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 2008

The Board of Directors (the "Board") of China HealthCare Holdings Limited (the "Company") would like to present the unaudited consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2008. These interim financial statements have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

		For the six months ended 30 September	
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	*3*	**1,561,572**	1,398,213
Cost of sales and services		**(1,546,370)**	(1,386,291)
Gross profit		**15,202**	11,922
Other income		**14,917**	9,310
Distribution costs		**(4,258)**	(3,121)
Administrative expenses		**(15,899)**	(19,065)
Impairment losses for doubtful debts		**(9,099)**	(118)
Other operating expenses		**(28)**	(17,477)
Profit/(Loss) from operations	*4*	**835**	(18,549)
Finance costs	*5*	**(7,672)**	(6,268)
Gain on disposal of a subsidiary	*6*	**2,510**	–
Loss before tax		**(4,327)**	(24,817)
Income tax expense	*7*	**(1,013)**	(858)
Loss for the period		**(5,340)**	(25,675)
Attributable to:			
Equity holders of the Company		**(5,788)**	(26,670)
Minority interests		**448**	995
		(5,340)	(25,675)
Loss per share (HK$)	*9*		
– Basic		**(0.02)**	(0.11)
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED
AT 30 SEPTEMBER 2008

	Notes	At 30 September 2008 (Unaudited) HK$'000	At 31 March 2008 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**10,147**	11,988
Goodwill		**55,363**	27,152
Other intangible assets		**736**	830
Prepayment for acquisition of non-current assets		**7,045**	6,889
Interest in an associate		**1**	1
		73,292	46,860
Current assets			
Inventories		**44,364**	14,513
Trade receivables	10	**33,950**	33,563
Prepayments, deposits and other receivables		**14,068**	14,147
Loan receivables		**20,668**	27,656
Financial assets at fair value through profit or loss		**82**	123
Bank balances and cash		**42,738**	59,579
		155,870	149,581
Current liabilities			
Trade payables	11	**209**	2,180
Other payables and accrued liabilities		**66,055**	30,450
Amounts due to directors		**2,984**	1,972
Convertible bonds	12	**45,009**	–
Derivative component of convertible bonds	12	**7,537**	4,237
Derivative component of redeemable convertible cumulative preference shares	13	**44,706**	48,559
Current tax liabilities		**796**	829
		167,296	88,227
Net current (liabilities)/assets		**(11,426)**	61,354
Total assets less current liabilities		**61,866**	108,214
Non-current liabilities			
Convertible bonds	12	**26,898**	62,206
Redeemable convertible cumulative preference shares	13	**95,655**	90,607
		122,553	152,813
NET LIABILITIES		**(60,687)**	(44,599)

	Notes	At 30 September 2008 (Unaudited) HK$'000	At 31 March 2008 (Audited) HK$'000
Capital and reserves			
Share capital	*14*	**23,437**	23,437
Reserves		**(84,602)**	(81,044)
Equity attributable to equity holders of the Company		**(61,165)**	(57,607)
Minority interests		**478**	13,008
TOTAL EQUITY		**(60,687)**	(44,599)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

1. BASIS OF PRESENTATION

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

The condensed financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 March 2008.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2008 and in accordance with Hong Kong Financial Reporting Standard ("HKRFSs") (which include all Hong Kong Financial Reporting Standards, HKASs ad interpretations) issued by HKICPA, except that the Group in the current period has applied, for the first time, the following new HKFRSs which are effective for the Group's financial year beginning on 1 April 2008.

HKAS 39 and HKFRS 7 Amendments	Reclassification of Financial Assets
HK (IFRIC) – Int 12	Service Concession Arrangements
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new HKFRSs had no significant impact on the Group's condensed consolidated interim financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective, in the condensed consolidated interim financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & HKAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 Amendments	Cash Flow Hedge Accounting of Forecast Intergroup Transaction[3]
HKAS 39 Amendments	The Fair Value Option[3]
HKFRS 2 Amendments	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[1]
HK (IFRIC) – Int 13	Customer Loyalty Programmes[2]
HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK (IFRIC) – Int 16	Hedges to a Net Investment in a Foreign Operation[4]

[1] Effective for annual period beginning on or after 1 January 2009
[2] Effective for annual period beginning on or after 1 July 2008
[3] Effective for annual period beginning on or after 1 July 2009
[4] Effective for annual period beginning on or after 1 October 2008

3. SEGMENT INFORMATION

For management and group's revenue breakdown purposes, the Group is currently organized into four operating segments – (i) E-commerce distribution of mobile pre-charge, (ii) procurement of healthcare services, (iii) trading of biotechnology products and (iv) investment holding. These segments are the basis on which the Group reports its primary segment information.

An analysis of the Group's revenue and segment results by business and geographical segments is as follows:

Business segments

	E-commerce distribution of mobile pre-charge (Unaudited) *HK$'000*	Procurement of healthcare services (Unaudited) *HK$'000*	Trading of biotechnology products (Unaudited) *HK$'000*	Investment holding (Unaudited) *HK$'000*	Consolidated Total (Unaudited) *HK$'000*
Consolidated income statement For the six months ended 30 September 2008					
Segment revenue	1,556,814	3,355	1,403	–	1,561,572
Segment results	4,470	68	(366)	–	4,172
Other income					14,917
Unallocated corporate expenses					(18,254)
Profit from operations					835
Finance costs					(7,672)
Gain on disposal of a subsidiary					2,510
Loss before tax					(4,327)

Business segments

	E-commerce distribution of mobile pre-charge (Unaudited) *HK$'000*	Procurement of healthcare services (Unaudited) *HK$'000*	Trading of biotechnology products (Unaudited) *HK$'000*	Investment holding (Unaudited) *HK$'000*	Consolidated Total (Unaudited) *HK$'000*
Consolidated income statement For the six months ended 30 September 2007					
Segment revenue	1,392,943	2,214	3,056	–	1,398,213
Segment results	3,969	(3,929)	(1,419)	–	(1,379)
Other income					9,310
Unallocated corporate expenses					(26,480)
Loss from operations					(18,549)
Finance costs					(6,268)
Loss before tax					(24,817)

Geographical segments

The Group's operations are principally located in Hong Kong and other regions of the People's Republic of China (the "PRC"). Accordingly, no geographical segment information is presented.

4. PROFIT/(LOSS) FROM OPERATIONS

Profit/(Loss) from operations has been arrived at after charging/(crediting) the following:

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation	**3,094**	3,113
Amortisation of intangible assets	**114**	206
Fair value gain on derivative component of convertible bonds	**(8,883)**	(3,052)
Loss on disposal of property, plant and equipment*	**28**	74
Interest Income	**(634)**	(1,103)
Fair value (gain)/loss on derivative component of redeemable convertible cumulative preference shares	**(3,853)**	17,403*
Gain on repurchase of convertible bonds wholly repayable within five years	**–**	(2,958)

* *Included in "Other operating expenses" on the face of the condensed consolidated income statement.*

5. FINANCE COSTS

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on convertible bonds wholly repayable within five years	**2,560**	1,618
Interest on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	**5,048**	4,650
Interest on other loans wholly repayable within five years	**64**	–
	7,672	6,268

6. DISPOSAL OF A SUBSIDIARY

On 2 June 2008, the Group disposed its entire equity interest in Shanghai Epay Information Technology Company Limited to an independent third party at a cash consideration of RMB300,000 (equivalent to HK$333,000) and the gain on such disposal was HK$2,510,000.

Net liabilities at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	555
Inventories	612
Trade receivables	1,555
Prepayments, deposits and other receivables	326
Bank and cash balances	518
Trade payables	(28)
Other payables and accrued liabilities	(5,869)
Current tax liabilities	(10)
Net liabilities disposed	(2,341)
Release of foreign currency translation reserve	164
Gain on disposal of a subsidiary	2,510
Total consideration satisfied by cash	333
Net cash outflow arising on disposal:	
Cash consideration received	333
Cash and cash equivalents disposed	(518)
	(185)

7. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made since the Group did not generate any assessable profits from Hong Kong during the period (2007: Nil).

Tax charge on profits assessable in the PRC have been calculated at the rates of tax prevailing in the PRC in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax – PRC	**1,013**	858

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses due to the unpredictability of future profit streams.

8. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of any interim dividend (2007: Nil).

9. LOSS PER SHARE

The calculation of the basic loss per share attributable to the equity holders of the Company is based on the following data:

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the purposes of basic loss per share (loss for the period attributable to equity holders of the Company)	**(5,788)**	(26,670)
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic loss per share	**234,368**	234,368

As the exercise of the Company's outstanding convertible bonds and redeemable convertible cumulative preference shares for both periods would be anti-dilutive, and there was no dilutive potential ordinary shares for the Company's outstanding options, no diluted loss per share was presented in both periods.

10. TRADE RECEIVABLES

The normal credit period granted to customers of the E-commerce distribution of mobile pre-charge is 3 to 7 days. The credit terms granted to other customers generally ranged from 10 to 90 days. The ageing analysis of the trade receivables, based on invoice date, and net of allowance, is as follows:

	At 30 September 2008 (Unaudited) ***HK$'000***	At 31 March 2008 (Audited) *HK$'000*
Within 30 days	**31,581**	32,953
31 – 60 days	**438**	254
61 – 90 days	**233**	347
91 – 120 days	**803**	–
Over 120 days	**895**	9
Total	**33,950**	33,563

11. TRADE PAYABLES

The ageing analysis of trade payables, based on the date of receipt of goods is as follows:

	At 30 September 2008 (Unaudited) ***HK$'000***	At 31 March 2008 (Audited) *HK$'000*
Within 30 days	**–**	1,207
31 – 60 days	**–**	9
61 – 90 days	**–**	–
91-120 days	**208**	1
over 120 days	**1**	963
Total	**209**	2,180

12. CONVERTIBLE BONDS

	At 30 September 2008 (Unaudited) ***HK$'000***	At 31 March 2008 (Audited) *HK$'000*
Liability component of convertible bonds		
Convertible bonds issued with equity component *(note a)*	**45,009**	44,565
Convertible bonds issued with derivative component *(note b)*	**26,898**	17,641
	71,907	62,206
Derivative component of convertible bonds *(note b)*	**7,537**	4,237

The maturity of the liability component of the convertible bonds is as follows:

	At 30 September 2008 (Unaudited) ***HK$'000***	At 31 March 2008 (Audited) *HK$'000*
In the first year	**45,009**	–
In the second to fifth years inclusive	**26,898**	62,206
	71,907	62,206

Notes:

(a) Convertible bonds issued with equity component

On 19 May 2005, the Company issued convertible bonds with a nominal value of US$6,600,000 due on 18 May 2009 ("CB1"). CB1 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. Each CB1 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 CB1 remain outstanding on the maturity date, the Company will redeem the principal of CB1 at 100% of their face value.

The net proceeds received for the issue of CB1 have been split between the liability element and an equity component. The movement of the liability element is as follows:

	At 30 September 2008 (Unaudited) ***HK$'000***	At 31 March 2008 (Audited) *HK$'000*
At beginning of the period/year	44,565	49,904
Interest charged for the period/year	1,120	2,277
Interest paid for the period/year	(676)	(1,459)
Repurchase during the period/year	–	(6,157)
At end of the period/year	45,009	44,565

The interest charged on CB1 for the period/year is calculated by applying an effective interest rate of 5.135% to the liability component.

On 21 June 2007, the Group repurchased CB1 with principal amount of US$820,000 (equivalent to HK$6,396,000) at a consideration of US$410,000 (equivalent to HK$3,198,000).

(b) Convertible bonds issued with derivative component

	Notes	At 30 September 2008 (Unaudited) HK$'000	At 31 March 2008 (Audited) HK$'000
Liability component			
Convertible bonds due on 6 August 2010	*(i)*	**18,104**	17,641
Convertible bonds due on 1 June 2011	*(ii)*	**8,794**	–
		26,898	17,641

	Notes	At 30 September 2008 (Unaudited) HK$'000	At 31 March 2008 (Audited) HK$'000
Derivative component			
Convertible bonds due on 6 August 2010	*(i)*	**3,046**	4,237
Convertible bonds due on 1 June 2011	*(ii)*	**4,491**	–
		7,537	4,237

Notes:

(i) On 7 August 2006, the Company issued convertible bonds with a nominal value of HK$18,400,000 due on 6 August 2010 ("CB2"). CB2 carries interests at 2% per annum payable semi-annually in arrears with the first interest payment due on 6 February 2007 and the last interest payment due on 6 August 2010. During the period from 7 August 2006 to 6 August 2010, each CB2 entitles the holder to convert the bonds into new ordinary shares of the Company at the lower of the following:

(i) the initial conversion price, subject to adjustment, of HK$1.16; and

(ii) the volume-weighted average price of the ordinary shares of the Company, subject to adjustment, for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice.

In addition, if CB2 remain outstanding on the maturity date, the Company will redeem the principal of CB2 at 100% of their face value. Details are disclosed in the Company's circular dated 16 June 2006.

The fair value of the derivative component, representing the embedded options entitled to the holders of CB2, was estimated at the issuance and each balance sheet date using an option pricing model and the change in fair value of that component is recognised in the income statement.

The movement of the derivative and liability components of CB2 during the period/year is set out below:

	At 30 September 2008 (Unaudited) *HK$'000*	At 31 March 2008 (Audited) *HK$'000*
Derivative component		
At beginning of the period/year	**4,237**	7,947
Fair value gain	**(1,191)**	(3,710)
At end of the period/year	**3,046**	4,237

	At 30 September 2008 (Unaudited) *HK$'000*	At 31 March 2008 (Audited) *HK$'000*
Liability component		
At beginning of the period/year	**17,641**	16,739
Interest charged for the period/year	**463**	902
At end of the period/year	**18,104**	17,641

The interest charged on CB2 for the period/year is calculated by applying an effective interest rate of 5.479% to the liability component.

The derivative component of CB2 was revalued at 31 March 2008 and 30 September 2008 based on valuations by independent valuers, determined using option pricing models. The significant inputs to the models were as follows:

	At 30 September 2008	At 31 March 2008
Share price of underlying shares	**HK$0.26**	HK$0.40
Exercise price	**HK$1.16**	HK$1.16
Expected volatility	**95%**	81.0%
Expected life	**1.85 years**	2.35 years
Risk-free rate	**1.4%**	1.3%
Expected dividend yield	**Nil**	Nil

(ii) On 1 June 2008, the Company issued convertible bonds with a nominal value of HK$20,000,000 due on 1 June 2011 ("CB3"). CB3 carry interests at 2% per annum payable semi-annually in arrears with the first interest payment due on 1 December 2008 and the last interest payment due on 1 June 2011. During the period from 1 June 2008 to 1 June 2011, each CB3 entitles the holder to convert the bonds into new ordinary shares of the Company at the lower of the following:

(i) the initial conversion price, subject to adjustment, of HK$1.16; and

(ii) the volume-weighted average price of the ordinary shares of the Company, subject to adjustment, for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice.

In addition, if CB3 remain outstanding on the maturity date, the Company will redeem the principal of CB3 at 100% of their face value. Details are disclosed in the Company's circular dated 30 April 2008.

The fair value of the derivative component, representing the embedded options entitled to the holders of CB3, was estimated at the issuance and each balance sheet date using an option pricing model and the change in fair value of that component is recognised in the income statement.

The net proceeds received from the issue of CB3 have been split between the liability element and derivative component, as follows:

	HK$'000
Nominal value of CB3 issued	**20,000**
Derivative component	**(12,183)**
Liability component at date of issue	**7,817**
Interest charged for the period	**977**
Liability component at end of the period	**8,794**
Derivative component at date of issue	**12,183**
Fair value gain	**(7,692)**
Derivative component at end of the period	**4,491**

The interest charged on CB3 for the period is calculated by applying an effective interest rate of 41.025% to the liability component.

The derivative component of CB3 was revalued at 1 June 2008 and 30 September 2008 based on valuations by independent valuers, determined using option pricing models. The significant inputs to the models were as follows:

	30 September 2008	1 June 2008
Share price of underlying shares	**HK$0.26**	HK$0.79
Exercise price	**HK$1.16**	HK$1.16
Expected volatility	**95%**	87%
Expected life	**2.66 years**	3 years
Risk-free rate	**1.7%**	2.45%
Expected dividend yield	**Nil**	Nil

13. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

On 28 July 2006, the Company issued 15,000 redeemable convertible cumulative preference shares of US$0.01 each ("PS") for a total cash consideration of US$15,000,000 (equivalent to HK$117,000,000). The PS carry dividend at 2% per annum, subject to adjustment to 5% on certain special events payable semi-annually in arrears. The maturity date of the PS is falling on the fifth anniversary of 28 July 2006 or such later date, not being later than the seventh anniversary of 28 July 2006, as may be agreed in writing between the Company and the holders of the PS. At any time from 28 July 2006 to maturity date, each PS entitles the holder to convert the preference shares into new ordinary shares of the Company at the lower of the following:

(a) the initial conversion price, subject to adjustment, of HK$1.16; and

(b) the volume-weighted average price of the ordinary shares of the Company, subject to adjustment, for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice.

In addition, the holder of the PS shall have the right at any time to require the Company to redeem all or any of the then outstanding PS held by it at the early redemption amount of such number of PS so redeemed, provided that the holder of the PS may not exercise such right prior to the maturity date if and for so long as any of certain special events shall not have occurred. Details are disclosed in the Company's circular dated 16 June 2006.

The fair value of the derivative component, representing the embedded options entitled to the holders of PS, was estimated at the issuance and each balance sheet date using an option pricing model and the change in fair value of that component is recognised in the income statement.

The movement of the derivative and liability components of PS during the period/year is set out below:

	At 30 September 2008 (Unaudited) *HK$'000*	At 31 March 2008 (Audited) *HK$'000*
Derivative component		
At beginning of the period/year	**48,559**	42,569
Fair value (gain)/loss	**(3,853)**	5,990
At end of the period/year	**44,706**	48,559

	At 30 September 2008 (Unaudited) *HK$'000*	At 31 March 2008 (Audited) *HK$'000*
Liability component		
At beginning of the period/year	**90,607**	81,138
Interest charged for the period/year	**5,048**	9,469
At end of the period/year	**95,655**	90,607

The interest charged for the period/year is calculated by applying the effective interest rate of 11.965% to the liability component.

The derivative component of redeemable convertible cumulative preference shares were revalued at 31 March 2008 and 30 September 2008 based on valuations by independent valuers, determined using option pricing models. The significant inputs to the models were as follows:

	At 30 September 2008	At 31 March 2008
Share price of underlying shares	**HK$0.26**	HK$0.40
Exercise price	**HK$1.16**	HK$1.16
Expected volatility	**95%**	81.0%
Expected life	**2.82 years**	3.32 years
Risk-free rate	**2%**	1.6%
Expected dividend yield	**Nil**	Nil

14. SHARE CAPITAL

	Number of shares	Nominal value
		HK$'000
Authorised:		
Ordinary shares of HK$0.1 each, at 31 March 2008 and 30 September 2008	5,000,000,000	500,000
Redeemable convertible cumulative preference shares of US$0.01 each, at 31 March 2008 and 30 September 2008	15,000	1
Issued and fully paid:		
Ordinary shares of HK$0.1 each, at 31 March 2008 and 30 September 2008	**234,367,577**	**23,437**

15. EVENTS AFTER THE BALANCE SHEET DATE

(a) After the trading hours in the morning of 2 September 2008, Success Gateway entered into an subscription agreement (the "Subscription Agreement") with DLB Harvest LLC, Dr. Li Zhong Yuan, being the director of the Company, and Jade Capital LLC (the "Subscribers") to issue in aggregate 23,000,000 convertible preference shares and 4,600,000 warrants to the Subscribers for a total consideration of US$23.23 million (equivalent to HK$181.2 million) (the "Subscription").

Before completion of the Subscription, Success Gateway shall subdivide its 100 common shares in issue into 20,500,000 common shares on the basis of 205,000 common shares for one existing common share (the "Share Split"). In addition, the Company has agreed to sell, and Success Gateway has agreed to redeem, 3,000,000 common shares at a cash consideration of US$1.00 per share upon completion of the Subscription and Share Split.

Details of the above transactions were set out in the Company's circular dated 30 September 2008. The transactions were approved by an ordinary resolution passed at the special general meeting held on 15 October 2008.

(b) CB2 were fully redeemed at the nominal value in November 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results and Dividends

During the six months ended 30 September 2008, the revenue of the Group was HK$1,562 million, representing an increase of 12% as compared to HK$1,398 million for the previous period and a net loss attributable to shareholders of HK$5.8 million (2007: HK$26.7 million). The basic loss per share for the period was HK2.47 cents (2007: 11.38 cents).

The Directors do not recommend the payment of any interim dividend to the shareholders (2007: Nil).

Business Operation

During the past interim period of six months, the Group continued to principally engage in provision of healthcare and consumer services and made steady progress in strategic growth initiatives in its business operations that enable the procurement of better access, better communication and better connectivity in China.

Review of B-to-C consumer services operation

The Group's operation of B-to-C consumer services (the "B-to-C Operation"), via its operating subsidiary Shanghai Harvest Network Technology Co., Ltd ("Harvest"), is oriented around scale; growth; cash flow and retail outlets of distribution and settlement. The B-to-C Operation via Harvest is the #1 distributor of mobile prepaid cards in Shanghai; achieved 70% penetration of convenience stores in Shanghai – the most comprehensive one in China; enjoyed an estimated 24% market share for China Mobile prepaid cards in Shanghai. In Spring 2008, the Group decided to launch a strategic growth initiative to take the B-to-C Operation to achieve accelerated rather than organic growth to become a leading innovator and distributor of prepaid and stored value cards in China, and the B-to-C Operation has taken steps to identify constrains in management; capital; expertise and technology and measures to remove them.

As in the Group's announcement and circular in past September, the Group is very pleased to report that the B-to-C Operation has successfully secured strategic funding from investors led by DLB Capital – a US based investment firm focusing on financial services in US and China under this extremely difficult environment of global financial crisis. In addition, the B-to-C Operation has had continued success in upgrading its critical human resources of senior and middle managers in marketing and technology and channel management.

The strategic growth initiative entails expansion of geography; products and channels, i.e. expanding into viable coastal regions other than Shanghai in geography and the B-to-C Operation has embarked on a systematic expansion into Shandong province which is a major mobile prepaid market in China; viable prepaid and store-value cards other than mobile prepaid in products and the B-to-C Operation has upgraded its IT platform to get ready for such an expansion; and viable and directly controlled channels and the B-to-C Operation has also expanded into residential community based distribution and service outlets to increase economy of scale and embark on diversity and validation of new products. With a strategic funding secured, the B-to-C Operation is fortunate to be able to draw upon world class expertise to evaluate its strategic growth initiative under current global economic outlook.

Directors are pleased to report that the Group's consumer services business has had an increase of over 12% in terms of overall revenues and 13% increase in net profit as compared with the same period in 2007.

Review of B-to-B healthcare services operation

The Group's operation of B-to-B healthcare services (the "B-to-B Operation"), via its operating subsidiary Beijing Universal Medical Assistance Co., Ltd ("BUMA"), focuses on scale; growth; standardization and cash flow; and is built around nationwide hospital access; prepaid head-count revenue; IT enabled services and products and channel based distribution. The travel related medical assistance is a prime focus of our healthcare service operation and the B-to-B Operation is a leading provider of emergency medical assistance in China. Given the rapidly rising China related travel flows, intra-China or China outbound or inbound China, and further stimulus by landmark event of 2010 WorldExpo in Shanghai, the demand for travel related medical assistance is expected to have continued growth.

As of this report, the B-to-B Operation has secured more than 1.8 million prepaid members for its emergency medical assistance access services while members at December 2007 were about 460,000; and furthermore, has solidly validated the medical assistance business model as demonstrated by ongoing positive operating cash flows, and the B-to-B Operation has continued to bring a number of senior and middle managers in marketing; hospital access and customer services on board.

Having carefully reviewed the healthcare service operation up to September of 2008 and macro environment of global financial crisis at present, the B-to-B Operation is evaluating current operational constraints and carefully forming a strategic growth initiative to enable its healthcare services business leap frog when global economic outlook turns around. The strategic growth initiative will entail deepening of nationwide hospital access; broadening of service products; widening of distribution channels; and sharpening of IT enablers.

Directors are pleased to report that the Group's healthcare services has had an increase of over 52% in terms of revenues as compared with the same period in 2007 and recorded a net profit for the six months ended 30 September 2008.

Acquisition of remaining interest of a subsidiary

On 28 February 2008, Success Gateway Investments Limited ("Success Gateway"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Panjinfenyuan Technology Investment Limited ("Panjinfenyuan"), being the minority shareholder of Harvest, pursuant to which Success Gateway has conditionally agreed to acquire from Panjinfenyuan the remaining 30% equity interest in Harvest for a consideration of HK$41.5 million, which was satisfied as to HK$21.5 million in cash and HK$20 million in issue of convertible bonds. Details were disclosed in the Company's circular dated 30 April 2008 and the transaction was completed on 1 June 2008.

Disposal of a subsidiary

On 2 June 2008, the Group disposed its entire equity interest in Shanghai Epay Information Technology Company Limited to an independent third party at a cash consideration of RMB300,000 (equivalent to HK$333,000) and the gain on such disposal was HK$2,510,000.

Liquidity and Financial Resources

As at 30 September 2008, the total assets of the Group is approximately HK$229.2 million and net current liabilities of approximately HK$11.4 million, representing a current ratio of 0.93 (31 March 2008: 1.70). At the balance sheet date, the total borrowings of the Group amounted to HK$167.6 million, represented by convertible bonds and redeemable convertible cumulative preference shares. The gearing ratio of the Group as at 30 September 2008 is (2.74) (31 March 2008: (2.65)), which was calculated on an amount of total equity of HK$(61,165,000) (31 March 2008: HK$(57,607,000)).

Contingent Liabilities

As at 30 September 2008, there was no contingent liability of the Group.

Charge on Group's assets

As at 30 September 2008, there was no charge on the Group's assets.

Human Resources

As at 30 September 2008, the Group employed 131 (31 March 2008: 130) employees.

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 2008, 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 not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his/her own terms of appointment and no independent non-executive director being involved in assessing his/her own independence.

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. 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 2008.

On behalf of the Board
Zhou Bao Yi
Director

Hong Kong, 29 December 2008

* *for identification purpose only*

As at the date of this announcement, the board of directors of the Company comprises Dr. Li Zhong Yuan, Mr. Lee Jong Dae and Mr. Zhou Bao Yi, all of whom are executive directors; Mr. Martin Treffer who is non-executive director; and Mr. Mu Xiang Ming, Mr. Jiang Bo and Dr. Yan Shi Yun, all of whom are independent non-executive directors.