010 and 2011 were approximately RMB420,000, RMB533,000 and RMB6,891,000 respectively. Beijing Company would launch remuneration policy in line with the prevailing market practice including discretionary bonus and remunerates based on its employees performance and contribution.

Capital structure

The paid up capital of the Beijing Company increased from RMB10 million to RMB20 million during the year ended 31 December 2010.

Future plans for material investments or capital assets

Beijing Company did not have any future plans for material investments or capital assets as at 31 December 2009, 2010 and 2011.

Significant investment

During the three years ended 31 December 2011, there was no significant investment held by Beijing Company.

Acquisitions and disposals of subsidiaries and affiliated company

Beijing Company had no acquisitions or disposals of subsidiaries and affiliated companies for year ended 31 December 2011.

GEM LISTING RULES IMPLICATIONS

Based on the relevant percentage ratios calculations under the GEM Listing Rules, the Acquisition constitutes a major acquisition of the Company and therefore are subject to reporting, announcement and shareholder's approval requirements under Chapter 19 of the GEM Listing Rules.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, no Shareholder has an interest in the Agreement which is materially different from the other Shareholders. Therefore no Shareholder is required to abstain from voting on the resolution to be proposed at the EGM.

THE EGM

A notice convening the EGM is set out on pages 157 to 158 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are advised to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the EGM. The completion and delivery of a form of proxy will not preclude you from attending and voting at the meeting in person.

RECOMMENDATION

The Directors consider that the terms of the Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders should vote in favour of the relevant resolution to be proposed at the EGM to approve the Agreement.

Yours faithfully,
On behalf of the Board
CHINA PUBLIC HEALTHCARE (HOLDING) LIMITED
Stephen William Frostick
Chairman

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

1. THREE-YEAR FINANCIAL INFORMATION

Financial information of the Group for the year ended 31 December 2008, the year ended 31 December 2009, the year ended 31 December 2010 and six months ended 30 June 2011 are disclosed in the annual reports of the Company for the year 2009, 2010 and 2011 and the interim report of 2011 respectively, which are published on both the GEM website (www.hkgem.com) and the website of the Company (www.chpublic-healthcare.com).

2. INDEBTEDNESS STATEMENT

Borrowings

As at the close of business on 29 February 2012, the Enlarged Group had outstanding unsecured borrowings of approximately HK$210,776,000. The unsecured borrowings included convertible bonds of approximately HK$199,506,000, and other borrowings of approximately HK$11,270,000.

Securities and guarantees

As at the close of business on 29 February 2012, the Enlarged Group did not obtain any banking facilities. As at the close of business on 29 February 2012, the Enlarged Group did not provide any corporate guarantees to banks.

Pledge to assets

As at the close of business on 29 February 2012, the Enlarged Group's investments in financial asset held for trading with carrying value amounting to HK$3,440,000 were pledged to broker to secure margin financing provided to the Enlarged Group.

Commitments

As at 29 February 2012, the Enlarged Group had total future minimum lease payments under non-cancellable operating leases for its office and staff quarters premises and falling due as follows:

	HK$'000
Operating lease commitments in respect of land and buildings which fall due as follows:	
Within one year	14,790
In the second to fifth years inclusive	37,668
	52,458

Contingent liabilities

As at the close of business on 29 February 2012, the Enlarged Group had no material contingent liabilities.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, at the close of business on 29 February 2012, the Enlarged Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other material contingent liabilities. Save as aforesaid, the Directors confirm that there has been no material change to the indebtedness position and contingent liabilities of the Enlarged Group since 29 February 2012 and up to the Latest Practicable Date.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing cash and bank balances and other internal resources available and also the effect of the Acquisition, the Enlarged Group has sufficient working capital for its present requirements and for at least 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2010, being the date to which the latest published audited financial statements of the Group was made up.

5. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Target Group

The Target Group is principally engaged in the sale of diamond, gemstone and related jewellery through chain retail stores in the PRC. The Beijing Company recorded losses for the year 2009 and 2010. The Beijing Company started to operate self-operated chain retail stores in Beijing since March 2011. The Beijing Company currently operates 5 retail stores. The Directors expect that the businesses of the Beijing Company will continue to grow in line with the number of chain retail stores.

The PRC has experienced strong growth in this decade and the urban population of middle-income class people in the PRC is expected to grow. In line with the economic bloom and Chinese consumers' increasing demand for luxury goods, the prospects of the sale of diamond, gemstone and related jewellery in PRC are extremely promising. The Acquisition represents a good opportunity for the Group to participate in the retail market of luxury goods with potential enormous growth.

The Target Group will continue to expand its chain retail stores network in the PRC at the appropriate pace with regard to the business opportunities available and the working capital requirements.

The Group

The Group is principally engaged in provision of healthcare information technology services in PRC, mining business and sales of radio trunking systems integration.

The Group became the major suppliers of Healthcare Information Technology ("HIT") demanded by the PRC's hospital system through their provision of products and services. The Group will continue to strive for expansion of their market share in 2012.

The mining business has not started contributing revenues. It is still subject to revision of production plan and completion of mining licence renewal.

The radio trunking business did not record any turnover up to the Latest Practicable Date for the current financial year. The zero turnover of the business was mainly due to the fact that the requirement of the customers for radio trunking system is moving towards digitalized products in line with the advancement of technology. As such, it triggered a new round of product research and development as well as market restructuring among suppliers of radio trunking system in the Mainland. While this segment may not record any turnover in the current financial year, the Group currently has no intention to discontinue this business altogether and is still reviewing its prospects having regard to the changing business environment.

It is expected that in year 2012, the financial and operation position of the enlarged group is expected to be stable growth as compare to last year. The Group will continue to focus on improving the performance of its existing businesses and will look for investment opportunities that create value to the Company. Currently the Company has no intention to dispose of any of its existing businesses. However, should suitable business opportunities arise in the future, the Company will explore and consider such business opportunities, including acquisitions or realisations, which are in line with the Group's business strategies and may enhance the Group's future business development.

恒健會計師行
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Certified Public Accountants

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27 March 2012

The Board of Directors
China Public Healthcare (Holding) Limited
Room 2204, 22/F
MassMutual Tower
38 Gloucester Road, Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Million Zone Holdings Limited(萬成控股有限公司)("Million Zone") and its subsidiary (collectively referred to as the "Million Group") including the consolidated statements of financial position as at 31 December 2009, 2010 and 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period from 6 November 2009 (date of incorporation) to 31 December 2009 and for the two years ended 31 December 2010 and 2011 ("Relevant Periods"), and the notes thereto (the "Financial Information"), for inclusion in the circular of China Public Healthcare (Holding) Limited (the "Company") dated 27 March 2012 (the "Circular") in connection with the conditional sale and purchase agreement dated 20 January 2012 (the "Sale and Purchase Agreement") entered into between the Company, and Ample Rich Capital Limited ("Purchaser") and Value Vibrant Investments Limited, Twin Wins Capital Limited and Radiance Glory International Limited ("Vendors") pursuant to which the Purchaser has conditionally agreed to acquire from the Vendors the entire issued share capital of the Million Zone at the consideration of HK$600 million (subject to adjustment), which is to be satisfied by HK$80 million in cash, and HK$520 million issuing of the Convertible Bonds by the Company to the Vendors.

Million Zone was incorporated in British Virgin Islands ("BVI") on 6 November 2009 with limited liability. The registered office of Million Zone is located at Quastisky Building, P.O. Box 4389, Road Town, Tortola, BVI . The principal activity of Million Zone is investment holding.

The consolidated financial statements of the Million Group for the Relevant Periods were prepared in accordance with the relevant accounting standards and rules of the Hong Kong Financial Reporting Standards ("HKFRSs") which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements of Million Group for the Relevant Periods were audited by HLM & Co., Certified Public Accountants.

BASIS OF PREPARATION

The Financial Information has been prepared by the director of Million Zone based on consolidated financial statements for the Relevant Periods, on the basis as set out in Note 3 below. The Financial Information has been prepared in accordance with HKFRSs which also include Hong Kong Accounting Standards and Interpretations issued by the HKICPA.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The director of Million Zone is responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The director of Million Zone is responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information based on our audit. For purpose of this report, we have audited the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement. We have also carried out additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Million Group as at 31 December 2009, 2010 and 2011 and of results and cash flows of Million Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards.

I. FINANCIAL INFORMATION

The following is the Financial Information of Million Group as at 31 December 2009, 2010 and 2011 and for the period from 6 November 2009 (date of incorporation) to 31 December 2009 and for the two years ended 31 December 2010 and 2011, prepared on the basis set out in Note 3 below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 6 NOVEMBER 2009 (DATE OF INCORPORATION) TO 31 DECEMBER 2009 AND FOR THE TWO YEARS ENDED 31 DECEMBER 2010 AND 2011

		1/1/2011-31/12/2011	**1/1/2010-31/12/2010**	**6/11/2009-31/12/2009**
	NOTES	*HK$*	*HK$*	*HK$*
Revenue	*5*	–	–	–
Administrative expense		(17,065)	(25,015)	–
Loss before tax	*6*	(17,065)	(25,015)	–
Income tax expense	*7*	–	–	–
Loss and total comprehensive expense for the year/period		(17,065)	(25,015)	–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER

		2011	**2010**	**2009**
	NOTES	*HK$*	*HK$*	*HK$*
Current asset		–	–	–
Amounts due from shareholders	*8*	78	8	8
Current liability				
Other payables		42,080	25,015	–
Net (liability) asset		(42,002)	(25,007)	8
Capital and reserve				
Share capital	*9*	78	8	8
Accumulated losses		(42,080)	(25,015)	–
		(42,002)	(25,007)	8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 6 NOVEMBER 2009 (DATE OF INCORPORATION) TO 31 DECEMBER 2009 AND FOR THE TWO YEARS ENDED 31 DECEMBER 2010 AND 2011

	Share capital	**Accumulated losses**	**Total**
	HK$	*HK$*	*HK$*
On incorporation	8	–	8
Total comprehensive income for the period	–	–	–
At 31 December 2009 and 1 January 2010	8	–	8
Total comprehensive expense for the year	–	(25,015)	(25,015)
At 31 December 2010 and 1 January 2011	8	(25,015)	(25,007)
Issue of shares	70	–	70
Total comprehensive expense for the year	–	(17,065)	(17,065)
At 31 December 2011	78	(42,080)	(42,002)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 6 NOVEMBER 2009 (DATE OF INCORPORATION) TO 31 DECEMBER 2009 AND FOR THE TWO YEARS ENDED 31 DECEMBER 2010 AND 2011

	1/1/2011- 31/12/2011 *HK$*	1/1/2010- 31/12/2010 *HK$*	6/11/2009- 31/12/2009 *HK$*
Operating activities			
Loss before tax and operating cash flows before movements in working capital	(17,065)	(25,015)	–
Increase in amounts due from shareholders	(70)	–	(8)
Increase in other payables	17,065	25,015	–
Net cash used in operating activities	(70)	–	(8)
Financing activity			
Proceeds from issue of shares	70	–	8
Net cash generated from a financing activity	70	–	–
Net increase in cash and cash equivalents	–	–	–
Cash and cash equivalents at beginning of the year/period	–	–	–
Cash and cash equivalents at end of the year/period	–	–	–

II. NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM 6 NOVEMBER 2009 (DATE OF INCORPORATION) TO 31 DECEMBER 2009 AND FOR THE TWO YEARS ENDED 31 DECEMBER 2010 AND 2011

1. General

Million Zone is a private limited company incorporated in BVI. The principal activity is investment holding. The address of the registered office and principal place of business of Million Zone is Quastisky Building, P.O. Box 4389, Road Town, Tortola, BVI .

The Financial Information is presented in Hong Kong dollars ("HK$"), which is the functional and presentation currency of Million Group.

2. Application of new and revised Hong Kong Financial Reporting Standards

Million Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective.

HKFRS 1 (Amendments)	Severe hyperinflation and fixed dates for first-time adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9 (Revised)	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets[4]
HKAS 19 (As revised in 2011)	Employee Benefits[2]
HKAS 27 (As revised in 2011)	Separate Financial Statements[2]
HKAS 28 (As revised in 2011)	Investment in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 *Effective for annual periods beginning on or after 1 July 2011*
2 *Effective for annual periods beginning on or after 1 January 2013*
3 *Effective for annual periods beginning on or after 1 July 2012*
4 *Effective for annual periods beginning on or after 1 January 2012*
5 *Effective for annual periods beginning on or after 1 January 2014*
6 *Effective for annual periods beginning on or after 1 January 2015*

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces that the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC) – Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The director of the Million Zone anticipates that the application of the other new or revised standards, amendments and interpretations will have no material impact on results and financial position of the Million Group.

3. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance.

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the Financial Information.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Million Zone and entities controlled by the Million Zone (its subsidiary). Control is achieved where the Million Zone has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposal of during the period/year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Million Zone.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Million Zone's equity therein.

Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and the title has passed.

Foreign currency

In preparing the consolidated financial statements of the Million Group, transactions in currencies other than the functional currency of that Million Group (the "foreign currencies") are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risk; and

- exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified form equity to profit or loss on repayment of the monetary items.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, Million Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. Million Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted at the end of reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where Million Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Million Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Million Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the Relevant Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or

- It is a part of an identified portfolio of financial instruments that Million Group manages together and has a recent actual pattern of short-term profit-taking; or

- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Million Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement ("HKAS 39") permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. Million Group designated unlisted equity securities investments as AFS financial assets.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as amount due from a related company, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Million Group's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amount due from a related company, where the carrying amount is reduced through the use of an allowance account. When a account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by Million Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Million Group after deducting all of its liabilities. Million Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL, of which interest expense is included in net gains and losses.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that Million Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Million Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and other payables, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by Million Zone are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Million Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. Financial risk management and critical accounting estimates

Million Group's activities exposes it a variety of financial risks, foreign exchange risk, liquidity risk and cash flow and interest-rate risk. Million Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Million Group's financial performances.

Credit risk

Million Group is not exposed to significant credit risk.

Foreign exchange risk

Million Group is not exposed to significant foreign exchange risk

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash for daily operation. Million Group's exposure to liquidity risk is minimal.

Cash flow and interest risk

Million Group is not exposed to significant cash flow and interest rate risk.

5. Revenue

Million Group was investment holding but and no revenue were recognised for the Relevant Periods.

6. Loss before tax

	1/1/2011-31/12/2011	**1/1/2010-31/12/2010**	**6/11/2009-31/12/2009**
	HK$	*HK$*	*HK$*
Loss before tax has been arrived at after charging:			
Director's remuneration	–	–	–
Auditors' remuneration	–	–	–

7. Income tax expense

No provision for Hong Kong profits tax has been made as Million Group has no assessable profits in Hong Kong for the Relevant Periods.

The tax expense for the year/period can be reconciled to the loss before tax per the consolidated statement of comprehensive income:

	1/1/2011-31/12/2011	**1/1/2010-31/12/2010**	**6/11/2009-31/12/2009**
	HK$	*HK$*	*HK$*
Loss before tax	(17,065)	(25,015)	–
Tax at applicable tax rate of 16.5%	(2,816)	(4,127)	–
Tax effect of expense not deductible for tax purpose	2,816	4,127	–
Tax expense for the year/period	–	–	–

8. Amounts due from shareholders

The amounts due from shareholders are unsecured, interest-free and had no fixed repayment term. The maximum balance of amounts due from shareholder is HK$78.

9. Share capital

	Number of Ordinary share of US$1 each	Amount
		HK$
Authorised:		
On incorporation, 31 December 2009, 2010 and 2011	50,000	390,000
Issued and fully paid:		
On incorporation	1	8
At 31 December 2009, 1 January 2010 and 31 December 2010	1	8
Issue of shares	9	70
At 31 December 2011	10	78

At time of incorporation, 1 share of US$1 each were issued at par to the subscriber to provide the initial capital to Million Zone. On 10 August 2011, 9 shares were issued at par to the shareholder to provide working capital to Million Zone.

10. Financial position of the Company

	2011	2010	2009
	HK$	*HK$*	*HK$*
Non-current asset			
Investment in a subsidiary	1	1	1
Current asset			
Other receivable	78	8	8
Current liability			
Other payables	14,121	5,461	1
Net current liability	(14,043)	(5,453)	7
Net (liability) asset	(14,042)	(5,452)	8
Capital and reserve			
Share capital	78	8	8
Accumulated losses	(14,120)	(5,460)	–
	(14,042)	(5,452)	8

11. Commitment

Million Group had no significant capital commitment as at 31 December 2011.

12. Contingent liabilities

Million Group did not have any significant contingent liabilities as at 31 December 2011.

13. Event after the end of reporting period

No significant events after the end of reporting period occurred after the year end 31 December 2011.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared for Million Group in respect of any period subsequent to 31 December 2011.

Yours faithfully,

HLM & Co.
Certified Public Accountants
Hong Kong

恒健會計師行
HLM & Co.
Certified Public Accountants

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27 March 2012

The Board of Directors
China Public Healthcare (Holding) Limited
Room 2204, 22/F
MassMutual Tower
38 Gloucester Road, Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Jiangyin Hongcheng Jewelry Limited（江陰宏誠珠寶有限公司）("Jiangyin") including the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 12 December 2011 (date of incorporation) to 31 December 2011 ("Relevant Periods"), and the notes thereto (the "Financial Information"), for inclusion in the circular of China Public Healthcare (Holding) Limited (the "Company") dated 27 March 2012 (the "Circular") in connection with the conditional sale and purchase agreement dated 20 January 2012 (the "Sale and Purchase Agreement") entered into between the Company, and Ample Rich Capital Limited ("Purchaser") and Value Vibrant Investments Limited, Twin Wins Capital Limited and Radiance Glory International Limited ("Vendors") pursuant to which the Purchaser has conditionally agreed to acquire from the Vendors the entire issued share capital of the Million Zone at the consideration of HK$600 million (subject to adjustment), which is to be satisfied by HK$80 million in cash, and HK$520 million issuing of the Convertible Bonds by the Company to the Vendors.

Jiangyin was incorporated in PRC on 12 December 2011 with limited liability. The registered office of Jiangyin is located at No. 188, Mingxian Road, Jiangyin, Jiangsu, PRC. The principal activity of Jiangyin is investment holding.

The financial statements of the Jiangyin for the period from 12 December 2011 (date of incorporation) to 31 December 2011 were prepared in accordance with the relevant accounting standards and rules of the Hong Kong Financial Reporting Standards ("HKFRSs") which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The financial statements of Jiangyin for the period from 12 December 2011 (date of incorporation) to 31 December 2011 were audited by HLM & Co., Certified Public Accountants.

BASIS OF PREPARATION

The Financial Information has been prepared by the director of Jiangyin based on financial statements for the Relevant Periods, on the basis as set out in Note 3 below. The Financial Information has been prepared in accordance with HKFRSs which also include Hong Kong Accounting Standards and Interpretations issued by the HKICPA.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The director of Jiangyin is responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The director of Jiangyin is responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information based on our audit. For purpose of this report, we have audited the Financial Information for the period from 12 December 2011 (date of incorporation) to 31 December 2011 in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement. We have also carried out additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Jiangyin as at 31 December 2011 and of results and cash flows of Jiangyin for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards.

I. FINANCIAL INFORMATION

The following is the Financial Information of Jiangyin as at 31 December 2011 and for the period from 12 December 2011 (date of incorporation) to 31 December 2011, prepared on the basis set out in Note 3 below.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 12 DECEMBER 2011 (DATE OF INCORPORATION) TO 31 DECEMBER 2011

	NOTES	**12/12/2011-31/12/2011** *RMB*
Revenue	*5*	624,658
Other income	*5*	2,418
Administrative expense		(574)
Profit before tax	*6*	626,502
Income tax expense	*7*	–
Profit and total comprehensive income for the period		626,502

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011

	NOTES	*RMB*
Current assets		
Amount due from a related company	*8*	624,658
Deposit paid	*9*	9,900,000
Cash at bank		101,844
Net assets		10,626,502
Capital and reserve		
Paid-in capital	*10*	10,000,000
Accumulated profit		626,502
		10,626,502

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 12 DECEMBER 2011 (DATE OF INCORPORATION) TO 31 DECEMBER 2011

	Paid-in capital	**Accumulated profit**	**Total**
	RMB	*RMB*	*RMB*
Injection of capital	10,000,000	–	10,000,000
Total comprehensive income for the period	–	626,502	626,502
At 31 December 2011	10,000,000	626,502	10,626,502

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 12 DECEMBER 2011 (DATE OF INCORPORATION) TO 31 DECEMBER 2011

	12/12/2011-31/12/2011
	RMB
Operating activities	
Profit before tax	626,502
Adjustment for:	
Interest income	(2,418)
Operating cash flows before movements in working capital	624,084
Increase in deposit paid	(9,900,000)
Increase in amount due from a related company	(624,658)
Cash used in operations	(9,900,574)
Interest received	2,418
Net cash used in operating activities	(9,898,156)
Financing activity	
Capital injection	10,000,000
Net cash generated from a financing activity	10,000,000
Net increase in cash and cash equivalents	101,844
Cash and cash equivalents at beginning of the period	–
Cash and cash equivalents at end of the period	101,844

II. NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM 12 DECEMBER 2011 (DATE OF INCORPORATION) TO 31 DECEMBER 2011

1. General

Jiangyin is a private limited company incorporated in PRC. The principal activity is investment holding. The address of the registered office and principal place of business of Jiangyin is No. 188, Mingxian Road, Jiangyin, Jiangsu, PRC.

The Financial Information is presented in Renminbi ("RMB"), which is the functional and presentation currency of Jiangyin.

2. Application of new and revised Hong Kong Financial Reporting Standards

Jiangyin has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective.

HKFRS 1 (Amendments)	Severe hyperinflation and fixed dates for first-time adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9 (Revised)	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets[4]
HKAS 19 (As revised in 2011)	Employee Benefits[2]
HKAS 27 (As revised in 2011)	Separate Financial Statements[2]
HKAS 28 (As revised in 2011)	Investment in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] *Effective for annual periods beginning on or after 1 July 2011*

[2] *Effective for annual periods beginning on or after 1 January 2013*

[3] *Effective for annual periods beginning on or after 1 July 2012*

[4] *Effective for annual periods beginning on or after 1 January 2012*

[5] *Effective for annual periods beginning on or after 1 January 2014*

[6] *Effective for annual periods beginning on or after 1 January 2015*

The director of the Jiangyin anticipates that the application of other new or revised standards, amendments and interpretations will have no material impact on results and financial position of Jiangyin.

3. Significant accounting policies

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance.

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the Financial Information.

Revenue recognition

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. Management services income is recognised by reference to the services performed over the contract term during the period.

Foreign currency

In preparing the financial statements of the Jiangyin, transactions in currencies other than the functional currency of that Jiangyin (the "foreign currencies") are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risk; and

- exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified form equity to profit or loss on repayment of the monetary items.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, Jiangyin reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. Jiangyin's liability for current tax is calculated using tax rates that have been enacted or substantially enacted at the end of reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where Jiangyin is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Jiangyin expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Jiangyin's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the Relevant Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or

- It is a part of an identified portfolio of financial instruments that Jiangyin manages together and has a recent actual pattern of short-term profit-taking; or

- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Jiangyin 's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement ("HKAS 39") permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. Jiangyin designated unlisted equity securities investments as AFS financial assets.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as amount due from a related company, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Jiangyin's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amount due from a related company, where the carrying amount is reduced through the use of an allowance account. When a account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by Jiangyin are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Jiangyin after deducting all of its liabilities. Jiangyin's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL, of which interest expense is included in net gains and losses.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or

- it is a part of an identified portfolio of financial instruments that Jiangyin manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Jiangyin's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and other payables, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by Jiangyin are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Jiangyin has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

(a) A person, or close member of that person's family, is related to Jiangyin if that person:

    (i) has control or joint control over Jiangyin; or

    (ii) has significant influence over Jiangyin; or

    (iii) is a member of the key management personnel of Jiangyin or Jiangyin's patent.

(b) An entity is related to Jiangyin if any of the following conditions applies:

(i) An entity and Jiangyin are members of the same group (which means that each patent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is post-employment benefit plan for the benefit of employees of either the group or entity related to Jiangyin.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. Financial risk management and critical accounting estimates

Jiangyin's activities exposes it a variety of financial risks, foreign exchange risk, liquidity risk and cash flow and interest-rate risk. Jiangyin's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Jiangyin's financial performances.

Credit risk

Jiangyin is not exposed to significant credit risk.

Foreign exchange risk

Jiangyin is not exposed to significant foreign exchange risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash for daily operation. Jiangyin's exposure to liquidity risk is minimal.

Cash flow and interest risk

Jiangyin is not exposed to significant cash flow and interest rate risk.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Jiangyin makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets

Jiangyin tests a annually whether assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determining based on value-in-use calculations which require the use of assumptions and estimates.

Fair value estimation

The carrying amounts of Jiangyin's financial assets, including account receivable and deposit paid, approximate their fair values due to their short maturities.

5. Revenue and other income

	12/12/2011- 31/12/2011 *RMB*
Revenue:	
Management service income *(Note a)*	624,658
Other income:	
Bank interest income	2,418
	627,076

Note a: The management services represent the market strategy, research and development and advertising services.

6. Profit before tax

	12/12/2011- 31/12/2011 *RMB*
Profit before tax has been arrived at after charging:	
Director's remuneration	–
Auditors' remuneration	–

7. Income tax expense

No provision for Hong Kong Profits Tax has been made as Jiangyin has no assessable profits in Hong Kong for the period from 12 December 2011 (date of incorporation) to 31 December 2011.

PRC corporate income tax represents the tax charged on the estimated assessable profits at 25% arising in PRC. Pursuant to relevant law and regulations in PRC, Jiangyin is designated as a newly established enterprise and located at specified economic development area which entitled 20% income tax refund in first year and 10% income tax refund after first year.

The tax expense for the period can be reconciled to the profit before tax per the statement of comprehensive income:

	12/12/2011-31/12/2011
	RMB
Profit before tax	626,502
Tax at applicable tax rate of 25%	156,626
Tax effect of expense not deductible for tax purpose	143
Tax effect of income not taxable for tax purpose	(156,769)
Tax expense for the period	–

8. Amount due from a related company

Details of balance and transaction between Jiangyin and a related company are disclosed below.

	Balance at 31/12/2011	**Maximum balance during the period**
	RMB	*RMB*
Balance due from a related company		
Beijing City-In-Love Market Limited *(Note a)*	624,658	624,658

	Particular	**12/12/2011-31/12/2011**
		RMB
Transaction with a related party		
Beijing City-In-Love Market Limited *(Note a)*	Management service income	624,658

Note a: Mr. Chang Chun ("常春"), a director of Jiangyin, is common shareholder of Beijing City-In-love Market Limited.

The amount outstanding is unsecured, interest free and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad debts in respect of the amount due from a related party.

9. Deposit paid

RMB9,900,000 is investment deposit paid to acquire a subsidiary after the end of reporting period.

10. Paid-in capital

	RMB
Registered and paid-in capital	10,000,000

At time of incorporation, RMB10,000,000 registered capital were injected by the shareholder to provide the initial capital to the Company.

11. Commitment

Jiangyin had no significant capital commitment as at 31 December 2011.

12. Contingent liabilities

Jiangyin did not have any significant contingent liabilities as at 31 December 2011.

13. Event after the end of reporting period

At the end of reporting period, Jiangyin Company plans to acquire 100% equity interest in Beijing City-In-Love Market Limited（北京全城熱戀商場有限公司）, a company incorporated in the PRC with limited liability.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Jiangyin in respect of any period subsequent to 31 December 2011.

Yours faithfully,

HLM & Co.
Certified Public Accountants
Hong Kong

恒健會計師行
HLM & Co.
Certified Public Accountants

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27 March 2012

The Board of Directors
China Public Healthcare (Holding) Limited
Room 2204, 22/F
Mass Mutual Tower,
38 Gloucester Road, Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Beijing City-In-Love Market Limited ("In Love Diamond") including the statement of financial position, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for each of the three years ended 31 December 2009, 2010 and 2011 (the "Relevant Periods"), and the notes thereto (the "Financial Information"), for inclusion in the circular of China Public Healthcare (Holding) Limited (the "Company") dated 27 March 2012 (the "Circular") in connection with the conditional sale and purchase agreement dated 20 January 2012 (the "Sale and Purchase Agreement") entered into between the Company, and Ample Rich Capital Limited ("Purchaser") and Value Vibrant Investments Limited, Twin Wins Capital Limited and Radiance Glory International Limited ("Vendors") pursuant to which the Purchaser has conditionally agreed to acquire from the Vendors the entire issued share capital of the Million Zone at the consideration of HK$600 million (subject to adjustment), which is to be satisfied by HK$80 million in cash, and HK$520 million issuing of the Convertible Bonds by the Company to the Vendors.

In Love Diamond was established in the People's Republic of China (the "PRC") on 15 April 2008 as a company with limited liability. The registered office of In Love Diamond is located at No. 8-1, Xinglong West Street, Gaojing Village, Gaobeidian Town, Chaoyang District, Beijing, PRC, It is principally engaged in the retail of diamond, gemstone and related jewellery accessories in the PRC.

The financial statements of the In Love Diamond for the Relevant Periods were prepared in accordance with the relevant accounting standards and rules of the Hong Kong Financial Reporting Standards ("HKFRSs") which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The financial statements of In Love Diamond for the three years ended 31 December 2009, 2010 and 2011 were audited by HLM & Co..

BASIS OF PREPARATION

The Financial Information has been prepared by the director of In Love Diamond based on financial statements for the Relevant Periods, on the basis as set out in Note 3 below. The Financial Information has been prepared in accordance with HKFRSs which also include Hong Kong Accounting Standards and Interpretations issued by the HKICPA.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The director of In Love Diamond is responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The director of In Love Diamond is responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information based on our audit. For purpose of this report, we have audited the Financial Information for the three years ended 31 December 2009, 2010 and 2011 in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement. We have also carried out additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of In Love Diamond as at 31 December 2009, 2010 and 2011 and of results and cash flows of In Love Diamond for the years ended 31 December 2009, 2010 and 2011 in accordance with Hong Kong Financial Reporting Standards.

I. FINANCIAL INFORMATION

The following is the Financial Information of In Love Diamond as at 31 December 2009, 2010 and 2011 prepared on the basis set out in Note 3 below.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED 31 DECEMBER

		2011	2010	2009
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*6*	121,551	1,411	868
Cost of sales		(81,636)	(1,347)	(572)
Gross profit		39,915	64	296
Other income	*6*	2,690	4	1
Distribution and selling expense	*7*	(20,376)	(1,053)	(768)
Administrative expense	*8*	(2,103)	(111)	–
Profit (loss) from operations		20,126	(1,096)	(471)
Finance costs	*9*	(160)	–	–
Profit (loss) before tax	*10*	19,966	(1,096)	(471)
Income tax expense	*11*	(4,995)	–	(2)
Profit (loss) for the year and total comprehensive income (expenses) for the year		14,971	(1,096)	(473)

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER

	NOTES	2011 RMB'000	2010 RMB'000	2009 RMB'000
Non-current asset				
Property, plant and equipment	12	15,838	436	94
Current assets				
Inventories	13	36,031	501	1,556
Account receivables	14	30	–	–
Other receivables, deposits and prepayment	15	56,272	6,437	236
Amount due from a shareholder	16	1,340	10	6,900
Cash and bank balances		1,256	11,342	714
		94,929	18,290	9,406
Current liabilities				
Account payables	17	7,008	–	–
Other payables and accruals		1,910	407	414
Deposits received		27	10	–
Amounts due to shareholders	16	26,256	600	281
Amounts due to a related company	18	26,625	–	–
Borrowings	19	11,270	–	–
Tax payable		4,991	–	–
		78,087	1,017	695
Net current assets		16,842	17,273	8,711
Net assets		32,680	17,709	8,805
Capital and reserves				
Paid-in capital	20	20,000	20,000	10,000
Reserves		12,680	(2,291)	(1,195)
Total equity		32,680	17,709	8,805

STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2009, 2010 AND 2011

	Paid-in capital	**Accumulated profit (loss)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2009	10,000	(722)	9,278
Loss for the year	–	(473)	(473)
At 31 December 2009 and 1 January 2010	10,000	(1,195)	8,805
Loss for the year	–	(1,096)	(1,096)
Increased in paid-in capital	10,000	–	10,000
At 31 December 2010 and 1 January 2011	20,000	(2,291)	17,709
Profit for the year	–	14,971	14,971
At 31 December 2011	20,000	12,680	32,680

STATEMENT OF CASH FLOW
FOR THE YEARS ENDED 31 DECEMBER

	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Profit (loss) for the year	14,971	(1,096)	(473)
Adjustments for:			
Income tax expenses	4,995	–	2
Interest expenses	160	–	–
Interest income	(25)	(3)	(1)
Depreciation	689	31	91
Operating cash flow before movements in working capital	20,790	(1,068)	(381)
(Increase) decrease in inventories	(35,530)	1,055	56
Increase in account receivables	(30)	–	–
(Increase) decrease in other receivable, deposits and prepayment	(49,835)	(6,201)	6,307
(Increase) decrease in amount due from a shareholder	(1,330)	6,890	(6,900)
Increase in account payables	7,008	–	–
Increase (decrease) in other payables and accruals	1,503	(7)	234
Increase in deposits received	17	10	–
Increase in amounts due to a shareholder	25,656	319	281
Increase in amounts due to a related company	26,625	–	–
Cash (used in) generated from operations	(5,126)	998	(403)
Interest paid	(160)	–	–
Income taxes paid	(4)	–	(2)
Net cash (used in) generated from operating activities	(5,290)	998	(405)

	2011 *RMB'000*	2010 *RMB'000*	2009 *RMB'000*
Investing activities			
Interest received	25	3	1
Purchase of property, plant and equipment	(16,091)	(471)	(200)
Proceeds from disposal of property, plant and equipment	–	98	400
Net cash used in investing activities	(16,066)	(370)	201
Financing activities			
Increased in paid-in capital	–	10,000	–
New borrowings raised	11,270	–	–
Net cash generated from financing activities	11,270	10,000	–
Net (decrease) increase in cash and cash equivalents	(10,086)	10,628	(204)
Cash and cash equivalents at beginning of year	11,342	714	918
Cash and cash equivalents at end of year	1,256	11,342	714
Analysis of cash and cash equivalents			
Cash and bank balances	1,256	11,342	714

II. NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2009, 2010 AND 2011

1. General

In Love Diamond is a private limited company incorporated in the PRC. It is principally engaged in the retail of diamond, gemstone and related jewellery accessories in the PRC. The registered office of In Love Diamond is located at No. 8-1, Xinglong West Street, Gaojing Village, Gaobeidian Town, Chaoyang District, Beijing, PRC.

The Financial Information is presented in Renminbi ("RMB"), which is the functional and presentation currency of In Love Diamond.

The principal activities of In Love Diamond are sale of diamond, gemstone and related jewellery through chain retail stores in the PRC.

2. Application of new and revised Hong Kong Financial Reporting standards

The following new and revised HKFRSs issued by HKICPA have been applied by In Love Diamond in the current year and have affected the presentation and disclosures set out in these financial statements. The application of these new and revised HKFRSs had no impact on the In Love Diamond's financial performance and positions for the current and prior years, except as described below.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 and HKAS 1
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 3 (Amendments)	Business Combination (2008) – Improvements to HKFRSs (2010)
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK (IFRIC) – Int 13 (Amendments)	Customer Loyalty Programmes – Improvements to HKFRSs (2010)
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspect: (a) HKAS 24 (as revised 2009) has changed the definition of related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from disclosure requirements for government-related entities.

In Love Diamond are not a government-related entities. The application of revised definition a related party set out in HKAS 24 (as revised in 2009) in the year has resulted in the identification of related parties that were not identified as related parties under previous Standards. Specifically, associates of the ultimate holding company of In Love Diamond are treated as related parties of the In Love Diamond under the revised Standard whilst such entities were not treated as related parties of In Love Diamond under the previous Standard.

Amendments to HKAS 32 Classification of Rights Issues

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to HKAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

The application of the amendments has had no effect on the amounts reported in the current and prior years because In Love Diamond has not issued instruments of this nature.

HK (IFRIC) – Int 19 Extinguishing Financial Liabilities with Equity Instruments

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by issue of equity instruments. Specifically, under HK (IFRIC) – Int 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the liability extinguished and the consideration paid will be recognised in profit or loss.

New and revised HKFRSs in issue but not yet effective

In Love Diamond has not early applied the follow new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 1 (Amendments)	Severe hyperinflation and fixed dates for first-time adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9 (Revised)	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets[4]
HKAS 19 (As revised in 2011)	Employee Benefits[2]
HKAS 27 (As revised in 2011)	Separate Financial Statements[2]
HKAS 28 (As revised in 2011)	Investment in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 *Effective for annual periods beginning on or after 1 July 2011*

2 *Effective for annual periods beginning on or after 1 January 2013*

3 *Effective for annual periods beginning on or after 1 July 2012*

4 *Effective for annual periods beginning on or after 1 January 2012*

5 *Effective for annual periods beginning on or after 1 January 2014*

6 *Effective for annual periods beginning on or after 1 January 2015*

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed assets in the future.

The director anticipates that the application of amendments to HKFRS 7 will affect In Love Diamond's disclosures regarding transfers of financial assets in the future.

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follow:

- HKFRS 9 requires all recognised financial assets that are within the scope of *HKAS 39 Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The director anticipates that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of In Love Diamond's financial assets and financial liabilities. Regarding In Love Diamond's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The director of In Love Diamond anticipates that the application of other new or revised standards, amendments and interpretations will have no material impact on results and financial position of In Love Diamond.

3. Significant accounting policies

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance.

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the Financial Information.

Revenue recognition

Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. Service income is recognised by reference to the services performed over the contract term during the year.

Interest income is recognised, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost represents the invoiced cost of inventories. In general, costs are assigned to individual items on a weighted average basis. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation.

Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over useful life, using the straight-line method, at the follow rates:

Leasehold improvement	20%
Equipment, furniture and fixture	20%
Motor vehicle	20%

The estimated useful life, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, In Love Diamond reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, In Love Diamond estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Foreign currency

In preparing the financial statements of the In Love Diamond, transactions in currencies other than the functional currency of that In Love Diamond (the "foreign currencies") are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risk; and

- exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified form equity to profit or loss on repayment of the monetary items.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. In Love Diamond's liability for current tax is calculated using tax rates that have been enacted or substantially enacted at the end of reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where In Love Diamond is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which In Love Diamond expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

In Love Diamond's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the Relevant Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or

- It is a part of an identified portfolio of financial instruments that In Love Diamond manages together and has a recent actual pattern of short-term profit-taking; or

- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the In Love Diamond's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement ("HKAS 39") permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. In Love Diamond designated unlisted equity securities investments as AFS financial assets.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as amount due from a related company, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include In Love Diamond's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amount due from a related company, where the carrying amount is reduced through the use of an allowance account. When a account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by In Love Diamond are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of In Love Diamond after deducting all of its liabilities. In Love Diamond's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL, of which interest expense is included in net gains and losses.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or

- it is a part of an identified portfolio of financial instruments that In Love Diamond manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with In Love Diamond's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and other payables, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by In Love Diamond are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and In Love Diamond has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

(a) A person, or close member of that person's family, is related to In Love Diamond if that person:

(i) has control or joint control over In Love Diamond; or

(ii) has significant influence over In Love Diamond; or

(iii) is a member of the key management personnel of In Love Diamond or In Love Diamond's patent.

(b) An entity is related to In Love Diamond if any of the following conditions applies:

(i) An entity and In Love Diamond are members of the same group (which means that each patent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is post-employment benefit plan for the benefit of employees of either the group or entity related to In Love Diamond.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases.

In Love Diamond as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

The employees of the In Love Diamond's in the PRC are required to participate in a central pension scheme operated by the local municipal government. In Love Diamond is required to contribute certain percentage of their respective payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

Provisions

Provisions are recognised when In Love Diamond has a present obligation (legal or constructive) as a result of a past event, it is probable that In Love Diamond will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of receivable can be measured reliably.

Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand as well as short term bank deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4. Critical accounting judgements and key sources of estimation uncertainty

The assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(A) Depreciation and amortisation

In Love Diamond depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the director's estimate of the periods that In Love Diamond intends to derive future economic benefits from the use of In Love Diamond's property, plant and equipment. The residual values reflect the directors' estimated amount that In Love Diamond would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

(B) Impairment on inventories

The management of In Love Diamond reviews an aging analysis at the end of reporting period, and identified obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. In Love Diamond carries out and inventory review on a product-by-product basis at each balance sheet date and provide impairment on obsolete items.

(C) Fair value estimation

The carrying amounts of In Love Diamond's financial assets, including account receivables, other receivables, deposits and prepayments and amounts due from shareholder, approximate their fair values due to their short maturities.

5. Financial risk management objectives and policies

In Love Diamond's activities exposes it a variety of financial risks: credit risk, foreign exchange risk, liquidity risk and interest-rate risk. In Love Diamond's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on In Love Diamond's financial performances.

Credit risk

In Love Diamond's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2009, 2010 and 2011 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. In order to minimise the credit risk, the management of In Love Diamond has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Foreign exchange risk

In Love Diamond is not exposed to significant foreign exchange risk.

Liquidity risk

In the management of the liquidity risk, In Love Diamond monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance In Love Diamond's operations and mitigate the effects of fluctuations in cash flows. In Love Diamond's sales are mainly cash Sales and sales through credit cards which the receivables can be received in relatively short time, thus, In Love Diamond's exposure to liquidity risk is minimal.

Cash flow and interest rate risk

In Love Diamond is not exposed to significant cash flow and interest rate risk.

6. Revenue and other income

Revenue represents the amounts received and receivable from sale of goods by In Love Diamond to outside customers and from services rendered, less returns and trade discounts. An analysis of revenue and other income is as follows:

	2011	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Revenue:			
Sales of goods	121,551	1,411	868
Other income:			
Interest income	25	3	1
Consultancy service income	1,664	–	–
Commission income	1,000	–	–
Others	1	1	–
	2,690	4	1
Total	124,241	1,415	869

7. Distribution and selling expenses

	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*
Staff salaries	5,718	373	399
Director's remuneration	36	3	6
Bank charge and credit card commission	1,386	1	–
Advertising	920	156	6
Rent	4,683	7	20
Depreciation	689	31	91
Building management fee	1,128	–	–
Others	5,816	482	246
Total	20,376	1,053	768

8. Administrative expenses

	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*
Staff salaries	87	111	–
Management services fee	625	–	–
Office supplies and consumables	606	–	–
Others	785	–	–
Total	2,103	111	–

9. Finance costs

	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses wholly repayable within one year	160	–	–

10. Profit (loss) before tax

	2011	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Profit (loss) before tax bas been arrived at after charging:			
Depreciation of property, plant and equipment	689	31	91
Director's remuneration	36	3	6
Staff costs:			
– Staff salaries	5,805	484	399
– Contribution to retirement scheme	683	40	–
– Staff benefit and welfare	404	9	15
Operating lease charges in respect of rented premises	4,683	7	20

11. Income tax expense

No provision for Hong Kong profits tax has been made as In Love Diamond has no assessable profits in Hong Kong for the Relevant Periods.

PRC corporate income tax represents the tax charged on the estimated assessable profits at 25% arising in PRC.

The tax expense for the Relevant Periods can be reconciled to profit (loss) before tax per the statement of comprehensive income:

	2011	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Profit (loss) before tax	19,966	(1,096)	(471)
Tax at PRC income tax of 25%	4,991	(274)	(118)
Tax effect of expenses not deductible for tax purpose	–	274	120
Under-provision of taxation	4	–	–
Tax charge for the year	4,995	–	2

12. Property, plant and equipment

	Leasehold improvement *RMB'000*	Equipment, furniture and fixtures *RMB'000*	Motor vehicle *RMB'000*	Total *RMB'000*
COST				
At 1 January 2009	127	287	–	414
Additions	196	4	–	200
Disposals	(301)	(184)	–	(485)
At 31 December 2009 and 1 January 2010	22	107	–	129
Additions	20	353	98	471
Disposals	(42)	(116)	–	(158)
At 31 December 2010 and 1 January 2011	–	344	98	442
Additions	9,544	6,511	36	16,091
At 31 December 2011	9,544	6,855	134	16,533
ACCUMULATED DEPRECIATION				
At 1 January 2009	9	20	–	29
Charge for the year	37	54	–	91
Eliminated on disposal	(39)	(46)	–	(85)
At 31 December 2009 and 1 January 2010	7	28	–	35
Charge for the year	6	23	2	31
Eliminated on disposal	(13)	(47)	–	(60)
At 31 December 2010 and 1 January 2011	–	4	2	6
Charge for the year	181	479	29	689
At 31 December 2011	181	483	31	695
NET BOOK VALUE				
At 31 December 2011	9,363	6,372	103	15,838
At 31 December 2010	–	340	96	436
At 31 December 2009	15	79	–	94

13. Inventories

	2011	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Diamond, gemstone, gold and related accessories, at cost	36,031	501	1,556

14. Account receivables

	2011	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	30	–	–

The account receivables relate to a number of credit card companies with good credit quality and are normally recovered within one month.

The directors consider that the carrying amount of trade receivables approximates their fair value.

15. Other receivables, deposits and prepayment

	2011	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Deposits paid	3,946	300	–
Prepayment	18,422	6,076	–
Other receivables	33,904	61	236
Total	56,272	6,437	236

RMB30,000,000 included in other receivables is a temporary loan from an independent third party and had been settled after the year end.

16. Amounts due from (to) shareholders

The amounts due to from(to) shareholders are unsecured, non-interest bearing and have no fixed terms of repayment. The maximum balance of amount due from a shareholder is RMB1,340,000 incurred for the year ended 31 December 2011.

17. Account payables

The ageing analysis of account payables is as follow:

	2011	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
31 to 60 days	7,008	–	–

The directors consider the carrying amount of trade payables approximates their fair value.

18. Amount due to related companies and transaction with a related company

Details of transaction between In Love Diamond and its related company are disclosed below.

	Particular	**2011** *RMB'000*	**2010** *RMB'000*	**2009** *RMB'000*
Jiangyin Hongcheng Jewelry Limited *(Note 1)*	Management service fee paid	625	–	–

Note 1: Mr. Chang Chun (“常春”), a shareholder of In Love Diamond, is also a director of Jiangyin Hongcheng Jewelry Limited.

The amount due to a related company is unsecured, non-interest bearing and has no fixed terms of repayment.

19. Borrowings

	2011	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Loan from a financial institution, unsecured *(Note 1)*	3,000	–	–
Loan from a other entity, unsecured *(Note 2)*	8,270	–	–
	11,270	–	–

Note 1: The unsecured loan from a financial institution is interest-bearing at 21.86% per annum and repayable within 1 year.

Note 2: The unsecured loan from a other entity is interest-free and had no fixed repayment term.

	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*
Within one year	11,270	–	–
Less: current year portion	(11,270)	–	–
	–	–	–

20. Paid-in capital

	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-in capital	20,000	20,000	10,000
At 1 January	20,000	10,000	10,000
Increased in paid-in capital	–	10,000	–
At 31 December	20,000	20,000	10,000

21. Earnings (loss) per share

In Love Diamond has not been prepared as such information is not considered meaningful having regard to the purpose of this report.

22. Capital commitment

In Love Diamond had no significant capital commitment as at 31 December 2009, 2010 and 2011.

23. Lease commitments

At the end of the reporting period, In Love Diamond had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	12,085	–	–
In the second to fifth years inclusive	38,803	–	–
	50,888	–	–

Operating lease payments represent rentals payable by In Love Diamond for its office and retail stores. Leases are negotiated for an average term of 2 to 5 years and rentals are fixed for an average of 2 to 5 years.

24. Contingent liabilities

In Love Diamond did not have any significant contingent liabilities as at 31 December 2011.

25. Event after the end of reporting period

At the end of reporting period, In Love Diamond had no any significant event after the end of reporting period.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for In Love Diamond in respect of any period subsequent to 31 December 2011.

Yours faithfully,

HLM & Co.
Certified Public Accountants
Hong Kong

1. INTRODUCTION

The following is the unaudited pro forma financial information of the Enlarged Group prepared in accordance with the Rules 7.31 of the G.E.M. Listing Rules for the purpose of illustrating the effect of the proposed acquisition of Million Zone Holdings Limited ("Million Zone"), Jiangyin Hongcheng Jewelry Limited ("Jiangyin")（江陰宏誠珠寶有限公司）and Beijing City-In-Love Market Limited ("Love Diamond")（北京全城熱戀商場有限公司）on the financial position of the Group as if the Acquisition had been completed on 31 December 2010 and the results and cash flows of the Group as if the Acquisition had been completed on 1 January 2010. As it is prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position, results and cash flows of the Enlarged Group following completion of the Acquisition.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2010 extracted from the published annual report of the Group as of 31 December 2010 as set out in Appendix I to this circular and the audited consolidated statement of financial position of Million Zone, audited statements of financial position of Jiangyin and In Love Diamond as at 31 December 2011 extracted from the accountant's report on Million Zone, Jiangyin and In Love Diamond as set out in Appendix II to this circular as if the Acquisition had been completed on 31 December 2010.

The unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared based on the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows for the year ended 31 December 2010 extracted from the published annual report of the Group as of 31 December 2010 as set out in Appendix I to this circular and the audited statements of comprehensive income and statements of cash flows of Million Zone, Jiangyin and In Love Diamond for the year ended 31 December 2011 extracted from the accountants' report on Million Zone, Jiangyin and In Love Diamond as set out in Appendix II to this circular as if the Acquisition has been completed on 1 January 2010.

The unaudited pro forma financial information of the Enlarged Group is based upon the published unaudited financial information of the Group and the audited financial information of the Million Zone, Jiangyin and In Love Diamond after giving effect to the pro forma adjustments described in note below. These pro forma adjustments of the Acquisition are (i) directly attributable to the transactions concerned and not relating to future events or decisions; and (ii) factually supportable.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the published annual report of the Group and the accountants' report on Million Zone, Jiangyin and In Love Diamond and other financial information included elsewhere in the circular.

2. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 31 December 2010	Million Group	Jiangyin	In Love Diamond	Sub-total	Being adjustment of investment cost	Being adjustment of placement of convertible bonds and provision of related transactions costs	Being consolidated adjustment to eliminate the investment cost in subsidiaries	Being elimination of inter-company balances	Being consolidated of reclassification of other receivables, other payables and amounts from/ to shareholders	Being adjustment of professional fee and other transaction costs directly attributable to the Acquisition	Pro forma adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
ASSETS AND LIABILITIES														
Non-current assets														
Property, plant and equipment	64,527	–	–	19,554	84,081	–	–	–	–	–	–	–		84,081
Mining right	200,000	–	–	–	200,000	–	–	–	–	–	–	–		200,000
Goodwill	487,695	–	–	–	487,695	–	–	564,720	–	–	–	564,720	*(a)*	1,052,415
Other intangible assets	22,344	–	–	–	22,344	–	–	–	–	–	–	–		22,344
Investment in subsidiaries	–	–	–	–	–	599,683		(599,683)				–		–
Available-for-sale investments	11,000	–	–	–	11,000	–	–	–	–	–	–	–		11,000
	785,566	–	–	19,554	805,120	599,683	–	(34,963)	–	–	–	564,720		1,369,840
Current assets														
Inventories	34,422	–	–	44,483	78,905	–	–	–	–	–	–	–		78,905
Trade receivables	189,947	–	–	37	189,984	–	–	–	–	–	–	–		189,984
Other receivables, deposits and prepayments	94,978	–	12,222	69,473	176,673	–	–	–	–	1,654	–	1,654	*(e)*	178,327
Financial assets held for trading	9,762	–	–	–	9,762	–	–	–	–	–	–	–		9,762
Amount due from a related company	–	–	772	–	772	–	–	–	(772)	–	–	(772)	*(d)*	–
Amounts due from shareholders	–	–	–	1,654	1,654	–	–	–	–	(1,654)	–	(1,654)	*(e)*	–
Tax recoverable	3	–	–	–	3	–	–	–	–	–	–	–		3
Cash and bank balances	152,027	–	126	1,550	153,703	(80,000)	99,000	–	–	–	–	19,000	*(a), (c)*	172,703
	481,139	–	13,120	117,197	611,456	(80,000)	99,000	–	(772)	–	–	18,228		629,684
Current liabilities														
Trade payables	76,846	–	–	8,652	85,498	–	–	–	–	–	–	–		85,498
Accruals and other payables	33,202	42	–	2,359	35,603	–	–	–	–	64,513	17,280	81,793	*(e), (f)*	117,396
Deposits received	35,371	–	–	33	35,404	–	–	–	–	–	–	–		35,404
Amounts due to related companies	14,010	–	–	32,871	46,881	–	–	–	(772)	(32,099)	–	(32,871)	*(d), (e)*	14,010
Amounts due to shareholders	–	–	–	32,414	32,414	–	–	–	–	(32,414)	–	(32,414)	*(e)*	–
Borrowings	–	–	–	13,914	13,914	–	–	–	–	–	–	–		13,914
Provisions	–	–	–	–	–	311,683	–	–	–	–	–	311,683	*(a)*	311,683
Tax payables	143	–	–	6,162	6,305	–	–	–	–	–	–	–		6,305
	159,572	42	–	96,405	256,019	311,683	–	–	(772)	–	17,280	328,191		584,210
Net current assets (liabilities)	321,567	(42)	13,120	20,792	355,437	(391,683)	99,000	–	–	–	(17,280)	(309,963)		45,474
Net assets (liabilities)	1,107,133	(42)	13,120	40,346	1,160,557	208,000	99,000	(34,963)	–	–	(17,280)	254,757		1,415,314

	The Group as at 31 December 2010	Million Group	Jiangyin	In Love Diamond	Sub-total	Being adjustment of investment cost	Being adjustment of placement of convertible bonds and provision of related transactions costs	Being consolidated adjustment to eliminate the investment cost in subsidiaries	Being elimination of inter-company balances	Being consolidated of reclassification of other receivables, other payables and amounts from/ to shareholders	Being adjustment of professional fee and other transaction costs directly attributable to the Acquisition	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Capital and reserves														
Share capital	112,725	–	12,346	22,617	147,688	–	–	(34,963)	–	–	–	(34,963)	*(h)*	112,725
Reserves	801,408	(42)	774	17,729	819,869		(1,000)	–	–	–	–	(1,000)	*(c)*	818,869
	–	–	–	–	–	29,924		–	–	–	–	29,924	*(b)*	29,924
	–	–	–	–	–	–	14,386	–	–	–	–	14,386	*(c)*	14,386
	–	–	–	–	–	–	–	–	–	–	(17,280)	(17,280)	*(f)*	(17,280)
	914,133	(42)	13,120	40,346	967,557	29,924	13,386	(34,963)	–	–	(17,280)	(8,933)		958,624
Minority interest	1,233	–	–	–	1,233	–	–	–	–	–	–	–		1,233
Total equity	915,366	(42)	13,120	40,346	968,790	29,924	13,386	(34,963)	–	–	(17,280)	(8,933)		959,857
Non-current liabilities														
Convertible bonds	191,767	–	–	–	191,767	178,076	85,614	–	–	–	–	263,690	*(b), (c)*	455,457
	1,107,133	(42)	13,120	40,346	1,160,557	208,000	99,000	(34,963)	–	–	(17,280)	254,757		1,415,314

3. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

	The Group as at 31 December 2010	Million Group	Jiangyin	In Love Diamond	Sub-total	Being adjustment of placement of convertible bonds and provision of related transactions costs	Being adjustment of professional fee and other transaction costs directly attributable to the Acquisition	Being elimination inter-company service income	Pro forma adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Continuing operations											
Turnover	388,378	–	772	150,063	539,213	–	–	(772)	(772)	*(g)*	538,441
Cost of sales and services	(118,304)	–	–	(100,786)	(219,090)	–	–	–	–		(219,090)
Gross profit	270,074	–	772	49,277	320,123	–	–	(772)	(772)		319,351
Other revenue	1,390	–	3	3,321	4,714	–	–	–	–		4,714
Distribution expenses	(12,738)	(17)	–	(25,156)	(37,911)	–	–	–	–		(37,911)
Administrative expenses	(74,234)	–	(1)	(2,595)	(76,830)	(1,000)	(17,280)	772	(17,508)	*(c), (f), (g)*	(94,338)
Impairment loss on mining rights	(36,364)	–	–	–	(36,364)	–	–	–	–		(36,364)
Impairment loss on available-for-sale investments	(9,000)	–	–	–	(9,000)	–	–	–	–		(9,000)
Realised loss on disposal of financial assets held for trading	(273)	–	–	–	(273)	–	–	–	–		(273)
Unrealised loss on disposal of financial assets held for trading	(2,074)	–	–	–	(2,074)	–	–	–	–		(2,074)
Profit from operations	136,781	(17)	774	24,847	162,385	(1,000)	(17,280)	–	(18,280)		144,105
Finance costs	(6,729)	–	–	(197)	(6,926)	–	–	–	–		(6,926)
Profit before tax	130,052	(17)	774	24,650	155,459	(1,000)	(17,280)	–	(18,280)		137,179
Income tax expense	–	–	–	(6,167)	(6,167)	–	–	–	–		(6,167)
Profit for the year from continuing operations	130,052	(17)	774	18,483	149,292	(1,000)	(17,280)	–	(18,280)		131,012
Discontinued operations											
Profit for the year from discontinued operations	6,678	–	–	–	6,678	–	–	–	–		6,678
Profit for the year	136,730	(17)	774	18,483	155,970	(1,000)	(17,280)	–	(18,280)		137,690
Other comprehensive income:											
Exchange differences on translation of:											
– financial statements of foreign operations	10,401	–	–	(1,271)	9,130	–	–	–	–		9,130
Other comprehensive income for the year net of tax	10,401	–	–	(1,271)	9,130	–	–	–	–		9,130
Total comprehensive income for the year	147,131	(17)	774	17,212	165,100	(1,000)	(17,280)	–	(18,280)		146,820

	The Group as at 31 December 2010 HK$'000	Million Group HK$'000	Jiangyin HK$'000	In Love Diamond HK$'000	Sub-total HK$'000	Being adjustment of placement of convertible bonds and provision of related transactions costs HK$'000	Being adjustment of professional fee and other transaction costs directly attributable to the Acquisition HK$'000	Being elimination inter-company service income HK$'000	Pro forma adjustments HK$'000	Notes	Pro forma Enlarged Group HK$'000
Profit attributable to:											
Shareholders of the Company	140,006	(17)	774	18,483	159,246	(1,000)	(17,280)	–	(18,280)	*(c), (f)*	140,966
Minority interest	(3,276)	–	–	–	(3,276)	–	–	–	–		(3,276)
	136,730	(17)	774	18,483	155,970	(1,000)	(17,280)	–	(18,280)		137,690
Total comprehensive income attributable to:											
Shareholders of the Company	150,407	(17)	774	17,212	168,376	(1,000)	(17,280)	–	(18,280)	*(c), (f)*	150,096
Minority interest	(3,276)	–	–	–	(3,276)	–	–	–	–		(3,276)
	147,131	(17)	774	17,212	165,100	(1,000)	(17,280)	–	(18,280)		146,820

4. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

	The Group as at 31 December 2010 HK$'000	Million Group HK$'000	Jiangyin HK$'000	In Love Diamond HK$'000	Sub-total HK$'000	Being adjustment of investment cost HK$'000	Being adjustment of placement of convertible bonds and provision of related transactions costs HK$'000	Being consolidated adjustment to eliminate the investment cost in subsidiary HK$'000	Being elimination of inter-company balances HK$'000	Being consolidated of reclassification of other receivables, other payables and amount due from/to shareholders HK$'000	Being adjustment of professional fee and other transaction costs directly attributable to the Acquisition HK$'000	Pro forma adjustments HK$'000	Notes	Pro forma Enlarged Group HK$'000
Operating activities														
Profit for the year	136,730	(17)	774	18,483	155,970	–	(1,000)	–	–	–	(17,280)	(18,280)	(c), (f)	137,690
Adjustments for:												–		–
Income tax expenses	–	–	–	6,167	6,167	–	–	–	–	–	–	–		6,167
Interest income	(381)	–	(3)	(31)	(415)	–	–	–	–	–	–	–		(415)
Interest expenses	–	–	–	197	197	–	–	–	–	–	–	–		197
Imputed interest on convertible bonds	6,729	–	–	–	6,729	–	–	–	–	–	–	–		6,729
Impairment loss on mining rights	36,364	–	–	–	36,364	–	–	–	–	–	–	–		36,364
Impairment loss on available-for-sale investments	9,000	–	–	–	9,000	–	–	–	–	–	–	–		9,000
Depreciation	5,401	–	–	851	6,252	–	–	–	–	–	–	–		6,252
Loss on disposal of property, plant and equipment	240	–	–	–	240	–	–	–	–	–	–	–		240
Loss on disposal of financial assets held for trading	273	–	–	–	273	–	–	–	–	–	–	–		273
Unrealised loss on financial assets held for trading	2,074	–	–	–	2,074	–	–	–	–	–	–	–		2,074
Gain on disposal of a joint venture	(14,182)	–	–	–	(14,182)	–	–	–	–	–	–	–		(14,182)
Amortisation of other intangible assets	1,109	–	–	–	1,109	–	–	–	–	–	–	–		1,109
Equity-settled share-based payments	27,091	–	–	–	27,091	–	–	–	–	–	–	–		27,091
Operating cash flows before movements in working capital	210,448	(17)	771	25,667	236,869	–	(1,000)	–	–	–	(17,280)	(18,280)		218,589
(Increase) decrease in inventories	12,361	–	–	(43,900)	(31,539)	–	–	–	–	–	–	–		(31,539)
(Increase) decrease in trade receivables, prepayment, deposits and other receivables	(209,941)	–	(12,222)	(62,025)	(284,188)	–	–	12,346	–	(1,642)	–	10,704	(b), (e)	(273,484)
(Increase) decrease in amounts due from related companies	–	–	(772)	–	(772)	–	–	–	772	–	–	772	(d)	–
Increase (decrease) in trade payables, bills payables, accruals and other payables and deposits received	68,310	17	–	10,559	78,886	–	–	–	–	63,815	17,280	81,095	(e), (f)	159,981
Increase (decrease) in amounts due to related companies	(20,812)	–	–	32,871	12,059	–	–	–	(772)	(32,099)	–	(32,871)	(d),(e)	(20,812)
(Increase) decrease in amounts due from shareholders	–	–	–	(1,642)	(1,642)	–	–	–	–	1,642	–	1,642	(e)	–
Increase (decrease) in amounts due to shareholders	–	–	–	31,716	31,716	–	–	–	–	(31,716)	–	(31,716)	(e)	–
Cash generated from (used in) operations	60,366	–	(12,223)	(6,754)	41,389	–	(1,000)	12,346	–	–	–	11,346		52,735
Interest paid	–	–	–	(197)	(197)	–	–	–	–	–	–	–		(197)
Interest received	–	–	3	–	3	–	–	–	–	–	–	–		3
PRC tax paid	(1,303)	–	–	(4)	(1,307)	–	–	–	–	–	–	–		(1,307)
Net cash generated from (used in) operating activities	59,063	–	(12,220)	(6,955)	39,888	–	(1,000)	12,346	–	–	–	11,346		51,234

	The Group as at 31 December 2010 HK$'000	Million Group HK$'000	Jiangyin HK$'000	In Love Diamond HK$'000	Sub-total HK$'000	Being adjustment of investment cost HK$'000	Being adjustment of placement of convertible bonds and provision of related transactions costs HK$'000	Being consolidated adjustment to eliminate the investment cost in subsidiary HK$'000	Being elimination of inter-company balances HK$'000	Being consolidated of reclassification of other receivables, other payables and amount due from/to shareholders HK$'000	Being adjustment of professional fee and other transaction costs directly attributable to the Acquisition HK$'000	Pro forma adjustments HK$'000	Notes	Pro forma Enlarged Group HK$'000
Cash flows from investing activities														
Purchases of property, plant and equipment	(65,562)	–	–	(19,867)	(85,429)	–	–	–	–	–	–	–		(85,429)
Purchases of financial assets held for trading	(56,343)	–	–	–	(56,343)	–	–	–	–	–	–	–		(56,343)
Net cash outflow on acquisition of subsidiaries	–	–	–	–	–	(66,812)	–	–	–	–	–	(66,812)	*(a)*	(66,812)
Purchase of available-for-sale investments	–	–	–	–	–	–	–	–	–	–	–	–		–
Payments for other intangible assets	(23,453)	–	–	–	(23,453)	–	–	–	–	–	–	–		(23,453)
Sales proceeds from disposal of property, plant and equipment	–	–	–	–	–	–	–	–	–	–	–	–		–
Sales proceeds from disposal of financial assets held for trading	58,891	–	–	–	58,891	–	–	–	–	–	–	–		58,891
Net cash outflow from disposal of a joint venture	(14,130)	–	–	–	(14,130)	–	–	–	–	–	–	–		(14,130)
Interest received	381	–	–	31	412	–	–	–	–	–	–	–		412
Net cash generated from (used in) investing activities	(100,216)	–	–	(19,836)	(120,052)	(66,812)	–	–	–	–	–	(66,812)		(186,864)
Cash flows from financing activities														
Proceeds from issue of shares	–	–	12,346	–	12,346	–	–	(12,346)	–	–	–	(12,346)	*(b)*	–
Proceeds from loan from a financial company	–	–	–	13,913	13,913							–		13,913
Proceeds from issuing of convertible bonds	–	–	–	–	–	–	100,000	–	–	–	–	100,000	*(c)*	100,000
Net cash generated from (used in) financing activities	–	–	12,346	13,913	26,259	–	100,000	(12,346)	–	–	–	87,654		113,913
Net increase (decrease) in cash and cash equivalents	(41,153)	–	126	(12,878)	(53,905)	(66,812)	99,000	–	–	–	–	32,188		(21,717)
Effect of foreign exchange rate change	11,304	–	–	1,240	12,544	–	–	–	–	–	–	–		12,544
Cash and cash equivalents at beginning of year	181,876	–	–	13,188	195,064	(13,188)	–	–	–	–	–	(13,188)		181,876
Cash and cash equivalents at end of year	152,027	–	126	1,550	153,703	(80,000)	99,000	–	–	–	–	19,000		172,703
ANALYSIS OF CASH AND CASH EQUIVALENTS														
Cash and bank balances	152,027	–	126	1,550	153,703	(80,000)	99,000	–	–	–	–	19,000	*(a), (c)*	172,703

5. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) The adjustment represents the effect of the Acquisition on the consolidated statement of financial position of the Enlarged Group as if the Acquisition had taken place on 31 December 2011. The recognition of goodwill of approximately HK$564,720,000 arising from the Acquisition which has been determined as the difference between the fair value of consideration of HK$599,683,000, directly attributable to the Acquisition and the Enlarged Group's interest in Million Zone, Jiangyin and In Love Diamond.

The amount of goodwill will be determined based on the total consideration at fair value and the Enlarged Group's interest in the fair value of the identifiable assets and liabilities of on Million Zone, Jiangyin and In Love Diamond on the date of completion in accordance with Hong Kong Financial Reporting Standard 3 (revised) "Business Combinations" issued by Hong Kong Institute of Certified Public Accountants. The Enlarged Group will apply the acquisition method to account for the Acquisition in the consolidated financial statements of the Enlarged Group.

By reviewing the Valuation Report of the In Love Diamond, the fair market value of 100% equity interest in the In Love Diamond amounted to HK$623,000,000. As the fair market value is higher than the recognised carrying amount and no other significant indicative factor will affect the goodwill, therefore, no impairment loss on goodwill should be considered.

The first consideration payment is settled by cash of HK$80,000,000 for Acquisition had been taken place on 31 December 2011. Second consideration payment is settled by issuing the convertible bonds of approximately HK$208,000,000. Final consideration payment is settled by issuing convertible bonds of approximately HK$312,000,000 (subject to adjustment) after one year when the transaction is completed and the target companies fulfilled the profit guarantee conditions. Assuming the Enlarged Group has issued the convertible bonds of HK$312,000,000, the present value of convertible bond of HK$312,000,000 at 31 December 2011 is HK$311,683,000 which is determined by independent valuation firm, Renaissance Appraisals Limited by using discount rate (risk free rate) of approximately 0.1%.

The net cash outflow of HK$66,812,000 on acquisition of subsidiaries is the difference between the first consideration payment of HK$80,000,000 in cash received and the acquired subsidiaries' cash and bank balances amounting to HK$13,188,000.

(b) The adjustment represents the liability and equity components of the convertible bonds issued for the Acquisition as if it was issued on 31 December 2011. The estimated fair value of the liability and equity components of the convertible bonds is HK$178,076,000 and HK$29,924,000 determined using the discounted cash flow method by applicable discount annual rate of 4.17%* which was determined by the independent valuation firm, Renaissance Appraisals Limited, and 5 year expected lifes.

(c) The adjustment represents the Enlarged Group placed convertible bonds of up to an aggregate principal amount of HK$100 million. Based on the initial conversion price of HK$0.049, a maximum number of 2,040,816,327 conversion shares allotted and issued as if it was taken place on 31 December 2011. The net proceeds from Placings (after deducting related expenses approximately HK$1 million) are estimated to be of approximately HK$99 million. The Enlarged Group intends to use the net proceeds as to up to HK$80 million to finance the Acquisition and the remaining for the Enlarged Group's general working capital. The liability and equity components of convertible bonds at 31 December 2011 are approximately HK$85,614,000 and HK$14,386,000 respectively which are determined using the discounted cash flow method by applicable discount annual rate of 4.17%* which was determined by the independent valuation firm, Renaissance Appraisals Limited, and 5 years expected lifes.

(d) The adjustment represents the elimination of inter-company balances.

(e) The adjustment included the reclassification of amount due from shareholders to other receivables, the reclassification of amounts due to shareholders and amount due to a related company to other payables and the reclassification of amount due to a related company to other payables.

(f) The adjustment represents the provision for the related professional fees and other transaction costs of approximately HK$17,280,000 directly attributable to the Acquisition.

(g) The adjustment represents the elimination of inter-company services income of HK$772,000 on consolidation.

(h) The adjustment represents the elimination of investment cost in subsidiaries, Million Zone, Jiangyin and In Love Diamond.

* *Applicable discount rate has been arrived by combining the corresponding spot rates implied by the US Treasury securities and maturities and Hong Kong Average Yield Spread of Comparable Bonds, which are derived from the Comparable Bonds.*

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27 March 2012

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Dear Sirs or Madams,

In accordance with your instructions, we have made an appraisal of the fair market value of 100% equity interest of Beijing City-In-Love Market Limited (北京全城熱戀商場有限公司, the "Target Company"), a company incorporated in the PRC.

Fair market value is defined as the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

This letter identifies the property appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value.

The purpose of this appraisal is to express an independent opinion of the fair market value of the Target Company as at 15 February 2012 (the "Appraisal Date"). It is our understanding that this appraisal will be used for acquisition purposes and our report might be incorporated in or used in connection with a public document to be issued to the shareholders of China Public Healthcare (Holding) Limited (the "Company").

INTRODUCTION

Background of the Acquisition

The Company announced on 20 January 2012 that the Company, through it wholly owned subsidiary Ample Rich Capital Limited, entered into the agreement with (1) Value Vibrant Investments Limited, (2) Twin Wins Capital Limited and (3) Radiance Glory International Limited (the "Vendors") pursuant to which the Company agreed to acquire from the Vendors effectively the entire issued share capital of the Target Company at the consideration of HKD600 million (subject to adjustment), which is to be satisfied as to HKD80 million in cash and HKD520 million by the issue of convertible bonds by the Company to the Vendors. The Vendors guarantee to the Company that the audited net profit (before tax and all extraordinary and exceptional items as defined or recognized under generally accepted accounting principles and practices in Hong Kong) for the period of one year immediately after the completion date shall be no less than HKD70 million.

The Company

The Company, formerly known as Global Resources Development (Holding) Limited, has been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited since 25 July 2000. The Company and its subsidiaries ("the Group") are principally engaged in provision of healthcare information technology services, mining business, radio trunking systems integration and provision of telecommunication-related technical services in the PRC.

The Target Company

The Target Company was incorporated in the PRC and is principally engaged in sales of diamond, gemstone and related jewellery through chain retail stores. The Target Company opened its first store in Beijing on 12 March 2011. Five stores have commenced operations in Beijing as at the Appraisal Date.

INDUSTRY OVERVIEW

The diamond industry can be divided into gem-grade diamonds and industrial-grade diamonds. The supply of gem-quality diamonds is concentrated in limited locations such as India and South Africa. The price of diamond is highly dependent on the size, the quality of cut, colour and purity. Certificate from internationally recognized institute such as GIA and NGTC is usually required to justify the value of each diamond.

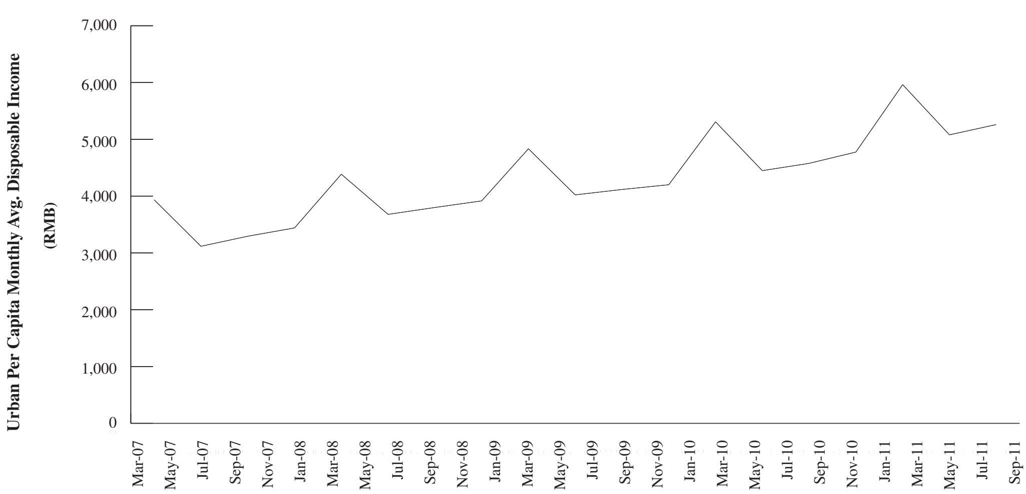
Economic Overview of the PRC

In the past five years, the economic performance in the PRC was strong with real GDP growth of over 8% on average. Diamond is considered as a luxury goods with its demand dependent of the spending power of citizens. The growth of disposable income for urban citizens was strong and sustainable, indicating that Chinese citizens are getting affluent which supports the demand of luxury goods.

Quarterly Real GDP Growth Rate Year on Year

Data Source: Bloomberg

Quarterly Urban Per Capita Monthly Disposable Income

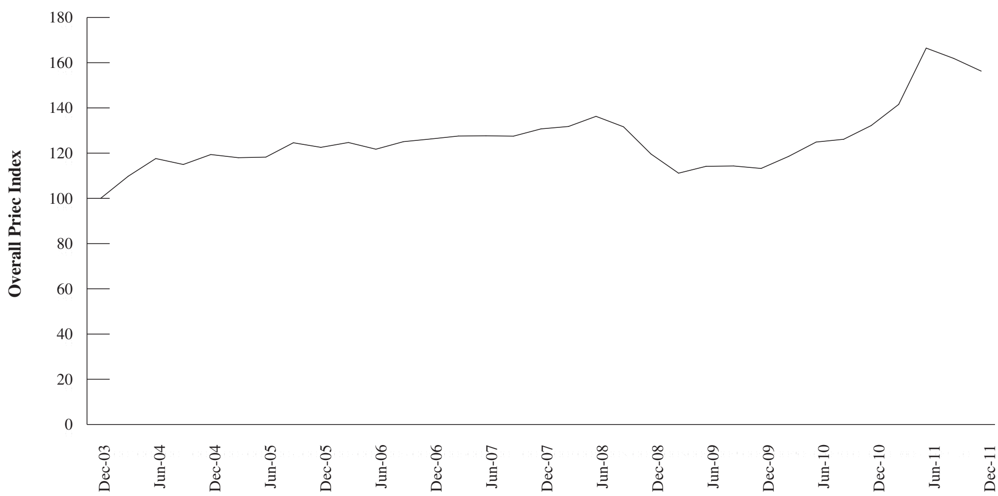


Data Source: Bloomberg

Price of Diamond

The price of diamond has entered a trend of growth since early 2009 until second half of 2011 when the European debt crisis brought a poor market sentiment. Nevertheless, the current level of diamond price stays high compared with the price in last eight years. According to BHP Billiton, the price of diamond is supported by the strong demand from the PRC.

Historical Trend of Diamond Price



Source: Bloomberg – PolishedPrices.com Diamond Price Overall Index

Market Demand

According to Shanghai Diamond Exchange ("SDE")[1], the import of polished diamond amounted to USD1.70 billion, representing an increase of 64% year on year while the import of rough diamond amounted to USD3.95 million, representing a decrease of over 50% year on year. The import of polished diamond amounted to 99.8% of total diamond import. In addition, for the first 10 months in 2011, the trading volume of diamond on SDE increased significantly by 64% to USD3.57 billion.

[1] *Authorized by the State Council, Shanghai Diamond Exchange ("SDE") is the only diamond exchange in the PRC which was established in 2000.*

Jewelry sales in the PRC amounted to RMB250 billion in 2010 and its sales increased by 69% year on year in the first 10 months of 2011. According to the National Jewelry Management Center, the PRC is expected to be the world's number one jewelry market by 2020, replacing the US. The prospect of diamond continues to be positive in coming years.

Competitive Landscape

The success of diamond jewellery company is dependent not only on price competitiveness but also credibility, marketing and branding due to the luxury nature of diamond products. The entry barrier is typically high with significant capital requirement for marketing, inventory and store investment.

The distribution of diamond jewelry includes mega shopping centres and jewelry stores. The diamond retail market in the PRC includes local companies or brands such as Kimberley and Hiersun, Chow Sang Sang and TSL from Hong Kong and also international diamond or jewelry companies such as De Beers, Cartier and Tiffany. Most of them experienced growth in 2010 and 2011, attributed to strong market demand.

BASIS OF VALUATION AND ASSUMPTIONS

For the purpose of determining the value of the business enterprise, we have appraised the business enterprise of the Target Company on the basis of fair market value. Fair Market Value is defined as the estimated amount at which the business enterprise might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business at its present location for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

Our investigation included discussions with the Management of the Company (the "Management") in relation to the history and nature of the Target Company's business, a review of the Target Company's historical and projected financial information, as well as other relevant documents. We have assumed that the data, information, opinions and representation provided to us by the Management in the course of the valuation are true and accurate. Before arriving at our opinion of value, we have considered the following principal factors:

– the nature of the business and the history of the Target Company from its inception;

– the financial condition of the Target Company and its book value;

– the economic outlook in general and the specific economic and competitive elements affecting the Target Company's business, its industry and market;

– the potential of the target markets to be served;

– past operating result of the Target Company;

– operating performance of public companies which are engaged in similar business to that of the Target Company;

– financial and business risks of the Target Company and inherent uncertainties involved in its operation.

Due to the changing environment in which the Target Company is operating, a number of assumptions have to be established in order to sufficiently support our concluded fair market value of the business enterprise. The major assumptions adopted in this appraisal are:

– there will be no major changes in the existing political, legal, and economic conditions in countries in which the Target Company operates that would materially affect the economic benefits attributable to the Target Company;

– there will be no material changes in the industries the Target Company is engaged in, which would materially affect the revenues, profits, cash flows attributable to the Target Company;

– there will be no major changes in the current taxation law in the countries in which the Target Company operates, and that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

– exchange rates and interest rates will not differ materially from those presently prevailing;

– effective tax rates will not differ materially from those presently prevailing;

– leasing rates for shopping mall will not differ materially from those presently prevailing;

– the Target Company will successfully maintain its competitiveness and market share through optimizing the utilization of its resources and expanding its marketing network;

– the Target Company will successfully maintain good relationship with its suppliers to secure its diamond demand at competitive price;

– the Target Company can expand it distribution network smoothly such that its competitiveness, profitability and growth can be sustained;

– the Target Company will utilize and maintain its current operational, administrative and technical facilities to expand and increase its sales;

– the availability of finance will not be a constraint on the forecast growth of the Target Company's operations;

– the Target Company will retain and have competent management, key personnel, and technical staff to support its ongoing operations; and

– industry trends and market conditions for related industries will not deviate significantly from economic forecasts.

For the purpose of this valuation, we were furnished with historical and projected financial information, as well as records and documents by the Management. We have reviewed and examined the said information and have no reason to doubt the truth and accuracy of the information contained therein. We have also consulted sources of financial and business information to supplement the information provided by the Management. In arriving at our opinion of value, we have relied to a very considerable extent upon such data, records, documents, financial and business information from other sources, as well as a number of assumptions that are subjective and uncertain in nature. Any variation to these assumptions could seriously affect the fair market value of the appraised business enterprise.

VALUATION METHODOLOGY

We have considered market approach and discounted cash flow approach ("DCF") for valuation of the Target Company. With a reasonable number of publicly traded companies available in the market, market approach is preferable since it requires less judgment and assumptions on projection of future financial results. The fair market value of the Target Company has been developed through the application of the market approach. In the market approach, we relied on the Guideline Publicly Traded Company (the "GPTC") method to estimate the value of the Target Company. In this method, the fair market value is based on prices at which stocks of similar companies are trading in a public market. A "value measure" is usually a multiple computed by dividing the price of the guideline company's stock as of the valuation date by some relevant economic variable observed or calculated from the guideline companies' financial statements.

A major requirement in applying the GPTC method is to identify companies that are comparable to the subject company in terms of business nature and associated risks. We have also considered the business exposure and size of the comparable companies. The selected comparable companies have certain exposure in the PRC jewelry market and the demand from the PRC will serve as an important driver of growth. We have selected six comparable companies listed on the Stock Exchange of Hong Kong, namely (1) Chow Tai Fook Jewellery Group Limited (1929.HK); (2) Chow Sang Sang Holdings International Limited (116.HK); (3) Hong Kong Resources Holdings Company Limited (2882.HK); (4) King Fook Holdings Limited (280.HK) (5) Emperor Watch & Jewellery Limited (887.HK) and (6) Luk Fook Holdings (International) Limited (590.HK). In general, our selection basis for comparable companies include the following relevant factors: (1) products, (2) markets, (3) earnings and growth, (4) capital structure, (5) nature of competition and (6) the characteristics of driving underlying investment risk and expected rate of return. All comparable companies are engaged in the similar business.

In applying the GPTC method, different value measures or market multiples of the comparable companies are calculated and analyzed to deduce a series of multiples that are considered representative of the industry average. Then, we applied the relevant industry multiples to the subject company to determine a value for the subject company that is on a freely-traded basis. Specifically, we applied the median of price to net income ratios for the valuation of the Target Company to reflect the profitability and expected growth of the Target Company. In this appraisal, the fair market value of the Target Company depends on the median of price to net income ratios of comparable companies generated from the available market figures for the trailing 12 months as at the Appraisal Date. The fair market value derived from above is then subject to a control premium and a discount to adjust for lack of marketability of the shares of the Target Company.

We applied the median of price to net income ratios of 20.8 of comparable companies and the adjusted net profit of the Target Company to calculate the indicated value which is then adjusted by control premium and marketability discount.

The adjusted net income from the Target Company was derived by annualizing net income for the period from 1 Apr 2011 to 15 Feb 2012 to reflect a twelve-month period result commencing from mid-March 2011. We assumed that the period of normal operation started from 1 Apr 2011.

Control premium

It is widely recognized that an investment which offers an investor control of a business is worth more than a minority stake. In valuation perspective, a shareholder with majority stake normally owns the control power in a company, and thus, a control premium is generally recognized. In contrast, a minority discount is recognized when the holder of a minority interest lacks control over corporate policies like election of directors or selection of management, acquisition or liquidation of assets, control over dividend policy, ability to set corporate strategies, ability to affect future earnings, etc.

Considering the fact that the market multiples derived from our selected comparable companies can only reflect their minority equity values as all their common stocks trading on the market only represent the minority equity shareholders (i.e. public shareholders). In this case, a control premium of 15% is deemed appropriate to be applied to the indicated fair market value of the business enterprise derived by the GPTC method. In determining a reasonable control premium, we made reference to the "Mergerstat Review 2011" which included data derived from market transactions involving U.S. companies, including privately held, publicly traded and cross-border transactions.

Discount for Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

A number of studies were conducted in the U.S. in an attempt to determine average levels of discounts for lack of marketability. These studies all fall into one of the following two basic categories, depending on the type of market transaction data on which they are based:

- Restricted ("letter") stock studies.

- Studies of transactions in closely held stocks prior to initial public offerings (IPOs).

In this case, a lack of marketability discount of 20% is applied to the indicated fair market value of the business enterprise derived by the GPTC method which is deemed to be reasonable for a private company like The Target Company. In determining the reasonable lack of marketability discount, we have made reference to the "Mergerstat Review 2011" which included data derived from market transactions involving U.S. companies, including privately held, publicly traded and cross-border transactions.

SENSITIVITY ANALYSIS

The application of median of price to net income ratios implied from comparable companies is an important assumption to the valuation and a sensitivity analysis below indicated how the fair market value is affected by a change in price to net income ratio applied.

Price to Net Income Ratio	Indicated Fair Market Value of 100% Interest of the Target Company (After Marketability Discount)
17	HKD508 million
18	HKD538 million
19	HKD568 million
20	HKD598 million
20.8	HKD623 million
21	HKD628 million
22	HKD658 million
23	HKD688 million
24	HKD718 million
25	HKD748 million

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that the total fair market value of a 100% equity interest in the Target Company as at **15 February 2012** is reasonably stated by the amount of **HONG KONG DOLLARS SIX HUNDRED TWENTY THREE MILLION HK$623,000,000** only.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The valuation is in conformity with the International Valuation Standards issued by the International Valuation Standards Council (the "IVSC").

We hereby certify that we have neither present nor prospective interests in the Group, the Company and its subsidiaries, the Target Company appraised, or the value reported.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED

Keith C.C. Yan, *ASA*
Managing Director

Kelvin C.H. Chan, *FCCA, CFA*
Director

Note: Mr. Keith C.C. Yan is an Accredited Senior Appraiser *(ASA)* (Business Valuation) of American Society of Appraisers and he has been conducting business valuation of various industries and intangible assets valuation in Hong Kong, the PRC and the Asian region for various purposes since 1988. Mr. Kelvin C.H. Chan is a CFA Charterholder and a fellow member of the Association of Chartered Certified Accountants. He has been working in the financial industry since 1996, with experiences covering the area of corporate banking, equity analysis and business valuation.

Investigation and report by:
Keith C.C. Yan, *ASA*
Kelvin C.H. Chan, *FCCA, CFA*
Max K.P. Tsang, *FRM*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised:		*HK$*
50,000,000,000	ordinary shares of HK$0.01 each	500,000,000.00
Issued and fully paid or credited as fully paid:		*HK$*
11,272,498,882	ordinary shares of HK$0.01 each	112,724,988.82

Immediately after Completion and upon full conversion of the Convertible Preference Shares at the initial conversion price, the authorised and issued share capital of the Company will be as follows:

Authorised:		*HK$*
50,000,000,000	ordinary shares of HK$0.01 each	500,000,000.00
Issued and fully paid or credited as fully paid:		*HK$*
11,272,498,882	Shares as at Latest Practicable Date	112,724,988.82
10,612,244,898	Conversion Shares to be issued upon full conversion of the Convertible Bonds	106,122,448.98
21,884,743,780	Total	218,847,437.80

All Shares currently in issue and the Conversion Shares rank pari passu in all respects with each others, including, in particular, as to dividends, voting rights and return of capital.

3. DISCLOSURE OF INTERESTS

Interests of directors

As at the Latest Practicable Date, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the Shares

Name	Capacity/nature of interest	Number of shares	Approximate % of total issued share capital
Lu Chunming	Beneficial owner	830,000	0.01%

Save as aforesaid, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Interest of substantial shareholders

As far as was known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in the Shares

Name	Capacity/nature of interest	Number of shares	Number of underlying shares	Approximate % of total issued share capital
Way Capital Investments Limited *(note 1)*	Beneficial owner	1,482,142,857	–	13.15%
Absolute Power International Limited *(note 2)*	Beneficial owner	–	1,463,263,267 *(note 4)*	12.98%
Wide Treasure Investment Limited *(note 3)*	Beneficial owner	–	948,825,912 *(note 4)*	8.42%

Note:

1. Way Capital Investments Limited is wholly owned by Lau Wang Tai who is deemed to be interested in the shares.

2. Absolute Power International Limited is wholly owned by Hu Chao who is deemed to be interested in the shares.

3. Wide Treasure Investment Limited is wholly owned by She Zhangshu who is deemed to be interested in the shares.

4. The underlying shares of Absolute Power International Limited and Wide Treasure Investment Limited are in respect of the convertible bonds issued by the Company on 9 January 2009.

Save as aforesaid, as at the Latest Practicable Date, the Directors were not aware of any other person who had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

4. LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service agreements with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or management shareholder or their respective associates had any business or interest which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group.

7. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

(a) none of the Directors had any interest, either direct or indirect, in any assets which have, since 31 December 2010 (being the date to which the latest published audited accounts of the Group were made up), been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which is subsisting as at the date of this circular and is significant in relation to the business of the Enlarged Group.

8. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business of the Enlarged Group) have been entered into by the members of the Enlarged Group after the date of two years immediately preceding the date of this circular, and up to the Latest Practicable Date, and are or may be material:

(1) the sale and purchase agreement entered into between Hong Kong Chang Kang (Holdings) Limited and Chongqing Changan Jinling Automobile Parts Co., Ltd. dated 26 February 2010 relating to the disposal of 49% equity interest in South JinKang Automobile Parts and Components Company Ltd. at a consideration of RMB49 million;

(2) the Agreement; and

(3) the placing agreement entered into between the Company and Cheong Lee Securities Limited on 20 January 2012, pursuant to which the Company has conditionally agreed to place through the Placing Agent, on a best effort basis, convertible bonds up to the maximum of HK$100 million.

9. EXPERT AND CONSENT

The followings are the names and the qualifications of the professional advisers who have given opinions or advice which are contained or referred to in this document:

Name	Qualification
HLM & Co.	Certified Public Accountants
Grant Sherman Appraisal Limited	Valuer

As at the Latest Practicable Date, none of HLM & Co. and Grant Sherman Appraisal Limited had any beneficial interest in the share capital of any member of the Enlarged Group nor any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group nor have any interest, either directly or indirectly, in any assets which have been, since 31 December 2010, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

HLM & Co. and Grant Sherman Appraisal Limited has given and has not withdrawn their respective written letters of consent to the issue of this circular with the inclusion herein of references to their names in the form and context in which they appear.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (i.e. from 9:30 a.m. to 6:00 p.m. on Monday to Friday) at the principal place of business of the Company in Hong Kong at Room 2204, 22/F, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong from 27 March 2012, the date of this circular up to and including 9 May 2012:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the year ended 31 December 2008, 31 December 2009, 31 December 2010 and 31 December 2011 of the Company;

(c) the accountants' report on the Target set out in Appendix II-A to this circular;

(d) the accountants' report on the Jiangyin Company set out in Appendix II-B to this circular;

(e) the accountants' report on the Beijing Company set out in Appendix II-C to this circular;

(f) the accountants' report on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular;

(g) the letters of consent referred to under the paragraph headed "Expert and Consents" in this Appendix;

(h) the material contracts disclosed in the paragraph under the heading "Material Contracts" in this Appendix; and

(i) the circular dated 16 April 2010 relating to the very substantial disposal of 49% equity interest in South JinKang Automobile Parts and Components Company Ltd. at a consideration of RMB49 million.

11. GENERAL

(a) The compliance officer of the Company is Mr. Stephen William Frostick, who obtained a Juris Doctorate in Old College School of Law, Nevada, Unites States in 1984, a Master of Public Administration and a Bachelor of Science in Business Administration in University of Nevada, Las Vegas, United States.

(b) The company secretary of the Company is Mr. Ang Wing Fung, who is an associate member of Hong Kong Institute of Certified Public Accountants, a qualified member in CPA Australia and an association member of the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

(c) The registered office of the Company is located at Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands

(d) The head office of the Company is located at Room 2204, 22/F, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong.

(e) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(f) The Company's audit committee ("**Audit Committee**") comprises of three independent non-executive Directors, namely, Mr. Lee Chi Hwa, Joshua (Chairman), Mr. Tso Hon Sai, Bosco and Mr. Chang Jun. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements, interim reports and quarterly reports, (b) to provide advice and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group. The biography of the members of Audit Committee are set out below:

(i) Mr. Lee Chi Hwa, Joshua, aged 39, is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has extensive experience in the fields of auditing, accounting and finance. He joined the Group in 2007. He is currently the independent non-executive director of China Chief Cable TV Group Limited, which is listed on GEM, and King Stone Energy Group Limited, which is listed on the Main Board.

(ii) Mr. Tso Hon Sai Bosco, aged 47, is currently a partner of a law firm in Hong Kong and he has been a Hong Kong practising solicitor since 1990. Mr. Tso received his bachelor of laws degree from King's College, London. He joined the Group in 2007. He is currently the independent non-executive director of Rising Development Holdings Limited and Fortuna International Holdings Ltd, both are companies listed on the Main Board of the Stock Exchange.

(iii) Mr. Chang Jun, aged 43, is currently a partner of a law firm in PRC and he has been a Chartered lawyer of Chinese Ministry of Law since 2000. Mr. Chang received his bachelor of laws degree from Southwest University of Polities & Law, Chongqing and master degree in Economic & Commercial Law in People's University of China, Beijing. Mr. Chang has more than 16 years experience in Chinese legal profession and extensive experience in legal advisory to public and multinational enterprise in PRC. He joined the Group in 2007.

CHINA PUBLIC HEALTHCARE (HOLDING) LIMITED

(中國公共醫療(控股)有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8116)

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of China Public Healthcare (Holding) Limited (the "**Company**") will be held at Room 2204, 22/F, Mass Mutual Tower, 38 Gloucester Road, Wanchai, Hong Kong on 9 May 2012 at 11:00 a.m. to consider and, if thought fit, to pass with or without amendments, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT**

(a) the conditional sale and purchase agreement (the "**Agreement**") as defined in the circular dated 27 March 2012 despatched to the shareholders of the Company (the "**Circular**"), a copy of the Agreement has been produced to this meeting marked "A" and signed by the chairman hereof for the purpose of identification, and all the transactions contemplated thereby be and are hereby approved, confirmed and ratified;

(b) the issue of the Convertible Bonds (as defined in the Circular) in accordance with the terms of the Agreement be and are hereby approved;

(c) the issue and allotment by the Company of new shares in the capital of the Company from time to time upon exercise of the conversion rights under the Convertible Bonds (as defined in the Circular) be and are hereby approved; and

(d) any one director of the Company be and is hereby authorised to do all such acts and things as he in his sole and absolute discretion deems necessary, desirable or expedient to implement, give effect to and/or complete the Agreement and the transactions contemplated thereunder, including without limitation the issue of the Convertible Bonds, the issue and allotment of new shares in the capital of the Company from time to time upon exercise of the conversion rights under the Convertible Bonds, and, where required, any amendment of the terms of the Agreement and/or the Convertible Bonds as required by, or for the purposes of obtaining the approval of, relevant authorities or to comply with all applicable laws, rules and regulations."

By order of the Board
CHINA PUBLIC HEALTHCARE (HOLDING) LIMITED
Stephen William Frostick
Chairman

Hong Kong, 27 March 2012

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a person or if he is the holder of two or more shares, more than one person as his proxy or proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney or authority, must be deposited at the Company's share registrar, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting, and in default thereof the form of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiry of 12 months from the date of its execution.

3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting, and in such event the instrument appointing a proxy shall be deemed to be revoked.

As at the date of this notice, the Board comprises three executive Directors, namely Mr. Stephen William Frostick, Mr. Lu Chunming and Mr. Cheng Chun Tak and three independent non-executive Directors, namely Mr. Chang Jun, Mr. Tso Hon Sai Bosco and Mr. Lee Chi Hwa Joshua.