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## China HealthCare Holdings Limited 中國衛生控股有限公司\*

(incorporated in Bermuda with limited liability)

(Stock code: 673)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

The Board of Directors (the “Board”) of China HealthCare Holdings Limited (the “Company”) would like to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2013. These interim financial statements have been reviewed by the Audit Committee of the Company.

#### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

		Six months ended 30 September	
	Notes	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Revenue	5	22,965	12,178
Cost of sales		<u>(14,140)</u>	<u>(2,534)</u>
Gross profit		8,825	9,644
Other gain and loss	6	(9,838)	1,068
Selling and distribution expenses		(3,743)	(4,021)
Administrative expenses		(14,632)	(4,386)
Finance costs	7	(31,763)	(79,457)
Extinguishment of liability component of redeemable convertible cumulative preference shares		35,692	–
Fair value gain on derivative component of redeemable convertible cumulative preference shares		<u>1,109</u>	<u>6,875</u>
LOSS BEFORE TAX	8	(14,350)	(70,277)
Income tax	9	<u>(140)</u>	<u>(855)</u>
LOSS FOR THE PERIOD		<u>(14,490)</u>	<u>(71,132)</u>

\* For identification purpose only

	<b>Six months ended</b>	
	<b>30 September</b>	
<i>Notes</i>	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Item that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	<u>1,745</u>	<u>(11,509)</u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX OF NIL</b>	<u>1,745</u>	<u>(11,509)</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u><b>(12,745)</b></u>	<u><b>(82,641)</b></u>
Loss for the period attributable to:		
Owners of the Company	<b>(11,678)</b>	(54,888)
Non-controlling interests	<u><b>(2,812)</b></u>	<u>(16,244)</u>
	<u><b>(14,490)</b></u>	<u>(71,132)</u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	<b>(9,784)</b>	(64,930)
Non-controlling interests	<u><b>(2,961)</b></u>	<u>(17,711)</u>
	<u><b>(12,745)</b></u>	<u><b>(82,641)</b></u>
<b>LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<i>10</i>	
Basic and diluted:		
– For loss for the period (HK cents)	<u><b>1.9</b></u>	<u>10.9</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2013

		30 September 2013	31 March 2013	1 April 2012
	<i>Notes</i>	<b>HK\$'000</b> <b>(Unaudited)</b>	<i>HK\$'000</i> <i>(Audited)</i> <i>(Restated)</i>	<i>HK\$'000</i> <i>(Audited)</i> <i>(Restated)</i>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		1,370	1,606	1,618
Goodwill		742	–	–
Intangible assets		46,072	50,531	–
Financial assets	14	3,259	2,150	–
Other receivable	12	3,278	3,218	4,169
		<hr/>	<hr/>	<hr/>
Total non-current assets		54,721	57,505	5,787
<b>CURRENT ASSETS</b>				
Trade receivables	11	51,666	28,257	27,101
Prepayments, deposits and other receivables	12	132,108	192,301	192,229
Restricted bank balances		4,207	9,927	24,741
Cash and bank balances		26,834	4,302	7,719
		<hr/>	<hr/>	<hr/>
Total current assets		214,815	234,787	251,790
<b>CURRENT LIABILITIES</b>				
Trade payables	13	10,783	6,188	83
Other payables and accrued expenses		30,039	33,370	27,340
Amounts due to directors		3,388	3,096	2,599
Interest-bearing loans from a director and a shareholder		552	8,453	8,052
Liability component of redeemable convertible cumulative preference shares	14	103,995	115,503	281,801
Liability component of convertible bonds	15	48,848	48,064	46,643
Derivative component of redeemable convertible cumulative preference shares		–	–	6,875
Income tax payables		3,712	3,245	2,259
Preference shares dividend payable of a subsidiary		66,061	59,470	46,269
Promissory note		8,000	18,000	–
		<hr/>	<hr/>	<hr/>
Total current liabilities		275,378	295,389	421,921
<b>NET CURRENT LIABILITIES</b>		<b>(60,563)</b>	<b>(60,602)</b>	<b>(170,131)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>				
		<b>(5,842)</b>	<b>(3,097)</b>	<b>(164,344)</b>
<b>Net liabilities</b>		<b>(5,842)</b>	<b>(3,097)</b>	<b>(164,344)</b>
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

		<b>30 September 2013</b>	31 March 2013	1 April 2012
	<i>Notes</i>	<b>HK\$'000 (Unaudited)</b>	<i>HK\$'000 (Audited) (Restated)</i>	<i>HK\$'000 (Audited) (Restated)</i>
<b>EQUITY</b>				
<b>Equity attributable to owners of the Company</b>				
Issued capital	<i>16</i>	<b>63,329</b>	60,326	50,326
Reserves		<b>(147,349)</b>	(144,562)	(307,205)
		<b>(84,020)</b>	(84,236)	(256,879)
Non-controlling interests		<b>78,178</b>	81,139	92,535
Total equity		<b>(5,842)</b>	(3,097)	(164,344)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013**

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Statutory reserves HK\$'000	Convertible bonds reserve HK\$'000	Foreign currency translation reserve HK\$'000	Share options reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Deficiency in assets HK\$'000
At 1 April 2013 (Audited, as restated)	60,326	319,334	57,124	1,047	3,592	15,379	1,656	(542,694)	(84,236)	81,139	(3,097)
Loss for the period	-	-	-	-	-	-	-	(11,678)	(11,678)	(2,812)	(14,490)
Other comprehensive loss for the period	-	-	-	-	-	1,894	-	-	1,894	(149)	1,745
Total comprehensive loss for the period	-	-	-	-	-	1,894	-	(11,678)	(9,784)	(2,961)	(12,745)
Issue of loan share upon loan capitalization	3,003	6,997	-	-	-	-	-	-	10,000	-	10,000
At 30 September 2013 (Unaudited)	<u>63,329</u>	<u>326,331*</u>	<u>57,124*</u>	<u>1,047*</u>	<u>3,592*</u>	<u>17,273*</u>	<u>1,656*</u>	<u>(554,372)*</u>	<u>(84,020)</u>	<u>78,178</u>	<u>(5,842)</u>
At 1 April 2012 (Audited as restated)	50,326	293,834	57,124	1,047	3,592	18,845	1,656	(683,303)	(256,879)	92,535	(164,344)
Loss for the period	-	-	-	-	-	-	-	(54,888)	(54,888)	(16,244)	(71,132)
Other comprehensive loss for the period	-	-	-	-	-	(10,042)	-	-	(10,042)	(1,467)	(11,509)
Total comprehensive loss for the period	-	-	-	-	-	(10,042)	-	(54,888)	(64,930)	(17,711)	(82,641)
At 30 September 2012 (Unaudited as restated)	<u>50,326</u>	<u>293,834*</u>	<u>57,124*</u>	<u>1,047*</u>	<u>3,592*</u>	<u>8,803*</u>	<u>1,656*</u>	<u>(738,191)*</u>	<u>(321,809)</u>	<u>74,824</u>	<u>(246,985)</u>

\* These reserve amounts comprise the consolidated deficiency in reserves of approximately HK\$147,349,000 (2012: HK\$372,135,000) in the consolidated statement of financial position.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2013</b>	2012
	<b>HK\$'000</b>	<b>HK\$'000</b>
NET CASH FLOWS GENERATED FROM/(USED IN) OPERATING ACTIVITIES	<b>23,888</b>	(6,048)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	<b>(615)</b>	(605)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	<u><b>(7,708)</b></u>	<u>(231)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>15,565</b>	(6,884)
Effect of foreign exchange rate changes, net	<b>1,247</b>	(2,549)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u><b>14,229</b></u>	<u>32,460</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><b>31,041</b></u>	<u>23,027</u>
Analysis of cash and cash equivalents:		
Restricted bank balances	<b>4,207</b>	17,756
Cash and bank balances	<u><b>26,834</b></u>	<u>5,271</u>
	<u><b>31,041</b></u>	<u>23,027</u>

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013*

### **1. GENERAL INFORMATION**

The Company is a limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at 26 Burnaby Street, Hamilton HM 11, Bermuda; and principal place of business is located at Unit 801, 8/F., China Insurance Group Building, 141 Des Voeus Road Central, Hong Kong.

### **2. BASIS OF PREPARATION**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and the basis of preparation adopted in the preparation of these interim condensed consolidated financial statements are consistent with those adopted in the annual consolidated financial statements of the Group for the year ended 31 March 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value. The unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except for when otherwise indicated.

In preparing the unaudited condensed consolidated interim financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the following:

- (i) The Group had net current liabilities of approximately HK\$60,563,000 and net liabilities of approximately HK\$5,842,000 as at 30 September 2013;
- (ii) The liability component of convertible bonds (“CB”) with interest at amortised cost of approximately HK\$48,848,000 as at 30 September 2013; and
- (iii) the liability component of redeemable convertible cumulative preference shares (“PS”) with interest at amortised cost of approximately HK\$103,995,000 as at 30 September 2013 which was originally past due but extended to 30 June 2014.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Nevertheless, these unaudited condensed consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon whether the holders of the CB and PS agree to further extend the redemption date for the CB and PS. As at the date of this report, the Company obtained verbal consent to standstill from the majority of CB holder. In addition, the Company has entered into an amendment agreement with PS holder to extend the final settlement date to 30 June 2014. Furthermore, the Group is implementing

stringent cost control measure and trying its very best to raise funds to further improve the liquidity position of the Group. Under these circumstances, the directors are of the opinion that it is appropriate to prepare the unaudited condensed consolidated interim financial statements for the six months ended 30 September 2013 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to made to write down the value of assets to their recoverable amounts, to provide for future liabilities which might arise and to reclassify non-current assets and non-current liabilities to current respectively. The effect of these adjustments has not been reflected in the unaudited condensed consolidated interim financial statements.

### **3. IMPACT OF NEW AND REVISED HKFRSS**

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, which are effective for the Group’s annual periods beginning on or after 1 April 2013.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

The adoption of the above new and revised HKFRSs has had no significant financial impact on these condensed consolidated interim financial statements. The Group has not early adopted the new and revised HKFRSs that have been issued but are not yet effective. The Group is in the process of assessing the impact of these new and revised HKFRSs on the financial performance and financial position of the Group.

### **4. OPERATING SEGMENT INFORMATION**

The Group’s operating segments, based on information reported to the directors being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided.



For management purposes the Group is organized into business units based on their products and services and has three reportable operating segments as follows:

- B-to-C consumer services;
- Distribution of cooling system; and
- Healthcare service

Segment assets excluded cash and bank balances except for restricted bank balances and corporate assets as these assets are managed on a group basis.

Segment liabilities excluded interest-bearing loans from a director and a shareholder, amounts due to directors, derivative component of redeemable convertible cumulative preference shares, liabilities component of convertible bonds, liability component of redeemable convertible cumulative preference shares, promissory note, preference shares dividend payable of a subsidiary, deferred tax liabilities and other corporate liabilities as these liabilities are managed on a group basis.

No operating segment is presented as the Group basically operated in one single operating segment for the six months ended 30 September 2012.

The following is an analysis of the Group's revenue and results by operating segment for the six months ended 30 September 2013.

	<b>B-to-C consumer service</b>	<b>Distribution of cooling system</b>	<b>Healthcare service</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue				
Revenue from external customers	10,848	–	12,117	22,965
	<u>10,848</u>	<u>–</u>	<u>12,117</u>	<u>22,965</u>
<b>Segment results</b>	<b><u>1,195</u></b>	<b><u>–</u></b>	<b><u>417</u></b>	<b><u>1,612</u></b>
Reconciliation:				
Interest income and unallocated gains				36,890
Corporate and other unallocated expenses				(21,089)
Finance costs-unallocated				<u>(31,763)</u>
Profit before tax				<u><u>(14,350)</u></u>
Depreciation and amortisation	241	4,459	1	4,701
Reconciliation:				
Unallocated depreciation and amortisation				<u>7</u>
				<u><u>4,708</u></u>

The following tables are an analysis of the Group's assets as at 30 September 2013 and 31 March 2013:

<b>As at 30 September 2013 (Unaudited)</b>				
	<b>B-to-C consumer service HK\$'000</b>	<b>Distribution of cooling system HK\$'000</b>	<b>Healthcare service HK\$'000</b>	<b>Total HK\$'000</b>
SEGMENT ASSETS	<b>164,906</b>	<b>46,072</b>	<b>12,273</b>	<b>223,251</b>
Corporate and other unallocated assets				<b>46,285</b>
Total assets				<b>269,536</b>

<b>As at 31 March 2013 (Audited as restated)</b>				
	<b>B-to-C consumer service HK\$'000</b>	<b>Distribution of cooling system HK\$'000</b>	<b>Healthcare service HK\$'000</b>	<b>Total HK\$'000</b>
SEGMENT ASSETS	<b>166,220</b>	<b>51,227</b>	<b>–</b>	<b>217,447</b>
Corporate and other unallocated assets				<b>74,845</b>
Total assets				<b>292,292</b>

## **5. REVENUE**

Revenue, which is also the Group's turnover, represented the commission income earned from provision of B-to-C consumer service and the income from provision of healthcare service.

## **6. OTHER GAIN AND LOSS**

Included in other gains and losses, is a provision of HK\$10,000,000 which represents a non-refundable deposit made to preference shareholders to extend the final settlement date to redeem the preference shares. The preference shareholders have the right to forfeit the deposit if the redemption of the preference shares does not take place on or before 30 November 2013. The directors of the Company are in a view that the Company is unable to redeem the preference shares on or before 30 November 2013, as a result, a provision of the said deposit has been fully recognised.

## 7. FINANCE COSTS

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2013</b>	<b>2012</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Interest on loans from a director and a shareholder	<b>99</b>	200
Effective interest expenses on convertible bonds wholly repayable within five years	<b>784</b>	745
Effective interest expenses on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	<b>24,184</b>	71,811
Dividend payable to convertible preference share issued by a subsidiary	<b>6,696</b>	6,701
	<b><u>31,763</u></b>	<b><u>79,457</u></b>

## 8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2013</b>	<b>2012</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Amortisation of intangible assets	<b>4,459</b>	–
Depreciation of property, plant and equipment	<b>249</b>	298
Interest income	<b>(106)</b>	(37)
	<b><u>4,602</u></b>	<b><u>261</u></b>

## 9. INCOME TAX

No provision for Hong Kong profits tax has been made in the unaudited condensed consolidated interim financial statements as the Group did not generate any assessable profit arising from Hong Kong for both periods.

Subsidiaries established in Mainland China are subject to the PRC enterprise income tax at the standard rate of 25% (2012: 25%).

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2013</b>	<b>2012</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Current tax – PRC	<b>140</b>	855
	<b><u>140</u></b>	<b><u>855</u></b>

## 10. LOSS PER SHARE

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2013</b>	<b>2012</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Loss attributable to owners of the Company, used in the basic loss per share calculation	<u><b>(11,678)</b></u>	<u><b>(54,888)</b></u>
<b>Number of shares</b>	<b>2013</b>	<b>2012</b>
Weighted average number of ordinary shares for the purpose of basic loss per share	<u><b>610,972,296</b></u>	<u><b>503,259,665</b></u>

For the period ended 30 September 2013 and 30 September 2012, the convertible financial instruments had an anti-dilutive effect on the basic loss per share and were ignored in the calculation of diluted loss per share. Accordingly, no diluted loss per share has been presented.

## 11. TRADE RECEIVABLES

The Group's credit policies for each of its principal activities are as follows:

- (i) Distribution of mobile pre-charge are with credit terms of 180 days
- (ii) Provision of healthcare service are with credit terms of 90 days

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>30 September</b>	<b>31 March</b>
	<b>2013</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Within 90 days	<b>11,975</b>	5,235
91 to 180 days	<b>11,434</b>	5,730
Over 180 days	<u><b>28,257</b></u>	<u>17,292</u>
	<u><b>51,666</b></u>	<u>28,257</u>

## 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 September 2013 HK\$'000 (Unaudited)</b>	31 March 2013 HK\$'000 (Audited)
Other receivables (note (i)(ii))	<b>103,310</b>	155,502
Less: Non-current portion of other receivables (note (ii))	<b>(3,278)</b>	(3,218)
	<b>100,032</b>	152,284
Deposits (note (iii))	<b>41,608</b>	39,550
Less: Provision of impairment loss on deposit	<b>(10,000)</b>	–
	<b>31,608</b>	39,550
Prepayments	<b>468</b>	467
Current portion of prepayments, deposits and other receivables	<b>132,108</b>	192,301

### Notes:

- (i) Approximately RMB70,875,000 (equivalent to approximately HK\$88,338,000) were amounts of sales proceeds of and due from the disposed subsidiaries;
- (ii) Under non-current portion and current portion are amount of approximately HK\$3,278,000 and HK\$2,797,000 respectively with respect to a secured loan of RMB8,000,000 (equivalent to approximately HK\$9,674,000) granted by the Group to an independent third party pursuant to a loan agreement dated 26 July 2011, the loan is interest-free and repayable within 5 years;
- (iii) Approximately RMB25,000,000 (equivalent to approximately HK\$30,938,000) were deposit for customer services as at 30 September 2013 and 31 March 2013.

Save as the deposit mentioned in note 6 of this announcement, none of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which no recent history of default.

## 13. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>30 September 2013 HK\$'000 (Unaudited)</b>	31 March 2013 HK\$'000 (Audited)
Within 1 month	<b>10,783</b>	6,188

#### 14. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

On 28 July 2006, the Company entered into a preference share agreement (“Original Agreement”) and issued 15,000 Preference Shares (“PS”) of US\$0.01 each for a total cash consideration of US\$15,000,000 (approximately HK\$117,000,000). The PS holder is entitled to 2% dividend per annum or 5% compounded semi-annually subject to occurrence of special events as defined in the Original Agreement. Such maturity date is falling on the 5th anniversary of 28 July 2006 (i.e. 27 July 2011) or such later date (“conversion period”), but not later than the 7th anniversary of which the specific terms will be subjected to future agreement. An option embedded therein was granted to the PS holder that the preference shares could be converted at any time during the conversion period at the lower of HK\$0.3201; and 0.9 times of the volume-weighted average price of the Company’s ordinary shares for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice; such redemption amount shall include a markup of 20% p.a. on the sum of principal and accumulated dividend payable at any early redemption date.

On 24 November 2012, the Company entered into a supplementary agreement (“Modification Agreement”) with the PS holder pursuant to which, the Company agreed to use its best endeavors to procure the fund raising to raise not less than US\$15 million (or its HK\$ equivalent) in net proceeds for the Company, of which US\$15 million (or its HK\$ equivalent) shall be applied to redeem the Preference Shares, on or before the 31 March 2013. Meanwhile, PS Holder agreed that it would not require the Company to redeem the Preference Shares nor would it exercise its conversion rights attached to all or any part of the Preference Shares at any time before 31 March 2013.

Subject to completion of the Fund Raising, the Company will redeem, and PS holder will accept the redemption of, all of the Preference Shares and in full and final settlement of all rights that PS Holder may have in respect of the Preference Shares whether under the Bye-laws of the Company or otherwise at an aggregate price of not more than US\$19 million, which shall be satisfied as to US\$15 million by payment of cash and as to not more than US\$4 million by the issue of a promissory note by the Company.

On 31 March 2013, the Company has further revised the Modification Agreement by entering into a supplementary agreement (“Supplementary Agreement”) with the PS holder. Pursuant to which, the Company shall redeem, and PS holder shall accept to extend the date of full and final settlement on or before 30 November 2013. In addition, the Supplementary Agreement specifically granted a conversion right to the Company that the sum of accumulated dividend payable from 1 December 2012 to 30 November 2013 is eligible to be settled by procuring ordinary shares of the Company at a pre-determined price of HK\$0.3201 or by cash at the date of maturity.

On 28 June 2013, the Company and the PS holder entered into an amendment agreement to the Supplementary Agreement of the Preference Shares Agreement dated 31 March 2013 (the “Amendment Agreement”).

Pursuant to the Amendment Agreement, the final settlement date to redeem the Preference Shares is extended from 30 November 2013 to 30 June 2014 provided that a non-refundable deposit of HK\$10 million (the “Deposit”) will be made to the PS holder before or by 29 June 2013 and the PS holder shall have the right to forfeit the Deposit if the redemption of the Preference Shares does not take place on or before 30 November 2013.

The calculation and settlement of the dividends of the Preference Shares from 1 December 2013 to 30 June 2014 shall be 6% per annum and the Company shall have the right to settle by way of share issuance of shares to the PS holder at a pre-determined price of HK\$0.3201 per share.

Since the terms of the Modification Agreement, Supplementary Agreement and Amendment Agreement were different from the Original Agreement, hence, the financial liability are extinguished. The valuations were carried out by an independent qualified professional valuation firm not connected to the Group.

**(i) Liability component**

	<b>30 September 2013 HK\$'000 (Unaudited)</b>	31 March 2013 HK\$'000 (Audited)
At the beginning of the period/year	<b>115,503</b>	281,801
Interest charged for the period/year	<b>24,184</b>	125,195
Extinguishment of financial liability charged to profit or loss	<b>(35,692)</b>	(291,493)
At the end of the period/year	<b><u>103,995</u></b>	<b><u>115,503</u></b>

The fair value of the liability component of preference shares is determined using the discounted cash flow model (“DCF”) with reference to the parameters as follows:

	<b>Modification Agreement</b>	<b>Supplementary Agreement</b>	<b>Amendment Agreement</b>
Effective interest rates	53.34%	48.81%	58.14%
Year	0.35	0.67	0.26
Dividend	semi-annual	semi-annual	semi-annual
Dividend per annum	5%	5%	6%

**(ii) Embedded derivative**

	<b>30 September 2013 HK\$'000 (Unaudited)</b>	31 March 2013 HK\$'000 (Audited)
At the beginning of the period/year, (asset)/liability	<b>(2,150)</b>	6,875
Fair value change charged/(credited) to profit or loss	<b>(1,109)</b>	(6,875)
Initial recognition as a result of Supplementary Agreement credited to profit or loss	<b>—</b>	(2,150)
At the end of the period/year, asset	<b><u>(3,259)</u></b>	<b><u>(2,150)</u></b>

The fair value of the embedded derivative of preference shares is determined using the Black Scholes Option Pricing Model with reference to the parameters as follows:

	<b>Supplementary Agreement</b>
Time to maturity	0.668
Risk free rate	0.1%
Volatility	110.5%
Strike price	HK\$0.32
Spot price	HK\$0.30

## **15. CONVERTIBLE BONDS**

On 19 May 2005, the Company issued CB with nominal value of US\$6,600,000 due on 18 May 2009. CB carries interest at 3% per annum payable semi-annually in arrears with the first interest payment due on 18 November 2005 and the last interest payment due on 18 May 2009. CB entitles the holder to convert the bonds into new ordinary shares of the Company at a conversion price, subject to adjustment, of HK\$2.525 per share during the period from 19 May 2005 to 18 May 2009. In addition, if CB remain outstanding on the maturity date, the Company will redeem the principal of CB at 100% of their face value.

The effective interest rate of the liability component of CB is 3% per annum.

As at and up to 31 March 2011, CB with aggregate principal amount of US\$1,210,000 (equivalent to approximately HK\$9,372,000) had been repurchased by the Group at an aggregate consideration of approximately HK\$4,818,800. There is no repurchase of CB by the Group during the year ended 31 March 2012 and 2013.

On 18 May 2009, CB had matured, however, due to liquidity problem, the Group was unable to redeem CB at maturity. The Group's default in the redemption on CB had triggered the Company's early redemption obligation of CB and PS. Subsequent to the maturity date of CB, the Company reached an understanding with the major holder of CB to conditionally postpone the payment by the Company of the outstanding debts of CB for three years to 17 May 2013 if the Group can fulfil the conditions requested by the major holder of CB, which is a successful injection of substantial external resources into the Group, in short, and as long as no additional issuance of any debts by the Group that will rank pari passu with the CB upon and after successful injection of substantial external resources.

The 3% interest payables have not been paid since 18 May 2009. According to the terms and conditions of the CB, to the extent that interest is not paid on CB on the interest payment date, interest shall charge thereon from the interest payments date at a default rate of 5% per annum until date of payment.



The net proceeds received for the issue of CB have been split between the liability component and an equity component. The movement of the liability component is as follows:

	<b>30 September 2013 HK\$'000 (Unaudited)</b>	31 March 2013 HK\$'000 (Audited)
Carrying amount at the beginning of the period/year	48,064	46,643
Interest charged for the period/year	784	1,421
	<u>48,848</u>	<u>48,064</u>

Liability component of convertible bonds comprise of the following:

	<b>30 September 2013 HK\$'000 (Unaudited)</b>	31 March 2013 HK\$'000 (Audited)
Principal amount	42,042	42,042
Interest payable	6,097	5,464
Charge of overdue interest	709	558
	<u>48,848</u>	<u>48,064</u>

## 16. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital HK\$'000</b>
Authorised:		
Ordinary shares of HK0.1 each		
At 1 April 2012, 31 March 2013, 1 April 2013 and 30 September 2013	<u>100,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.1 each		
At 1 April 2012	503,259,665	50,326
Issue of consideration shares ( <i>note i</i> )	100,000,000	10,000
	<u>603,259,665</u>	<u>60,326</u>
At 31 March 2013	603,259,665	60,326
Issue of loan share upon loan capitalization ( <i>note ii</i> )	30,030,030	3,003
	<u>633,289,695</u>	<u>63,329</u>
At 30 September 2013	<u>633,289,695</u>	<u>63,329</u>

Notes:

- (i) During the year ended 31 March 2013, the Company issued 100,000,000 ordinary shares as part of the consideration for the acquisition of the entire interests of Anew Capital Limited and its subsidiaries.
- (ii) On 15 August 2013, the Company capitalized the principal amount of HK\$10 million of promissory note by means of issuing and allotting the 30,030,030 ordinary shares to the promissory note holder.

## 17. ACQUISITION OF A SUBSIDIARY

On 26 June 2013, the Group completed the acquisition of 51% equity interest in Shanghai Imperial Care Health Advocate Limited (“Shanghai Imperial”) from an independent third party. The consideration of HK\$800,000 will be satisfied by cash on 25 June 2014.

The acquisition of Shanghai Imperial allows the Group to broaden the revenue base and improve the profitability of the Group.

The following summarized the recognised amount of identifiable assets acquired and liabilities assumed as at 26 June 2013:

	<b>Amount recognised (fair value) HK\$'000</b>
<b>Net assets acquired of</b>	
Property, plant and equipment	5
Cash and bank balances	129
Other payables and accrued expenses	(20)
	<hr/>
Net identifiable assets and liabilities	114
Non-controlling interests	(56)
Goodwill	742
	<hr/>
Consideration for acquisition satisfied by cash	800
	<hr/>
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Shanghai Imperial:	
Cash consideration paid	800
Cash and cash equivalent acquired	(129)
	<hr/>
Net outflow of cash and cash equivalents	<u>671</u>

## **18. LITIGATION**

On or around 19 August 2010, Wingames Investments Limited (“Wingames”), an indirectly wholly-owned subsidiary of the Company, entered into the agreement (the “Agreement”) with Mascot Land Limited (“Procurer”), China Zhongfu Industry Co., Ltd. (“China Zhongfu”), Shanghai Zhongfu International Trading Co., Ltd. (“Shanghai Zhongfu”), Anhui Anhe Investment Consulting Co., Ltd. (“Anhui Anhe”), Mr. Wang Ji Sheng and Mr. Ge Qian Song (the “Management Guarantors”) (collectively known as “Guarantors”), being the independent third parties, to acquire equity interests of Shanghai Fu Shou Yuan Industrial Development Co., Ltd. and its affiliated entities, for a total consideration of HK\$3,360 million (the “VSA”), details of which have been set out in the Company’s circular dated 23 February 2011. The VSA transaction, however, became the subject of legal proceedings with Wingames and the Company as the plaintiffs and the other sides as the defendants in Hong Kong since 31 May 2011 (the “Proceeding”). On 6 May 2013, the parties to the Proceeding reached an agreement to settle the Proceeding, as a result, the Proceeding has been discontinued and this brings to an end the VSA. Relevant details and developments of the Proceeding are disclosed in a series of announcements since 3 June 2011.

## **19. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

These condensed consolidated interim financial statements were approved by the Board on 29 November 2013.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Interim Results and Dividends**

For the interim period ended 30 September 2013, the Group recorded a turnover of approximately HK\$22,965,000, representing an increase of 89% as compared to HK\$12,178,000 for the corresponding interim period last year. Loss attributable to shareholders was HK\$11,678,000 (corresponding period in 2012: HK\$54,888,000). Basic loss per share for the period was HK1.9 cents (corresponding period in 2012: HK10.9 cents).

The Directors do not recommend the payment of any interim dividend to shareholders (corresponding period in 2012: Nil).

### **REVIEW OF BUSINESS OPERATION**

During the period, the business operation of the Group continued to provide the provision of consumer oriented services. As a value added service provider to telecom operators in China, the Group continued to carry out B-to-C consumer service business in Mainland China, and use its distribution network to provide consumers with better services in terms of convenience, communication quality and connection.

During the period, the Group also acquired 51% equity interest of Shanghai Imperial, a business operation in healthcare service, looking to seize the development opportunity of the huge demand for healthcare services brought by the healthcare reform in Mainland China. Shanghai Imperial is engaged in provision of service in relation to healthcare and third party administration to healthcare insurance companies in Mainland China.

Due to the restructure of the railway system in China, the Group's plan to diversify into the agency and distribution business of cooling systems for high-speed vehicles has been adversely affected.

### **Termination of the VSA and conclusion of the Proceeding**

On or around 19 August 2010, Wingames Investments Limited ("Wingames"), an indirectly wholly-owned subsidiary of the Company, entered into the agreement (the "Agreement") with Mascot Land Limited ("Procurer"), China Zhongfu Industry Co., Ltd. ("China Zhongfu"), Shanghai Zhongfu International Trading Co., Ltd. ("Shanghai Zhongfu"), Anhui Anhe Investment Consulting Co., Ltd. ("Anhui Anhe"), Mr. Wang Ji Sheng and Mr. Ge Qian Song (the "Management Guarantors") (collectively known as "Guarantors"), being the independent third parties, to acquire equity interests of Shanghai Fu Shou Yuan Industrial Development Co., Ltd. and its affiliated entities, for a total consideration of HK\$3,360 million (the "VSA"), details of which have been set out in the Company's circular dated 23 February 2011. The VSA transaction, however, became the subject of legal proceedings with Wingames and the Company as the plaintiffs and the other sides as the defendants in Hong Kong since 31 May 2011 (the "Proceeding"). On 6 May 2013, the parties to the Proceeding reached an agreement to settle the Proceeding, as a result, the Proceeding has been discontinued and this brings to an end the VSA. Relevant details and developments of the Proceeding are disclosed in a series of announcements since 3 June 2011.

### **Review of the Group's financial distress**

The Group's listing entity China HealthCare Holdings Ltd. ("HoldCo") continued to be insolvent due to its obligations of the convertible bonds with outstanding principal of approximately US\$5 million and the redeemable convertible preference shares with outstanding principal of US\$15 million. During the period, the Group entered into the Amendment Agreement with the shareholders of the redeemable convertible preference shares to extend the final settlement date to redeem the preference shares to 30 June 2014.

During the period, the Group settled the principal amount of HK\$10,000,000 of promissory note through capitalization by way of issuing and allotting 30,030,030 shares at an issue price of HK\$0.333 per share to the holders of the promissory notes, so as to alleviate the debt burden of the Group.

Despite the ongoing negative impacts on the Group's operating activities caused by the financial distress of HoldCo, the Group is making every effort to seek new resources, while at the same time looking forward to the support and cooperation of our shareholders, stakeholders and business partners to work out a satisfactory solution to HoldCo's solvency issue.

## **FUTURE PROSPECT**

Resolving the Group's solvency problem requires the injection of substantial external resources, and the development of the Group and maximizing the value for our shareholders also require the introduction of viable assets or projects. Due to our efforts during the period, a series of legacy issues have already been resolved or are being addressed, which establishes a foundation for its forthcoming development.

During the rest of the year, the Board will continue to seek opportunities proactively. Driven by the deepening reform in Mainland China and facing the huge demand for healthcare services brought by urbanization and aging society, the Group will explore investment and development opportunities, so as to inject new resources to the Group and reconstruct the core business and financial foundation of the Group, thus, creating maximum value for the shareholders.

### **Liquidity and Financial Resources**

As at 30 September 2013, the total assets of the Group is approximately HK\$269.5 million and net current liabilities of approximately HK\$60.6 million, representing a current ratio of 0.78 (31 March 2013: 0.79). As at 30 September 2013, the total borrowings of the Group amounted to approximately HK\$160.8 million (31 March 2013: HK\$181.6 million), represented by convertible bonds, redeemable convertible cumulative preference shares and promissory note. The gearing ratio of the Group as at 30 September 2013 is 1.91 (31 March 2013: 2.16), which was calculated on an amount of shareholders' equity of approximately HK\$84,020,000 (31 March 2013: HK\$84,236,000).

On 21 August 2013, the Company, three shareholders of the Company (the "Vendors") and a placing agent entered into the placing agreement, pursuant to which the Vendors agreed to place, through the placing agent, on a best effort basis, a maximum of 90,000,000 existing shares, to not less than six places at the placing price of HK\$0.33 per placing share. On the same day, the top-up subscription agreement was entered into between the Vendors and the Company, pursuant to which the Vendors conditionally agreed to subscribe for such number of top-up subscription shares equal to the number of the placing shares at the top-up subscription price of HK\$0.33 per top-up subscription share. As both the placing and the top up subscription have not been completed, the placing agreement and the top up subscription agreement were terminated on 4 September 2013. Details of the above have been set out in the announcements of the Company dated 21 August 2013 and 4 September 2013.

### **Contingent Liabilities**

As at 30 September 2013, there was no contingent liability of the Group.

### **Charge on Group's assets**

As at 30 September 2013, there was no other charge on the Group's assets.

## **Human Resources**

As at 30 September 2013, the Group employed 58 (31 March 2013: 48) employees. Total staff cost including Directors' emoluments was HK\$2,367,000 as compared to HK\$4,555,000 for the previous period.

The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and discretionary bonus payment which is linked to the profit performance of the Group and individual performance. A share option scheme has also been established for employees of the Group.

## **Purchase, Sale or Redemption of Listed Securities**

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **Corporate Governance**

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six-month period ended 30 September 2013, except for the following:—

Under the A.4.1 of the Code, the independent non-executive directors should be appointed for a specific term, subject to re-election. Currently, none of the three independent non-executive directors is appointed for a specific term, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws.

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standards as set out in the Model Code during the period.

## **Audit Committee**

The Company's audit committee comprises three independent non-executive directors and one executive director. Its terms of reference have been modified to incorporate certain provisions with reference to the Appendix 14 of the Listing Rules. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 September 2013.

On behalf of the Board  
**China HealthCare Holdings Limited**  
**Zhou Bao Yi**  
*Executive Director*

Hong Kong, 29 November 2013

*As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Jia Hong Sheng (Chairman), Dr. Li Zhong Yuan, Mr. Zhou Bao Yi and Mr. Chung Ho; and four independent non-executive Directors, namely, Mr. Mu Xiangming, Mr. Jiang Bo, Dr. Yan Shi Yun and Mr. Zhao Hua.*