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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 2014**

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 2014. These unaudited condensed consolidated 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 2014**

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2014</b>	2013
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue	5	<b>20,906</b>	22,965
Cost of services		<b>(14,790)</b>	(14,140)
Gross profit		<b>6,116</b>	8,825
Other gain and (loss)	6	<b>343</b>	(9,838)
Selling and distribution expenses		<b>(3,146)</b>	(3,743)
Administrative expenses		<b>(11,440)</b>	(14,632)
Finance costs	7	<b>(35,998)</b>	(31,763)
Extinguishment of liability component of redeemable convertible cumulative preference shares		–	35,692
Fair value (loss)/gain on derivative component of redeemable convertible cumulative preference shares		<b>(478)</b>	1,109
<b>LOSS BEFORE TAX</b>	8	<b>(44,603)</b>	(14,350)
Income tax	9	<b>(107)</b>	(140)
<b>LOSS FOR THE PERIOD</b>		<b>(44,710)</b>	(14,490)

\* *For identification purpose only*

	<b>Six months ended</b>	
	<b>30 September</b>	
<i>Notes</i>	<b>2014</b>	2013
	<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>84</u>	<u>1,745</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX OF NIL</b>	<u>84</u>	<u>1,745</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u><b>(44,626)</b></u>	<u>(12,745)</u>
Loss for the period attributable to:		
Owners of the Company	<b>(42,080)</b>	(11,678)
Non-controlling interests	<u>(2,630)</u>	<u>(2,812)</u>
	<u><b>(44,710)</b></u>	<u>(14,490)</u>
Total comprehensive loss for the period attributable to:		
Owners of the Company	<b>(42,047)</b>	(9,784)
Non-controlling interests	<u>(2,579)</u>	<u>(2,961)</u>
	<u><b>(44,626)</b></u>	<u>(12,745)</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>6.4</u>	<u>1.9</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 SEPTEMBER 2014**

	<i>Notes</i>	<b>30 September 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		221	469
Goodwill		742	742
Intangible assets		–	–
Financial assets	<i>14</i>	1,101	1,579
Other receivables	<i>12</i>	757	1,512
		<hr/>	<hr/>
Total non-current assets		2,821	4,302
<b>CURRENT ASSETS</b>			
Trade receivables	<i>11</i>	65,648	55,313
Prepayments, deposits and other receivables	<i>12</i>	96,502	124,592
Restricted bank balances		4,594	5,727
Cash and bank balances		38,993	20,951
		<hr/>	<hr/>
Total current assets		205,737	206,583
<b>CURRENT LIABILITIES</b>			
Trade payables	<i>13</i>	2,316	13,894
Other payables and accrued expenses		40,664	32,506
Amounts due to directors		1,787	506
Interest-bearing loans from a director and a shareholder		552	552
Liability component of redeemable convertible cumulative preference shares	<i>14</i>	159,166	130,686
Liability component of convertible bonds	<i>15</i>	50,457	49,635
Income tax payables		692	2,881
Preference shares dividend payable of a subsidiary		79,453	72,757
Promissory note		8,000	8,000
		<hr/>	<hr/>
Total current liabilities		343,087	311,417
<b>NET CURRENT LIABILITIES</b>		<hr/> <b>(137,350)</b>	<hr/> (104,834)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<hr/> <b>(134,529)</b>	<hr/> (100,532)
Net liabilities		<hr/> <b>(134,529)</b>	<hr/> (100,532)

		<b>30 September 2014</b>	31 March 2014
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	<i>16</i>	<b>68,329</b>	63,329
Reserves		<b>(241,358)</b>	(204,940)
		<b>(173,029)</b>	(141,611)
Non-controlling interests		<b>38,500</b>	41,079
Total equity		<b>(134,529)</b>	(100,532)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014**

	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 2014 (Audited)	63,329	326,331	57,124	1,047	3,592	15,574	1,656	(610,264)	(141,611)	41,079	(100,532)
Loss for the period	-	-	-	-	-	-	-	(42,080)	(42,080)	(2,630)	(44,710)
Other comprehensive income for the period	-	-	-	-	-	33	-	-	33	51	84
Total comprehensive income/(loss) for the period	-	-	-	-	-	33	-	(42,080)	(42,047)	(2,579)	(44,626)
Subscription of shares	5,000	5,629	-	-	-	-	-	-	10,629	-	10,629
At 30 September 2014 (Unaudited)	<u>68,329</u>	<u>331,960*</u>	<u>57,124*</u>	<u>1,047*</u>	<u>3,592*</u>	<u>15,607*</u>	<u>1,656*</u>	<u>(652,344)*</u>	<u>(173,029)</u>	<u>38,500</u>	<u>(134,529)</u>
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 income/(loss) for the period	-	-	-	-	-	1,894	-	-	1,894	(149)	1,745
Total comprehensive income/(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>

\* These reserve amounts comprise the consolidated deficiency in reserves of approximately HK\$241,358,000 (2013: HK\$147,349,000) in the consolidated statement of financial position.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	<b>5,013</b>	23,888
NET CASH FLOWS GENERATED FROM/(USED IN) INVESTING ACTIVITIES	<b>31</b>	(615)
NET CASH FLOWS GENERATED FROM/(USED IN) FINANCING ACTIVITIES	<b>11,910</b>	(7,708)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>16,954</b>	15,565
Effect of foreign exchange rate changes, net	<b>(45)</b>	1,247
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>26,678</b>	14,229
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>43,587</b>	31,041
Analysis of cash and cash equivalents:		
Restricted bank balances	<b>4,594</b>	4,207
Cash and bank balances	<b>38,993</b>	26,834
	<b>43,587</b>	31,041

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

*FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014*

### **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 2014, 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\$137,350,000 and net liabilities of approximately HK\$134,529,000 as at 30 September 2014;
- (ii) The liability component of convertible bonds (“CB”) with interest at amortised cost of approximately HK\$50,457,000 as at 30 September 2014; and
- (iii) the liability component of redeemable convertible cumulative preference shares (“PS”) with interest at amortised cost of approximately HK\$159,166,000 as at 30 September 2014 which was originally past due. Pursuant to the Supplementary Agreement 2014, subject to the completion of the subscription agreement of the convertible note dated 3 June 2014 (the “Subscription of Convertible Note”) as announced on 3 June 2014, the Company should redeem the Preference Shares principal in 5 days after the completion of the Subscription of Convertible Note, and settle all dividends. Should the company fail to complete the Subscription of Convertible Note, the settlement date to redeem the Preference Shares is further extended to 31 March 2015.

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 announcement, the Company obtained verbal consent to standstill from the majority of CB holder. In addition, the Company has entered into an Supplementary Agreement in 2014 with PS holder. Pursuant to the Supplementary Agreement 2014, subject to the completion of the subscription agreement of the convertible note dated 3 June 2014 (the "Subscription of Convertible Note") as announced on 3 June 2014, the Company should redeem the Preference Shares principal in 5 days after the completion of the Subscription of Convertible Note, and settle all dividends. Should the company fail to complete the Subscription of Convertible Note, the settlement date to redeem the Preference Shares is further extended to 31 March 2015. 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 2014 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 Period, the Group has applied, for the first time, the following new interpretation ("Int") and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)*-Int 21	Levies

\* HK(IFRIC) represents the Hong Kong (International Financial Reporting Interpretations Committee).

The application of the above new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

### **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 two reportable operating segments as follows:

- B-to-C consumer services; 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, liability component of convertible bonds, liability component of redeemable convertible cumulative preference shares, promissory note, preference shares dividend payable of a subsidiary and other corporate liabilities as these liabilities are managed on a group basis.

The following is an analysis of the Group's revenue and results by operating segment for the six months ended 30 September 2014 and 2013.

	B-to-C consumer service		Healthcare service		Total	
	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue						
Revenue from external customers	<u>9,450</u>	<u>10,848</u>	<u>11,456</u>	<u>12,117</u>	<u>20,906</u>	<u>22,965</u>
<b>Segment results</b>	<b><u>203</u></b>	<b><u>1,195</u></b>	<b><u>227</u></b>	<b><u>417</u></b>	<b><u>430</u></b>	<b><u>1,612</u></b>
Reconciliation:						
Interest income and unallocated gains					343	36,890
Corporate and other unallocated expenses					(9,378)	(21,089)
Finance costs-unallocated					<u>(35,998)</u>	<u>(31,763)</u>
Loss before tax					<b><u>(44,603)</u></b>	<b><u>(14,350)</u></b>
Depreciation and amortisation	196	241	-	1	196	242
Reconciliation:						
Unallocated depreciation and amortisation					<u>39</u>	<u>4,466</u>
					<b><u>235</u></b>	<b><u>4,708</u></b>

The following tables are an analysis of the Group's assets as at 30 September 2014 and 31 March 2014:

	<b>As at 30 September 2014 (Unaudited)</b>		
	<b>B-to-C consumer service <i>HK\$'000</i></b>	<b>Healthcare service <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
SEGMENT ASSETS	<b>90,864</b>	<b>6,763</b>	<b>97,627</b>
Corporate and other unallocated assets			<b>110,931</b>
Total assets			<b>208,558</b>

	<b>As at 31 March 2014 (Audited)</b>		
	<b>B-to-C consumer service <i>HK\$'000</i></b>	<b>Healthcare service <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
SEGMENT ASSETS	81,433	6,108	87,541
Corporate and other unallocated assets			123,344
Total assets			210,885

## 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 gain and loss for the period ended 30 September 2013, 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>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Interest on loans from a director and a shareholder	–	99
Effective interest expenses on convertible bonds wholly repayable within five years	<b>822</b>	784
Effective interest expenses on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	<b>28,480</b>	24,184
Dividend payable to convertible preference share issued by a subsidiary	<b>6,696</b>	6,696
	<u><b>35,998</b></u>	<u>31,763</u>

## 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>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Amortisation of intangible assets	–	4,459
Depreciation of property, plant and equipment	<b>235</b>	249
Interest income	<b>(31)</b>	(106)
	<u><b>(31)</b></u>	<u>(106)</u>

## 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% (2013: 25%).

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Current tax – PRC	<b>107</b>	140
	<u><b>107</b></u>	<u>140</u>

## 10. LOSS PER SHARE

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2014</b>	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Loss attributable to owners of the Company, used in the basic loss per share calculation	<b>(42,080)</b>	(11,678)
<b>Number of shares</b>	<b>2014</b>	2013
Weighted average number of ordinary shares for the purpose of basic loss per share	<b>662,721,389</b>	610,972,296

For the period ended 30 September 2014 and 30 September 2013, 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) Provision of B-to-C consumer services 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>	31 March
	<b>2014</b>	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Within 1 month	<b>3,789</b>	3,540
1 to 3 months	<b>7,352</b>	8,616
3 months	<b>54,507</b>	43,157
	<b>65,648</b>	55,313

## 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 September 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
Other receivables ( <i>note (i)(ii)</i> )	<b>63,360</b>	93,874
Less: Non-current portion of other receivables ( <i>note (ii)</i> )	<b>(757)</b>	(1,512)
	<b>62,603</b>	92,362
Deposits ( <i>note (iii)</i> )	<b>32,156</b>	32,140
Prepayments	<b>1,743</b>	90
Current portion of prepayments, deposits and other receivables	<b>96,502</b>	124,592

### Notes:

- (i) Approximately RMB42,997,000 (equivalent to approximately HK\$54,249,000) 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\$757,000 and HK\$5,436,000 respectively with respect to a secured loan of RMB8,000,000 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\$31,543,000) were deposit for customer services.

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 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
Within 1 month	<b>1,895</b>	13,216
1 to 3 months	<b>421</b>	678
	<b>2,316</b>	13,894

#### 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 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.

On 30 June 2014, the Company and the preference share holder entered into an supplementary agreement to the Amendment Agreement of the Preference Shares Agreement dated 28 June 2013 (the “Supplementary Agreement 2014”). Pursuant to the Supplementary Agreement 2014, subject to the completion of the subscription agreement of the convertible note dated 3 June 2014 (the “Subscription of Convertible Note”) as announced on 3 June 2014, the Company should redeem the Preference Shares principal in 5 days after the completion of the Subscription of Convertible Note, and settle all dividends. Should the company fail to complete the Subscription of Convertible Note, the settlement date to redeem the Preference Shares is further extended to 31 March 2015.

Pursuant to the Supplementary Agreement 2014, the calculation and settlement of the dividends of the Preference Shares shall be (1) US\$4 million from 28 July 2006 to 30 November 2012 (the “Dividend I”), which shall be settled by promissory notes issued by the Company; (2) 5% per annum from 1 December 2012 to 30 November 2013 (the “Dividend II”), for which the Company shall have the right to settle by way of issuance of shares to the preference share holder at a pre-determined price of HK\$0.25 per share; (3) 6% per annum from 1 December 2013 to 30 June 2014 (the “Dividend III”), for which the Company shall have the right to settle by way of issuance of shares to the preference share holder at a pre-determined price of HK\$0.25 per share; and (4) 7% per annum from 1 July 2014 to 31 March 2015 (the “Dividend IV”), for which the Company shall have the right to settle by way of issuance of shares to the PS holder at a pre-determined price of HK\$0.15 per share.

**(i) Liability component**

	<b>30 September 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
At the beginning of the period/year	<b>130,686</b>	115,503
Interest charged for the period/year	<b>28,480</b>	50,875
Extinguishment of financial liability charged to profit or loss	<b>–</b>	(35,692)
At the end of the period/year	<b><u>159,166</u></b>	<b><u>130,686</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 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
At the beginning of the period/year, (asset)/liability	(1,579)	(2,150)
Fair value change charged/(credited) to profit or loss	<u>478</u>	<u>571</u>
At the end of the period/year, asset	<u><b>(1,101)</b></u>	<u><b>(1,579)</b></u>

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>Amendment Agreement</b>	<b>Supplementary Agreement 2014</b>
Time to maturity	0.25	0.27
Risk free rate	0.14%	0.09%
Volatility	65.49%	64.36%
Strike price	HK\$0.32	HK\$0.25 and HK\$0.15
Spot price	HK\$0.30	HK\$0.265

**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 since 1 April 2011.

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 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
Carrying amount at the beginning of the period/year	49,635	48,064
Interest charged for the period/year	<u>822</u>	<u>1,571</u>
Carrying amount at the end of the period/year	<u><b>50,457</b></u>	<u><b>49,635</b></u>

Liability component of convertible bonds comprise of the following:

	<b>30 September 2014 HK\$'000 (Unaudited)</b>	31 March 2014 HK\$'000 (Audited)
Principal amount	42,042	42,042
Interest payable	7,344	6,718
Charge of overdue interest	<u>1,071</u>	<u>875</u>
	<u><b>50,457</b></u>	<u><b>49,635</b></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 2013, 31 March 2014, 1 April 2014 and 30 September 2014	<u><b>100,000,000,000</b></u>	<u><b>10,000,000</b></u>
Issued and fully paid:		
Ordinary shares of HK\$0.1 each		
At 1 April 2013	603,259,665	60,326
Issue of loan share upon loan capitalization ( <i>note i</i> )	<u>30,030,030</u>	<u>3,003</u>
At 31 March 2014	633,289,695	63,329
Subscription of shares ( <i>note ii</i> )	<u>50,000,000</u>	<u>5,000</u>
At 30 September 2014	<u><b>683,289,695</b></u>	<u><b>68,329</b></u>

Notes:

- (i) 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.
- (ii) On 23 May 2014, the Company and the subscribers, independent third parties, entered into subscription agreements to subscribe an aggregate of 50,000,000 shares of the Company, at HK\$0.212.

## 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 has been 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	<u>(20)</u>
Net identifiable assets and liabilities	114
Non-controlling interests	(56)
Goodwill	<u>742</u>
Consideration for acquisition satisfied by payable	<u>800</u>
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Shanghai Imperial:	
Cash consideration paid	–
Cash and cash equivalent acquired	<u>(129)</u>
Net inflow of cash and cash equivalents	<u><u>(129)</u></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 28 November 2014.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Interim Results and Dividends**

For the interim period ended 30 September 2014, the Group recorded a turnover of approximately HK\$20,906,000, representing a decrease of 9% as compared to HK\$22,965,000 for the corresponding period last year. Loss attributable to shareholders was HK\$42,080,000 (corresponding period in 2013: HK\$11,678,000). Basic loss per share for the period was HK6.4 cents (corresponding period in 2013: HK1.9 cents).

The Directors do not recommend the payment of any interim dividend to shareholders (corresponding period in 2013: Nil).

### **REVIEW OF BUSINESS OPERATION**

During the period, the Group’s business had principally continued to push forward the consumer oriented healthcare related services. Apart from the provision of B-to-C consumer services in Mainland China, the Group proactively provided services in relation to healthcare and third party administration to healthcare insurance companies via Shanghai Imperial, which achieved sound progress. During the period, revenue of the Group’s operation primarily generated from provision of healthcare and third party administration services. Another business of the Group, “Cooling system distribution business”, was unable to commence as scheduled due to restructuring and reform of national regulatory and operating institutions and resulting restrictions of market entry policy.

During the period, the Group extensively recruited talents to reinforce its management team to accommodate with the transformation of business into medical health services and established “Zhongwei Kanghong Hospital Management Co., Ltd.” in Beijing to proactively extend its hospital management business.

### **Framework Agreement in relation to the Acquisition of Medical Projects**

During the period, the Company entered into the “Framework Agreement” with an independent third party, targeting to acquire the assets and operating rights of a general hospital and nine treatment centers in Mainland China (Please refer to the announcement of the Company dated 30 September 2014 for details). If the acquisition transactions under the “Framework Agreement” are completed as scheduled, the Group will achieve a fundamental expansion of its core business, hence laying a solid foundation for future development and growth.

### **REVIEW OF FINANCIAL DISTRESS**

During the period, the Group’s listing entity China HealthCare Holdings Ltd., being the Group’s ultimate holding company, continued to be insolvent due to its obligations of the Convertible Bonds (“CB”) with outstanding principal of approximately US\$5.39 million and the Redeemable Convertible Preference Shares (“RCPS”) with outstanding principal of US\$15 million.

During the period, the Group proactively introduced investors and entered into “subscription agreements” with independent third-party investors dated 8 April, 23 May and 3 June 2014 respectively to raise an aggregate of approximately HK\$650 million to resolve the outstanding debts and meet the needs of business development, of which the “subscription agreements” dated 23 May were completed during the period.

### **FUTURE PROSPECT**

During the period, the Group has achieved significant progress in procuring external resources, strengthening our management team and developing our healthcare services business, which establishes a favorable situation for the business expansion of the Company for the year. The Board is of the view that the economic comprehensive development as well as urbanization and ageing society trends in China brought about tremendous opportunities for the modern medical services industry. The Company will grasp the opportunities and strive for greater heights, so as to achieve outstanding results.

## **Liquidity and Financial Resources**

As at 30 September 2014, the current assets and net current liabilities of the Group are approximately HK\$205.7 million and HK\$343.1 million respectively, representing a current ratio of 0.60 (31 March 2014: 0.66). As at 30 September 2014, the total borrowings of the Group amounted to approximately HK\$217.6 million (31 March 2014: HK\$188.3 million), represented by convertible bonds, redeemable convertible cumulative preference shares and promissory note. The gearing ratio of the Group as at 30 September 2014 is (1.26) (31 March 2014: (1.33)), which was calculated on an amount of shareholders' equity of approximately HK\$(173,029,000) (31 March 2014: HK\$(141,611,000)).

On 23 May 2014, the Company and subscribers, independent third parties, entered into subscription agreements to subscribe an aggregate of 50,000,000 shares of the Company at HK\$0.212 per share. In June 2014, the subscriptions were completed raising net proceeds of HK\$10.4 million which have been used as general working capital for the Group.

## **Contingent Liabilities**

As at 30 September 2014, there was no contingent liability of the Group.

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

As at 30 September 2014, there was no charge on the Group's assets.

## **Human Resources**

As at 30 September 2014, the Group employed 67 (31 March 2014: 65) employees. Total staff cost including Directors' emoluments was HK\$2,648,000 as compared to HK\$2,367,000 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 2014, 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 four 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. 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 2014.

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

Hong Kong, 28 November 2014

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