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 2010

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 2010. These interim financial statements have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

		Six months ended 30 September	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited) (Restated)
Revenue		**1,442,154**	1,387,820
Cost of sales		**(1,423,245)**	(1,375,632)
Gross profit		**18,909**	12,188
Other income		**894**	1,431
Distribution expenses		**(7,589)**	(5,134)
Administrative expenses		**(22,895)**	(16,702)
Other operating expenses		**(145)**	–
Fair value loss on derivative component of redeemable convertible cumulative preference shares		**(28,282)**	(6,588)
Fair value loss on derivative component of convertible bonds		**(1,583)**	(4,420)
Finance costs	*5*	**(46,922)**	(7,785)
Loss before tax		**(87,613)**	(27,010)
Income tax expense	*6*	**(1,677)**	(157)

* *For identification purpose only*

	Notes	Six months ended 30 September 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited) (Restated)
Loss for the period	*7*	**(89,290)**	(27,167)
Other comprehensive (expense) income			
Exchange differences arising on translation		**(3,298)**	192
Total comprehensive expenses for the period		**(92,588)**	(26,975)
Loss for the period attributable to:			
– Owners of the Company		**(85,850)**	(21,901)
– Non-controlling interests		**(3,440)**	(5,266)
		(89,290)	(27,167)
Total comprehensive expenses attributable to:			
– Owners of the Company		**(89,850)**	(21,709)
– Non-controlling interests		**(2,738)**	(5,266)
		(92,588)	(26,975)
Basic and diluted loss per share (HK$)	*9*	**(0.29)**	(0.09)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2010

	Notes	30 September 2010 HK$'000 (Unaudited)	31 March 2010 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**8,624**	8,482
Goodwill		**32,582**	32,582
Other intangible assets		**1,747**	2,012
Prepayment for acquisition of non-current assets		**–**	–
		42,953	43,076
Current assets			
Inventories		**50,672**	22,724
Trade receivables	*10*	**53,979**	38,602
Prepayments, deposits and other receivables		**24,772**	16,355
Loan receivables		**–**	–
Restricted bank balances		**90,229**	153,894
Bank balances and cash		**79,839**	20,241
		299,491	251,816

	Notes	**30 September 2010** *HK$'000* **(Unaudited)**	31 March 2010 *HK$'000* (Audited)
Current liabilities			
Trade payables	*11*	**2,643**	2,070
Other payables and accrued expenses		**66,145**	33,361
Amounts due to directors		**726**	5,188
Derivative component of convertible bonds	*12*	**2,541**	6,046
Derivative component of redeemable convertible cumulative preference shares	*13*	**34,521**	6,239
Liability component of convertible bonds	*12*	**49,609**	52,147
Liability component of redeemable convertible cumulative preference shares	*13*	**220,434**	176,820
Secured bank loans		**–**	34,200
Income tax payables		**222**	216
		376,841	316,287
Net current liabilities		**(77,350)**	(64,471)
Total assets less current liabilities		**(34,397)**	(21,395)
Non-current liability			
Deferred tax liabilities		**423**	423
Net liabilities		**(34,820)**	(21,818)
Capital and reserves			
Share capital	*14*	**39,514**	26,202
Reserves		**(162,537)**	(138,961)
Equity attributable to owners of the Company		**(123,023)**	(112,759)
Non-controlling interests		**88,203**	90,941
		(34,820)	(21,818)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the interim report. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is different from the functional currency of the Company, Renminbi ("RMB"). As the Company is listed in Hong Kong, the directors of the Company consider that it is appropriate to present the condensed consolidated financial statements in HK$. The majority of the Company's subsidiaries are operating in the People's Republic of China (the "PRC") with RMB as their functional currency.

During the year ended 31 March 2010, an error was discovered whereby a dividend in relation to convertible preference shares of a subsidiary of the Company accrued in 2009 did not meet the definition of liability under HKFRS. This resulted in an understatement of profit for the year ended 31 March 2009 and an overstatement of loss for the six months ended 30 September 2009 of approximately HK$6,531,000 and HK$6,724,000 respectively. This error was corrected in the year ended 31 March 2010 and the 2009 comparative figures were retrospectively adjusted. As a result of correcting this error, the finance cost for the six months ended 30 September 2009 have decreased by approximately HK$6,724,000, the accumulative losses as at 31 March 2009 and 30 September 2009 have decreased by approximately HK$6,531,000 and HK$13,255,000 respectively and the loss per share for the six months ended 30 September 2009 has decreased by HK$0.03.

2. BASIS OF PREPARATION

The condensed consolidated 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 ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs").

3. SIGNIFICANT ACCOUNTING POLICIES

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

Except as described below, the accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2010.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Classification of Right Issues
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
Hong Kong (International Financial Reporting Interpretations Committee ("HK(IFRIC)") – Interpretation ("Int") 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 April 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 April 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[5]
Additions to HKFRS 9	Financial Instruments – Financial Liabilities[5]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]
HK Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment or Demand Clause[6]

[1] Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 January 2011.
[4] Effective for annual periods beginning on or after 1 July 2011.
[5] Effective for annual periods beginning on or after 1 January 2013.
[6] Effective immediate upon issue on 29 November 2010.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment are as follows:

– Sales of medical devices and consumables

– B-to-B healthcare services

– B-to-C consumer services

– Investment holding

The following is an analysis of the Group's revenue and results by operating segment.

Six months ended 30 September 2010

	Sales of medical devices and consumables HK$'000 (Unaudited)	B-to-B healthcare services HK$'000 (Unaudited)	B-to-C consumer services HK$'000 (Unaudited)	Investment holding HK$'000 (Unaudited)	Consolidated HK$'000 (Unaudited)
REVENUE					
External sales	**8,314**	**4,620**	**1,429,220**	**–**	**1,442,154**
Segment results	**(295)**	**44**	**(2,479)**	**–**	**(2,730)**
Unallocated corporate expenses					**(8,990)**
Other income					**416**
Interest income					**478**
Fair value loss on derivative component of convertible bonds					**(1,583)**
Fair value loss on derivative component of redeemable convertible cumulative preference shares					**(28,282)**
Finance costs					**(46,922)**
Loss before tax					**(87,613)**

Six months ended 30 September 2009

	Sales of medical devices and consumables HK$'000 (Unaudited)	B-to-B healthcare services HK$'000 (Unaudited)	B-to-C consumer services HK$'000 (Unaudited)	Investment holding HK$'000 (Unaudited)	Consolidated HK$'000 (Unaudited) (Restated)
REVENUE					
External sales	5,740	3,214	1,378,866	–	1,387,820
Segment results	(191)	(1,770)	(931)	–	(2,892)
Unallocated corporate expenses					(6,756)
Other income					944
Interest income					487
Fair value loss on derivative component of convertible bonds					(4,420)
Fair value loss on derivative component of redeemable convertible cumulative preference shares					(6,588)
Finance costs					(7,785)
Loss before tax					(27,010)

Segment results represents the results of each segment without allocation of central administration costs, directors emoluments, other income, interest income, fair value loss on derivative component of convertible bonds, fair value loss on derivative component of redeemable convertible cumulative preference shares. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets

The following is an analysis of the Group's assets by operating segment:

At 30 September 2010

	Sales of medical devices and consumables	**B-to-B healthcare services**	**B-to-C consumer services**	**Investment holding**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
ASSETS					
Segment assets	**10,038**	**25,776**	**207,148**	**–**	**242,962**
Unallocated corporate assets					**99,482**
Consolidated assets					**342,444**

At 31 March 2010

	Sales of medical devices and consumables	B-to-B healthcare services	B-to-C consumer services	Investment holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
ASSETS					
Segment assets	8,802	37,420	217,149	–	263,371
Unallocated corporate assets					31,521
Consolidated assets					294,892

For the purpose of monitoring segment performances and allocating resources between segments, all assets are allocated to operating segments other than bank balances and cash and other corporate assets.

5. FINANCE COSTS

	Six months ended 30 September	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Restated)
Interests on bank loans wholly repayable within five years	**393**	37
Effective interest expenses on convertible bonds wholly repayable within five years	**2,841**	2,186
Effective interest expenses on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	**43,688**	5,562
	46,922	7,785

6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax – PRC	**1,677**	157

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009.

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

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC reduced from 33% to 25% from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC ranged from 18% to 25% for the six months ended 30 September 2010 and 2009.

The PRC Enterprise Income Tax rate of the Group's subsidiaries in the PRC was increased from 15% to 25% progressively from 1 January 2008 onwards (2008: 18%, 2009: 20%, 2010: 22%, 2011: 24%, 2012: 25%).

7. LOSS FOR THE PERIOD

	Six months ended 30 September	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period had been arrived at after charging (crediting):		
Amortisation of other intangible assets included in administrative expenses	**286**	114
Auditor's remuneration	**131**	30
Depreciation	**1,550**	2,004
Loss on disposal of/written off of property, plant and equipment	**27**	–
Interest income	**(478)**	(487)
Gain on disposal on financial assets at fair value through profit or loss	**–**	(108)

8. DIVIDENDS

No dividend were paid, declared or proposed during the reporting period. The directors of the Company do not recommend the payment of an interim dividend for both periods.

9. LOSS PER SHARE

(a) Basic

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

	Six months ended 30 September	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited) (Restated)
Loss for the period attributable to the owners of the Company	**(85,850)**	(21,901)

	2010	2009
Weighted average number of ordinary shares	**301,202,079**	234,367,577

(b) Diluted

Diluted loss per share was the same as the basic loss per share as there were no dilutive effect from the assumed conversion of the Company's outstanding convertible bonds, redeemable convertible cumulative preference shares and share option since their exercise would result in decrease in loss per share for the six months ended 30 September 2010 and 2009.

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.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	30 September 2010	31 March 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**44,886**	34,406
31 to 60 days	**1,880**	515
61 to 90 days	**163**	929
91 to 120 days	**434**	546
Over 120 days	**6,616**	2,206
Total	**53,979**	38,602

11. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the date of receipt of goods at the end of the reporting period.

	30 September 2010	31 March 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**406**	1,189
31 to 60 days	**175**	240
61 to 90 days	**24**	64
91 to 120 days	**142**	174
Over 120 days	**1,896**	403
Total	**2,643**	2,070

12. CONVERTIBLE BONDS AND NOTES

	30 September 2010	31 March 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Liability component		
Unsubordinated convertible bonds		
Convertible bonds issued with equity component *(Note a)*	**45,003**	44,320
Convertible bonds issued with derivative component *(Note b)*	**4,606**	7,827
	49,609	52,147
Derivative component		
Unsubordinated convertible bonds		
Convertible bonds issued with derivative component *(Note b)*	**2,541**	6,046

The liability component of the convertible bonds is repayable on demand.

Notes:

(a) Unsubordinated 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. 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 component and an equity component. The movement of the liability component is as follows:

	30 September 2010	31 March 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Carrying amount at the beginning of the period/year	**44,320**	42,943
Interest charged for the period/year	**683**	1,377
Carrying amount at the end of the period/year	**45,003**	44,320

The effective interest rate of the liability component of CB1 is 5.135% per annum.

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 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 had triggered the Company's early redemption obligation of the convertible bonds and the redeemable convertible cumulative preference shares. Subsequent to the CB1 maturity date, the Company reached an understanding with the major holder of CB1 to conditionally postpone the payment by the Company of the outstanding debts of CB1 for three years if the Group can fulfill the conditions requested by the major holder of CB1, which is a successful injection of substantial external resources into the Group, in short.

(b) Unsubordinated 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 carries interests at 2% per annum, subject to adjustment to 5% per annum on certain default events, 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, 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 per share. The conversion price was adjusted to HK$0.3201 per share (subject to adjustment) due to the subscription of the SCN1 in April 2010 (see 12(c)) and new ordinary shares of the Company were issued at HK$0.3201 per share in May 2010; and

(ii) 0.9 times 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 in the year ended 31 March 2009, 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 since year ended 31 March 2009.

The fair value of the derivative component, representing the conversion right entitled to the holders of CB3, was estimated at the issuance and the end of each reporting period using Binomial Model and the change in fair value of that component is recognised in profit or loss.

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

	30 September 2010 *HK$'000* **(Unaudited)**	31 March 2010 *HK$'000* (Audited)
Liability component		
At the beginning of the period/year	**7,827**	10,416
Interest charged for the period/year	**2,158**	3,895
Conversion during the period/year (Note)	**(5,379)**	(6,484)
At the end of the period/year	**4,606**	7,827

	30 September 2010 *HK$'000* **(Unaudited)**	31 March 2010 *HK$'000* (Audited)
Derivative component		
At the beginning of the period/year	**6,046**	5,220
Fair value loss	**1,583**	6,040
Conversion during the period/year	**(5,088)**	(5,214)
At the end of the period/year	**2,541**	6,046

Note: The holders of CB3 have exercised the conversion right to convert the convertible bonds into ordinary shares in four conversions in March 2010 and the principal amount after the conversion is approximately HK$10,381,000 after that. During the interim period, the holders of CB3 further exercised the conversion right to convert the convertible bonds into new ordinary shares in August 2010 and the remaining principal amount after such conversion is approximately HK$3,371,000 as of 30 September 2010. As the directors of the Company consider the fluctuation of the market share price of the shares of the Company during March 2010 and August 2010 is immaterial, therefore, valuations dated on 28 February 2010 and 31 August 2010 were adopted as basis for the purpose of calculating the conversion of ordinary shares. The fair value of the derivative component at 28 February 2010 and 31 August 2010 was revalued based on the valuations by Avista Valuation Advisory Limited, an independent qualified valuer not connected to the Group.

The effective interest rate of the liability component of CB3 is 41.025% per annum for the period ended 30 September 2010 and year ended 31 March 2010.

The derivative component of CB3 was revalued at 30 September 2010 and 31 March 2010 based on valuations by Avista Valuation Advisory Limited, independent qualified valuers not connected to the Group, determined using Binomial Model. The significant inputs to the models were as follows:

	30 September 2010	31 August 2010	31 March 2010	28 February 2010
Share price of underlying shares	**HK$0.85**	HK$0.85	HK$0.41	HK$0.046
Exercise price	**HK$0.3201**	HK$0.3201	HK$0.35	HK$0.41
Expected volatility	**67.7%**	72.4%	108.20%	118.6%
Expected life	**0.67 year**	0.75 year	1.17 years	1.25 years
Risk-free rate	**0.293%**	0.240%	0.302%	0.312%
Expected dividend yield	**Nil**	Nil	Nil	Nil

(c) Subordinated convertible notes issued with wholly equity component

Note (i)

On 5 April 2010, the Company issued subordinated convertible notes with a nominal value of RMB13,275,000 (equivalent to HK$15,000,000) due on 4 April 2011 ("SCN1"). SCN1 carries zero coupon rate. SCN1 entitles the holder to convert the notes into 46,860,356 new ordinary shares of the Company which fixed the conversion price at RMB0.2832885 (equivalent to HK$0.3201) per share during the period before the maturity date. In addition, if SCN1 remain outstanding on the maturity date, the Company will be able to redeem the principal amount of SCN1 at 100% by issuance of new ordinary shares of the Company at RMB0.2832885 per share.

SCN1 was classified as equity and recorded in the convertible bonds reserve. SCN1 ranked subordinated to existing convertible bonds.

During the interim period, the holders of SCN1 have exercised the conversion right to convert the convertible notes into new ordinary shares and the remaining principal amount after the conversion is RMB159,300 as of 30 September 2010.

Note (ii)

On 5 April 2010, the Company entered into a subscription agreement with subscribers to issue subordinated convertible notes with a nominal value of RMB44,250,000 (equivalent to HK$50,000,000) due on one year after the date of issuance ("SCN2"). SCN2 carries zero coupon rate. SCN2 entitles the holder to convert the notes into 156,201,187 new ordinary shares of the Company, which fixed the conversion price of RMB0.2832885 (equivalent to HK$0.3201) per share within one year after the date of issuance. In addition, if SCN2 remain outstanding on the maturity date, the Company will be able to redeem the principal amount of SCN2 at 100% by issuance of new ordinary shares of the Company at RMB0.2832885 per share. The subscribers subscribed for the SCN2 in the total amount of RMB44,250,000 in aggregate during the interim period.

SCN2 was classified as equity and recorded in the convertible bonds reserve. SCN2 ranked subordinated to existing convertible bonds.

The holders of SCN2 have exercised the conversion right to convert the convertible notes in principal amount of RMB17,700,000 into new ordinary shares of the Company during the interim period and the principal amount after the conversion is RMB26,550,000 as of 30 September 2010.

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 for a total cash consideration of US$15,000,000 (equivalent to HK$117,000,000) ("PS"). The PS carries dividend at 2% per annum, subject to adjustment to 5% per annum 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 per share. The conversion price was adjusted to HK$0.3201 per share (subject to adjustment) due to the subscription of the SCN1 in April 2010 (see 12(c)) and new ordinary shares of the Company were issued at HK$0.3201 per share in May 2010; and

(b) 0.9 times 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 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.

Special events included:

(i) any consolidation, amalgamation or merger of the Company with any other corporation which results in the Company ceasing to exist as an independent legal entity or any sale of all or substantially all of the assets of the Company or any reorganisation or any other transaction where there is or which will result in a change in control (as defined in the Takeovers Code) of the control of the Company;

(ii) material default by the Company or any of its subsidiaries in the performance, observance or fulfilment of any of the obligations, covenants or conditions contained in any material agreement or instrument to which any of them is a party and, if such default is capable of being remedied, fails to remedy such default within 10 days of being required in writing to do so by any of the holder to the preference shares ("Preference Shareholders");

(iii) the persons who are directors on the issue date or persons appointed to act as directors in their stead (the "Replacement Directors"), with the approval of all of the other persons who are acting as directors at the time of appointment of the Replacement Directors, cease to represent a majority in number of the persons acting as directors at the relevant time;

(iv) the acceleration of the maturity of any other present or future indebtedness of the Company or any of its subsidiaries exceeding US$1,500,000 in aggregate principal amount outstanding (or its equivalent in any other currency) by reason of an event of default (as described and specified therein) or any such indebtedness exceeding US$1,500,000 (or its equivalent in any other currency) is not paid within any applicable grace period provided for or, if none, on the due date therefore;

(v) a Directors' resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a material part of its business or assets;

(vi) an effective resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a material part of its business or assets; a petition is presented or a proceeding is commenced for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or a substantial part of its business or assets and is not discharged within 5 days; if the Company stops or suspends payments to its creditors generally or is unable to admits its inability to pay its debts as they fall due or seeks to enter into any composition or other arrangement with its creditors or is declared or becomes bankrupt or insolvent; or if a creditor takes possession of all or a material part of the business or assets of the Company or any execution or other legal process is enforced against the business or any substantial asset of the Company and is not discharged within 5 days;

(vii) the listing or trading of the ordinary share on the Stock Exchange (or any stock exchange other than the Hong Kong Stock Exchange on which the ordinary shares, if not then listed on the Hong Kong Stock Exchange, are listed, (the "Alternative Stock Exchange"), as the case may be) is revoked, withdrawn or suspended for a continuous period of 15 trading days;

(viii) material breach by the Company of any of its representations, warranties, covenants or undertakings in the agreement and, if such breach is capable of being remedied, fails to remedy such breach within 10 days of being required in writing to do so by any of the Preference Shareholders;

(ix) material breach by the Company of any of the covenants or undertakings as set forth in Bye-law 9A(12) and, if such breach is capable of being remedied, fails to remedy such breach within 10 days of being required in writing to do so by any of the Preference Shareholders; or

(x) the auditors of the Company issue a qualified opinion in respect of any audit report of the Company.

As mentioned in note 12(a) 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 as mentioned in note (ii) above. The Company also breached the special event in note (x) above as the auditor's opinion of the Group was disclaimed for the year ended 31 March 2009. It triggered the Company's early redemption obligation of the PS. Accordingly, the PS had been reclassified to current liabilities since the year ended 31 March 2009.

The fair value of the derivative component, representing the conversion right entitled to the holders of PS, was estimated at the issuance and the end of each reporting period using Binomial Model and the change in fair value of that component is recognised in profit or loss.

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

	30 September 2010	31 March 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Liability component		
At the beginning of the period/year	**176,820**	100,860
Exchange realignment	**(74)**	(199)
Interest charged for the period/year	**43,688**	57,965
Loss on recalculation of liability component of redeemable convertible cumulative preference shares	**–**	18,194
At the end of the period/year	**220,434**	176,820

	30 September 2010	31 March 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Derivative component		
At the beginning of the period/year	**6,239**	25,110
Fair value loss (gain)	**28,282**	(18,871)
At the end of the period/year	**34,521**	6,239

On 18 May 2009, due to the Group's default in the redemption on the CB1, the Company's early redemption obligation of PS was triggered. Details are set out in note 12. The liability component included the early redemption obligation at that day is approximately HK$114,218,000 with effective interest rate of 60% per annum.

As at 30 September 2010, the effective interest rate of the liability component of PS is 60% per annum for the six months ended 30 September 2010 and year ended 31 March 2010.

The derivative component of PS were revalued at 30 September 2010 and 31 March 2010 based on valuations by Avista Valuation Advisory Limited, independent qualified valuers not connected to the Group, determined using Binomial Model. The significant inputs to the model were as follows:

	30 September 2010	31 March 2010
Share price of underlying shares	**HK$0.85**	HK$0.41
Exercise price	**HK$0.3201**	HK$0.35
Expected volatility	**67.1%**	114.80%
Expected life	**0.82 year**	1.33 years
Risk-free rate	**0.255%**	0.383%
Expected dividend yield	**Nil**	Nil

14. SHARE CAPITAL

	Number of shares	**Share capital** *HK$'000*
Authorised:		
At 1 April 2009, 30 September 2009, 31 March 2010, 1 April 2010 and 30 September 2010		
Ordinary shares of HK$0.1 each	5,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 April 2009 and 30 September 2009	234,367,577	23,437
Issue of new shares through conversion of convertible bonds *(Note a)*	27,654,000	2,765
At 31 March 2010 and 1 April 2010	262,021,577	26,202
Issue of new shares through conversion of convertible bonds *(Note b)*	130,678,501	13,068
Exercise of share options *(Note c)*	2,442,000	244
At 30 September 2010	395,142,078	39,514

Note a:

In March 2010, the holders of CB3 converted HK$9,618,660 convertible bonds into 27,654,000 ordinary shares of HK$0.1 each in the Company.

Note b:

During the period ended 30 September 2010, the holders of CB3, SCN1 and SCN2 converted HK$41,830,195 convertible bonds into 130,678,501 ordinary shares of HK$0.1 each in the Company. The details of conversion are as follow:

Conversion period	No. of ordinary shares of HK$0.1 each	Price per share *HK$*	Conversion principal amount *HK$*
CB3			
August 2010	21,900,000	0.3201	7,010,190
SCN1			
May-September 2010	46,298,027	0.3201	14,820,005
SCN2			
August 2010	62,480,474	0.3201	20,000,000
Total	130,678,501		41,830,195

Note c:

In September 2010, 1,221,000 share options were exercised and converted into 2,442,000 ordinary shares of HK$0.1 each in the Company.

All the shares issued rank pari passu in all respect with the existing shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results and Dividends

During the six months ended 30 September 2010, the revenue of the Group was HK$1,442 million, representing an increase of 4% as compared to HK$1,388 million for the previous period and a net loss attributable to shareholders of HK$85.9 million (2009: HK$21.9 million (restated)). The basic loss per share for the period was HK28.5 cents (2009: 9.3 cents (restated)).

The Directors do not recommend the payment of any interim dividend to the shareholders (2009: Nil).

BUSINESS OPERATION

During the past interim period, the Group's business operation continued to be principally engaged in provision of consumer oriented services that enable the procurement of better access, better communication and better connectivity in China.

China is undergoing 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. The Group's operation continues to embrace such mega trend in China.

Review of the Group's business operation

Almost all of the Group's revenue comes from its B-to-C consumer services operation. The operation's business model is oriented around scale; growth; cash flow and outlets of distribution and settlement. The operation remains the #1 distributor of mobile prepaid cards in Shanghai with POS terminals onto distribution outlets (convenience stores and others) in Shanghai – a comprehensive network there. The B-to-C consumer services operation has been implementing a strategic growth initiative for expansion of geography; products and channels, and in particular, to position the business operation to move into payments sector.

In expanding geography and channels, the operation has established its subsidiary in Shandong, the 2nd largest province in terms of GDP in China; in expanding products into payments sector, the operation continued to upgrade its IT platform to connect with China UnionPay and enable its POS payment terminals into public channels (such as convenience stores and pharmacies etc.) and households to process various payments including credit card bills etc.. Such an initiative expects to 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 overall services business has had an increase of about 4% in terms of overall revenues as compared with the same period in 2009.

Review of the Group's financial distress

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 a convertible bond (the "CB") of outstanding principal of about US$5.5 million as of the end of the interim period, and due to cross default, the redeemable convertible preference shares of outstanding principal US$15 million has also become redeemable on demand.

Having experimented with various ways and means to find a solution to the HoldCo's solvency problem, the directors consider that a solution would necessarily require injection of substantial external resources, and the directors are pleased to report that as announced on Oct 13, 2010, during the interim period the Group entered into the agreement with the Procurer Mascot Land Limited; the Corporate Guarantors China Zhongfu; Shanghai Zhongfu; Anhui Anhe, being shareholders with 100% ownership of Shanghai FuShouYuan Industry Development Co., Ltd. ("Shanghai FSY") and the Management Guarantors consisting of Shanghai FSY's lead managers, to acquire an asset package with 100% equity interest of Shanghai FSY as its core component (the "Target") for a total consideration of HK$3,360 million consisting of: 1) HK$44 million in cash; and 2) HK$3,316 million by the issue of convertible notes with an initial conversion price of HK$0.40 per share.

Given the growing trend of unprecedented urbanization, aging population and escalating mortality and the continuously rapid economic growth in China, the Directors believe that the demand for high quality funeral services in China is fast increasing and the growth potential of funeral industry in China is immense. Furthermore, in view of the industry leadership status, the strong financial performance, the high growth potential and prospects of the Target, the acquisition of the Target shall significantly broaden the income source of the Group and provide a solution to the Group's insolvency problem and substantially improve the financial position of the Group.

Liquidity and Financial Resources

As at 30 September 2010, the total assets of the Group is approximately HK$342.4 million and net current liabilities of approximately HK$77.4 million, representing a current ratio of 0.79 (31 March 2010: 0.80). At the balance sheet date, the total borrowings of the Group amounted to HK$270 million (31 March 2010: HK$263 million), represented by convertible bonds, redeemable convertible cumulative preference shares and secured bank loans. The gearing ratio of the Group as at 30 September 2010 is (2.20) (31 March 2010: (2.33)), which was calculated on an amount of total equity of HK$(123,023,000) (31 March 2010: HK$(112,759,000)).

Contingent Liabilities

As at 30 September 2010, there was no contingent liability of the Group.

Charge on Group's assets

As at 30 September 2010, there was no charge on the Group's assets.

Human Resources

As at 30 September 2010, the Group employed 175 (31 March 2010: 160) 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 2010, 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 2010.

On behalf of the Board
Zhou Bao Yi
Executive Director

Hong Kong, 29 November 2010

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.