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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 2009

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 2009. 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 2009

		For the six months ended 30 September	
		2009	2008
	<i>Notes</i>	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover	3	1,387,820	1,561,572
Cost of sales		<u>(1,375,632)</u>	<u>(1,546,370)</u>
Gross profit		12,188	15,202
Other income		1,431	14,917
Distribution costs		(5,134)	(4,258)
Administrative expenses		(16,702)	(15,899)
Impairment losses for doubtful debts		–	(9,099)
Other operating expenses		(11,008)	(28)
(Loss)/Profit from operations	4	(19,225)	835
Finance costs	5	(14,509)	(7,672)
Gain on disposal of a subsidiary	6	–	2,510
Loss before tax		(33,734)	(4,327)
Income tax expense	7	(157)	(1,013)
Loss for the period		<u>(33,891)</u>	<u>(5,340)</u>

* For identification purpose only

		For the six months ended 30 September	
		2009	2008
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
<i>Notes</i>			
Attributable to:			
Owners of the Company		(28,625)	(5,788)
Minority interests		<u>(5,266)</u>	<u>448</u>
		<u>(33,891)</u>	<u>(5,340)</u>
Loss per share (HK\$)	9		
– Basic		<u>(0.12)</u>	<u>(0.02)</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

		For the six months ended 30 September	
		2009	2008
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Loss for the period		(33,891)	(5,340)
Other comprehensive income for the period (after taxation and reclassification adjustments):			
Exchange differences arising on translation of financial statements of overseas operations		<u>192</u>	<u>2,376</u>
Total comprehensive income for the period		<u>(33,699)</u>	<u>(2,964)</u>
Total comprehensive income attributable to:			
Owners the Company		(28,433)	(3,722)
Minority interests		<u>(5,266)</u>	<u>758</u>
		<u>(33,699)</u>	<u>(2,964)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED

AT 30 SEPTEMBER 2009

		At 30 September 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		9,469	10,875
Goodwill		31,360	31,360
Other intangible assets		508	622
Prepayment for acquisition of non-current assets		—	—
Interest in an associate		—	1
		<u>41,337</u>	<u>42,858</u>
Current assets			
Inventories		72,007	26,490
Trade receivables	10	32,259	39,759
Prepayments, deposits and other receivables		15,587	15,027
Loan receivables		—	—
Financial assets at fair value through profit or loss		—	56
Restricted bank balances		119,658	100,042
Bank balances and cash		26,627	56,391
		<u>266,138</u>	<u>237,765</u>
Current liabilities			
Trade payables	11	88	762
Other payables and accrued liabilities		63,442	37,893
Interest-bearing bank and other borrowings		17,045	—
Amounts due to directors		1,192	1,220
Derivative component of convertible bonds	12	9,640	5,220
Derivative component of redeemable convertible cumulative preference shares	13	31,698	25,110
Convertible bonds	12	55,545	53,359
Redeemable convertible cumulative preference shares	13	106,422	100,860
Current tax liabilities		130	227
		<u>285,202</u>	<u>224,651</u>
Net current (liabilities)/assets		<u>(19,064)</u>	<u>13,114</u>
NET ASSETS		<u>22,273</u>	<u>55,972</u>
Capital and reserves			
Share capital	14	23,437	23,437
Reserves		(95,253)	(66,820)
Equity attributable to owners of the Company		(71,816)	(43,383)
Minority interests		<u>94,089</u>	<u>99,355</u>
TOTAL EQUITY		<u>22,273</u>	<u>55,972</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

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 2009.

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 2009.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new or revised HKFRSs”) issued by the HKICPA. Except as described below the adoption of the new or revised HKFRSs which had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (revised 2007) “Presentation of Financial Statements”

(effective for annual periods beginning on or after 1 January 2009)

HKAS 1 (revised 2007) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised 2007) has had no impact on the reported results or financial position of the Group.

The Group has not early applied any new and revised standards, amendments or interpretations that have been issued but are not yet effective. The adoption of HKFRS 3 (Revised in 2008) may affect the Group’s accounting for business combinations for which the acquisition dates are on or after 1 April 2010. HKAS 27 (Revised in 2008) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary. The directors of the Company (the “Directors”) anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the condensed consolidated financial statements of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 “Operating Segments” with effect from 1 April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the chief operating officer of the Group) in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity’s “system of internal financial reporting to key management personnel” serving only as the starting point for the identification of such segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group’s reportable segments under HKFRS 8 are as follows:

Business segments

B-to-C consumer services in E-distribution of mobile pre-charge etc
 Procurement of B-to-B healthcare services
 Sales of medical devices and consumables
 Investment holding

An analysis of the Group’s revenue and segment results by operating segments is as follows:

	B-to-C consumer services in E-distribution of mobile pre-charge etc (Unaudited) HK\$'000	Procurement of B-to-B healthcare services (Unaudited) HK\$'000	Sales of medical devices and consumables (Unaudited) HK\$'000	Investment holding (Unaudited) HK\$'000	Consolidated Total (Unaudited) HK\$'000
Consolidated income statement					
For the six months ended					
30 September 2009					
Segment revenue	<u>1,378,866</u>	<u>3,214</u>	<u>5,740</u>	<u>–</u>	<u>1,387,820</u>
Segment results	<u>(931)</u>	<u>(1,770)</u>	<u>(191)</u>	<u>–</u>	<u>(2,892)</u>
Other income					1,431
Unallocated corporate expenses					<u>(17,764)</u>
Loss from operations					(19,225)
Finance costs					<u>(14,509)</u>
Loss before tax					<u><u>(33,734)</u></u>

	B-to-C consumer services in E-distribution of mobile pre-charge etc (Unaudited) <i>HK\$'000</i>	Procurement of B-to-B healthcare services (Unaudited) <i>HK\$'000</i>	Sales of medical devices and consumables (Unaudited) <i>HK\$'000</i>	Investment holding (Unaudited) <i>HK\$'000</i>	Consolidated Total (Unaudited) <i>HK\$'000</i>
Consolidated income statement					
For the six months ended					
30 September 2008					
Segment revenue	<u>1,556,814</u>	<u>3,355</u>	<u>1,403</u>	<u>–</u>	<u>1,561,572</u>
Segment results	<u>4,470</u>	<u>68</u>	<u>(366)</u>	<u>–</u>	4,172
Other income					14,917
Unallocated corporate expenses					<u>(18,254)</u>
Profit from operations					835
Finance costs					(7,672)
Gain on disposal of a subsidiary					<u>2,510</u>
Loss before tax					<u>(4,327)</u>

4. (LOSS)/PROFIT FROM OPERATIONS

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

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	2,004	3,094
Amortisation of intangible assets	114	114
Loss on disposal of property, plant and equipment	–	28*
Gain on disposal on financial assets at fair value through profit or loss	(108)	–
Interest Income	(487)	(634)
Fair value loss/(gain) on derivative component of convertible bonds	4,420*	(8,883)
Fair value loss/(gain) on derivative component of redeemable convertible cumulative preference shares	<u>6,588*</u>	<u>(3,853)</u>

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

5. FINANCE COSTS

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Effective interest expenses on convertible bonds wholly repayable within five years	2,186	2,560
Effective interest expenses on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	5,562	5,048
Interest on other bank loans wholly repayable within five years	37	64
Dividend payable to convertible preference shares issued by a subsidiary	6,724	—
	<u>14,509</u>	<u>7,672</u>

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)
	<u>(2,341)</u>
Net liabilities disposed	(2,341)
Release of foreign currency translation reserve	164
Gain on disposal of a subsidiary	<u>2,510</u>
	<u>333</u>
Total consideration satisfied by cash	<u>333</u>
Net cash outflow arising on disposal:	
Cash consideration received	333
Cash and cash equivalents disposed	<u>(518)</u>
	<u>(185)</u>

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 (2008: 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	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax – PRC	<u>157</u>	<u>1,013</u>

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 (2008: Nil).

9. LOSS PER SHARE

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

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the purposes of basic loss per share (loss for the period attributable to owners of the Company)	<u>(28,625)</u>	<u>(5,788)</u>
	'000	'000
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>234,368</u>	<u>234,368</u>

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

	At 30 September 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Within 30 days	27,845	36,161
31 – 60 days	853	271
61 – 90 days	839	620
91 – 120 days	881	1,979
Over 120 days	<u>1,841</u>	<u>728</u>
Total	<u><u>32,259</u></u>	<u><u>39,759</u></u>

11. TRADE PAYABLES

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

	At 30 September 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Within 30 days	–	762
31 – 60 days	–	–
61 – 90 days	–	–
91 – 120 days	–	–
Over 120 days	<u>88</u>	<u>–</u>
Total	<u><u>88</u></u>	<u><u>762</u></u>

12. CONVERTIBLE BONDS

	At 30 September 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Liability component of convertible bonds		
Convertible bonds issued with equity component (note a)	43,234	42,943
Convertible bonds issued with derivative component (note b)	<u>12,311</u>	<u>10,416</u>
	<u>55,545</u>	<u>53,359</u>
Derivative component of convertible bonds (note b)	<u>9,640</u>	<u>5,220</u>

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

	At 30 September 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Within one year or on demand	<u>55,545</u>	<u>53,359</u>

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 2009 (Unaudited) <i>HK\$'000</i>	At 31 March 2009 (Audited) <i>HK\$'000</i>
At beginning of the period/year	42,943	44,565
Interest charged for the period/year	291	2,193
Interest paid for the period/year	–	(1,347)
Repurchase during the period/year	–	(2,468)
	<hr/>	<hr/>
At end of the period/year	<u>43,234</u>	<u>42,943</u>

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

In August 2008, the Group agreed to repurchase CB1 with principal amount of approximately US\$320,000 (equivalent to approximately HK\$2,468,000) at a consideration of approximately US\$128,000 (equivalent to approximately HK\$998,400) and the settlement subsequently took place on 29 October 2008.

On 18 May 2009, CB1 had matured, however, due to liquidity problem, the Group was unable to redeem CB1 at maturity. The Group's default in the redemption on the convertible bonds may also trigger the Company's potential early redemption obligation of the redeemable convertible preference shares which would otherwise mature on 27 July 2011.

(b) Convertible bonds issued with derivative component

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 or the volume-weighted average price of the ordinary shares of the Company for the twenty trading days (the “Share Price”) is ever at or below HK\$0.30 (the “Threshold”), the Company will be required to redeem the principal of CB3 at 100% of their face value on the demand of the holder(s) of the CB3. Summaries are disclosed in the Company’s circular dated 30 April 2008 and details are contained in the Instrument of the CB3 issued by the Company on 1 June 2008. Since the Share Price triggered the Threshold HK\$0.30, the holder of the CB3 has the right to ask the Company to redeem the CB3 on demand, and relevant disclosure was made in the Company’s announcement dated 31 March 2009. Accordingly, CB3 had been reclassified to current liabilities.

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 movement of the liability and derivative components of CB3 during the period/year is set out below:

	At 30 September 2009 (Unaudited) HK\$’000	At 31 March 2009 (Audited) HK\$’000
Liability component		
At beginning of the period/date of issue	10,416	7,817
Interest charged for the period/year	1,895	2,599
At end of the period/year	<u>12,311</u>	<u>10,416</u>
Derivative component		
At beginning of the period/date of issue	5,220	12,183
Fair value loss/(gain)	4,420	(6,963)
At end of the period/year	<u>9,640</u>	<u>5,220</u>

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 31 March 2009 and 30 September 2009 based on valuations by independent valuers, determined using option pricing models. The significant inputs to the models were as follows:

	30 September 2009	31 March 2009
Share price of underlying shares	HK\$0.385	HK\$0.20
Exercise price	HK\$1.16	HK\$1.16
Expected volatility	137.64%	112.41%
Expected life	1.66 years	2.17 years
Risk-free rate	0.907%	1.40%
Expected dividend yield	<u>Nil</u>	<u>Nil</u>

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.

As mentioned in Note 12 above, the Group was unable to redeem CB1 which had been matured on 18 May 2009, the Company was in breach of the special event and may trigger the Company's potential early redemption obligation of the PS. Accordingly, the PS had been reclassified to current liabilities.

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

	At 30 September 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Liability component		
At beginning of the period/year	100,860	90,607
Interest charged for the period/year	5,562	10,253
At end of the period/year	<u>106,422</u>	<u>100,860</u>
Derivative component		
At beginning of the period/year	25,110	48,559
Fair value loss/(gain)	6,588	(23,449)
At end of the period/year	<u>31,698</u>	<u>25,110</u>

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 2009 and 30 September 2009 based on valuations by independent valuers, determined using option pricing models. The significant inputs to the models were as follows:

	At 30 September 2009	At 31 March 2009
Share price of underlying shares	HK\$0.385	HK\$0.20
Exercise price	HK\$1.16	HK\$1.16
Expected volatility	137.64%	145.17%
Expected life	1.82 years	2.33 years
Risk-free rate	1.011%	1.46%
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 2009 and 30 September 2009	<u>5,000,000,000</u>	<u>500,000</u>
Redeemable convertible cumulative preference shares of US\$0.01 each, at 31 March 2009 and 30 September 2009	<u>15,000</u>	<u>1</u>
Issued and fully paid:		
Ordinary shares of HK\$0.1 each, at 31 March 2009 and 30 September 2009	<u>234,367,577</u>	<u>23,437</u>

15. EVENTS AFTER THE BALANCE SHEET DATE

On 17 December 2009, China Healthcare Services Limited (the “Assignor”), being an indirectly owned subsidiary of the Company, and Newrank Limited (the “Assignee”), being an independent third party, entered into an agreement, pursuant to which the Assignor has agreed to assign a loan of RMB17.5 million due from Beijing Universal Medical Assistance Co. Ltd., being a non wholly-owned subsidiary of the Company, to the Assignee for a total cash consideration of RMB17.5 million. Details of the transaction had been set out in an announcement of the Company dated 17 December 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results and Dividends

During the six months ended 30 September 2009, the revenue of the Group was HK\$1,388 million, representing a decrease of 11% as compared to HK\$1,562 million for the previous period and a net loss attributable to shareholders of HK\$28.6 million (2008: HK\$5.8 million). The basic loss per share for the period was HK12.2 cents (2008: HK2.47 cents).

The Directors do not recommend the payment of any interim dividend to the shareholders (2008: Nil).

BUSINESS OPERATION

During the past financial year, the Group continued to be principally engaged in provision of consumer and healthcare services and made steady progress in its business operations that enable the procurement of better access, better communication and better connectivity in China.

China has continued to undergo mega growth of underlying consumption demands arising from China's on-going grand-scale urbanization, rising per capita income, increasing mobility and travel flows, and ageing demographics. However, the Group's ongoing operations and their growth have been adversely affected and severely constrained by the Group's financial distress.

Review of the Group's financial distress

Due to the impact of global financial tsunami during the past financial year, the Group's listing entity China HealthCare Holdings Ltd. ("CHC" or "HoldCo"), as the Group's ultimate holding company, has been in default to its obligations to repay two convertible bonds (the "CB") of outstanding principals of about US\$5.5 million and HK\$20 million respectively as of the date. External resources are indispensable to have HoldCo's financial distress resolved and its capital structure rationalized, and the directors have doing their best to continue working on a potential restructuring of its capital structure with relevant stakeholder to bring in external resources to solve its solvency problem. However, no fruition yet so far.

Facing the financial distress above, the directors have made hard choices to implement all necessary cost-cutting measures across all aspects of HoldCo, including without limitation, reduction of the size and operation cost of its non-revenue generating component. As the Group's operations are service oriented and human capital heavy, directors are making every best effort in alleviating the ongoing negative impacts of the financial distress and sustaining the underlying operations.

Review of the Group's underlying operations

The operation's business model in B-to-C consumer services continued to be oriented around scale; growth; cash flow and POS terminals and outlets of distribution and secured settlement, and distribution of mobile top-up in Shanghai continued to be the dominant revenue component. The operation remains the #1 distributor of mobile prepaid cards in Shanghai and continues to maintain an estimated 24% market share for China Mobile top-up cards in Shanghai. However, it has suffered substantial net margin reduction due to China Mobile Shanghai's downward adjustment of more than 20% on distribution margin.

The operation has been implementing a strategic growth initiative which entails expansion of geography; products and channels, i.e. expanding into viable coastal regions beyond Shanghai in geography; viable payments and transaction processing services beyond mobile top-up in products; and viable channels beyond existing ones in Shanghai to increase economy of scale, and the operation has taken steps to remove constraints in human resources in aspects of marketing; technology and channel management. Such an initiative should generate significant long term value, but its medium term adverse financial impacts would have to be borne due to its developing nature.

Directors would like to report that the operation of the Group's B-to-C consumer services business had a decrease of more than 11% in terms of overall revenues as compared with the same period in 2008.

The operation's business model in B-to-B healthcare services continues to focus on scale; growth; standardization and cash flow; and is built around nationwide hospital access; prepaid revenue based on head-counts; and channel based distribution. The intra-China travel related medical assistance remains a prime focus of the operation.

The operation continued to grow its customer-base with a core component of prepaid members for emergency medical assistance access and accumulate an expanding capacity of handling growing number of emergency medical assistance cases. However, the operation and its growth in a competitive market environment have been negatively affected and severely constrained due to its lack of financial resources and the very fact that its controlling shareholder HoldCo is insolvent.

Directors would like to report that the operation of the Group's B-to-B healthcare services business was about flat in terms of revenues as compared with the same period in 2008.

Liquidity and Financial Resources

As at 30 September 2009, the total assets of the Group is approximately HK\$307.5 million and net current liabilities of approximately HK\$19.1 million, representing a current ratio of 0.93 (31 March 2009: 1.06). At the balance sheet date, the total borrowings of the Group amounted to HK\$179 million, represented by convertible bonds, redeemable convertible cumulative preference shares and interest-bearing bank and other borrowings. The gearing ratio of the Group as at 30 September 2009 is (2.49) (31 March 2009: (3.55)), which was calculated on an amount of total equity of HK\$(71,816,000) (31 March 2009: HK\$(43,383,000)).

Contingent Liabilities

As at 30 September 2009, there was no contingent liability of the Group.

Charge on Group's assets

As at 30 September 2009, there was no charge on the Group's assets.

Human Resources

As at 30 September 2009, the Group employed 148 (31 March 2009: 128) employees.

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 2009, 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 2009.

On behalf of the Board

Zhou Bao Yi

Executive Director

Hong Kong, 29 December 2009

As at the date of this announcement, the board of directors of the Company comprises two executive directors, namely Dr. Li Zhong Yuan and Mr. Zhou Bao Yi; one non-executive director, namely Mr. Martin Treffer; and three independent non-executive directors, namely Dr. Mu Xiangming, Mr. Jiang Bo and Dr. Yan Shi Yun.