



2010

Third Quarterly Report



CHINA PUBLIC HEALTHCARE (HOLDING) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8116)

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This report, for which the directors of China Public Healthcare (Holding) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHT

- Recorded an unaudited turnover of approximately HK\$305 million for the nine months ended 30 September 2010;
- An unaudited profit attributable to the owners of the Company of approximately HK\$137 million, for the nine months ended 30 September 2010;
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2010.

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 30 September 2010, together with the unaudited comparative figures for the corresponding period in 2009, are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2010

	NOTES	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Continuing Operations					
Turnover	2	25,717	–	304,777	–
Cost of sales and services		(1,621)	–	(103,960)	–
Gross profit		24,096	–	200,817	–
Other income	2	68	39	2,980	505
Distribution expenses		(5,625)	(861)	(8,890)	(2,364)
Administrative expenses		(12,143)	(12,499)	(62,514)	(23,579)
Realised (loss)/gain on disposal of financial assets held for trading		(1,019)	524	(5,121)	(825)
Unrealised gain on financial assets held for trading		762	3,459	4,656	5,404
Gain on disposal of JV company		15,565	–	15,565	–
Profit/(loss) from operations		21,704	(9,338)	147,493	(20,859)
Finance costs		(1,605)	(1,816)	(5,110)	(7,813)
Profit/(loss) before tax		20,099	(11,154)	142,383	(28,672)
Income tax expenses	3	(1)	–	(6)	–
Profit/(loss) for the period from continuing operations		20,098	(11,154)	142,377	(28,672)
Discontinued operations					
(Loss)/profit for the period from discontinued operations		(6,969)	10,338	(7,504)	11,528
Profit/(loss) for the period		13,129	(816)	134,873	(17,144)
Other comprehensive income:					
Exchange differences on translation of financial statements of foreign operations		1,031	72	3,000	236
Other comprehensive income for the period, net of tax		1,031	72	3,000	236
Total comprehensive income/(expenses) for the period		14,160	(744)	137,873	(16,908)

	NOTES	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) attributable to:					
Owners of the Company		13,867	(816)	137,335	(17,144)
Non-controlling interests		(738)	—	(2,462)	—
		<u>13,129</u>	<u>(816)</u>	<u>134,873</u>	<u>(17,144)</u>
Total comprehensive income/ (expenses) attributable to:					
Owner of the Company		14,898	(744)	140,335	(16,908)
Non-controlling interests		(738)	—	(2,462)	—
		<u>14,160</u>	<u>744</u>	<u>137,873</u>	<u>(16,908)</u>
Earning/(loss) per share	4				
From continuing and discontinued operations:					
– Basic (HK cents per share)		<u>0.12</u>	<u>(0.02)</u>	<u>1.24</u>	<u>(0.42)</u>
– Diluted (HK cents per share)		<u>0.15</u>	<u>N/A</u>	<u>0.91</u>	<u>N/A</u>
From continuing operations:					
– Basic (HK cents per share)		<u>0.18</u>	<u>(0.27)</u>	<u>1.31</u>	<u>(0.71)</u>
– Diluted (HK cents per share)		<u>0.19</u>	<u>N/A</u>	<u>0.96</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2010 (Unaudited)

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000 (Note (ii))	General reserve HK\$'000 (Note (i))	Convertible bonds equity reserve HK\$'000	Share-based compensation reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Attributable to owners of the Company HK\$'000	Non-controlling interest HK\$'000	Total HK\$'000
Nine months ended 30 September 2009											
At 1 January 2009	11,682	212,802	(46,815)	1,852	-	30,082	5,813	(9,253)	206,163	-	206,163
Issuing convertible bonds	-	-	-	-	52,898	-	-	-	52,898	-	52,898
Conversion of convertible bonds	58,360	177,344	-	-	(26,556)	-	-	-	209,148	-	209,148
Total comprehensive income attributable to shareholder	-	-	-	1,942	-	-	236	(19,086)	(16,908)	-	(16,908)
At 30 September 2009	70,042	390,146	(46,815)	3,794	26,342	30,082	6,049	(28,339)	451,301	-	451,301
Nine months ended 30 September 2010											
At 1 January 2010	107,384	966,082	(46,815)	1,852	25,432	30,082	2,449	(363,538)	722,928	4,509	727,437
Recognition of equity-settled share-based payment	-	-	-	-	-	30,943	-	-	30,943	-	30,943
Elimination on disposal of JV Company	-	-	-	-	-	-	(1,464)	-	(1,464)	-	(1,464)
Conversion of convertible bonds	5,341	17,013	-	-	(2,433)	-	-	-	19,921	-	19,921
Total comprehensive income attributable to shareholders	-	-	-	-	-	-	3,000	137,335	140,335	(2,462)	137,873
At 30 September 2010	112,725	983,095	(46,815)	1,852	22,999	61,025	3,985	(226,203)	912,663	2,047	914,710

Notes:

- (i) The general reserve and enterprise expansion fund are set up by subsidiaries established and operated in the People's Republic of China ("PRC") by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation of the general reserve and enterprise expansion fund is subject to the decision of the board of directors of the PRC subsidiaries, but the minimum appropriation rate for the general reserve is 10% of the profit after taxation for each year, until when the accumulated balance reaches 50% of the total registered capital of the subsidiary. Pursuant to the relevant laws and regulations of the PRC, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital, and the enterprise expansion fund can be used to increase the capital.
- (ii) Merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the reorganisation.

NOTES:

1. Basis of preparation and principal accounting policies

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong, Accounting Standards and Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules. They have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair value.

The accounting policies and method of computation used in preparing the unaudited consolidated results are consistent with those used in the audited financial statements for the year ended 31 December 2009. The condensed consolidated results have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

In the current year, the Company has applied the following new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are or have become effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 32 (Amendments)	Classification of Rights Issues ⁴
HKAS 39 (Amendments)	Eligible Hedged Items ¹
HKFRS 1 (Amendments)	Additional Exemptions of First-time Adopters ³
HKFRS 2 (Revised)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets) ⁷
HK(IFRIC) – Int 14 (Amendments)	Prepayments of Minimum Funding Requirement ⁶
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Int 18	Transfer of Assets from Customers ¹
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁶

¹ Effective for annual periods beginning on or after 1 July 2009

² Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

³ Effective for annual periods beginning on or after 1 January 2010

⁴ Effective for annual periods beginning on or after 1 February 2010

⁵ Effective for annual periods beginning on or after 1 July 2010

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ Effective for annual periods beginning on or after 1 January 2013

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Company.

2. Turnover and other income

The Group is principally engaged in provision of healthcare information technology ("HIT") services in PRC, mining of mineral resources and sales of radio trunking systems integration. Revenue recognised is as follow:

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Turnover				
Provision of HIT Services				
Electronic Medical Records System (EMR)	19,752	—	199,618	—
Regional Public Health Medical System	5,965	—	90,256	—
Hospital Pre-evaluation Service	—	—	14,903	—
	<u>25,717</u>	<u>—</u>	<u>304,777</u>	<u>—</u>
Mining	—	—	—	—
Sales of radio trunking systems integration	—	—	—	—
	<u>25,717</u>	<u>—</u>	<u>304,777</u>	<u>—</u>
Other revenues				
Interest income	37	24	178	131
Others	31	15	2,802	374
	<u>68</u>	<u>39</u>	<u>2,980</u>	<u>505</u>
Total revenues	<u>25,785</u>	<u>39</u>	<u>307,757</u>	<u>505</u>

3. Income tax expenses

The amount of taxation charged to the consolidated income statement represents:

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Continuing operations:					
Hong Kong profits tax	(i)	—	—	—	—
Overseas taxation	(ii)	1	—	6	—
		<u>1</u>	<u>—</u>	<u>6</u>	<u>—</u>

Notes:

- (i) No provision for Hong Kong profits tax has been made as the Group has no assessable profits for the relevant periods.
- (ii) Overseas taxation represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.

4. Earning/(loss) per share

Basic earning/(loss) per share is calculated by dividing the net profit/(loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

From continuing and discontinued operations

The calculation of the basic and diluted profit/(loss) per share from continuing and discontinued operations attributable to owners of the Company is based on the following data:

	(Unaudited) For the nine months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Profit/(loss) for the period		
Profit/(loss) for the period attributable to owners of the Company	134,873	(17,144)
Effect of dilutive potential ordinary share: Interest on convertible bonds (net of tax)	<u>10,669</u>	<u>7,079</u>
Profit/(loss) for the purpose of diluted earnings/(loss) per share	<u>145,542</u>	<u>(10,065)</u>

	(Unaudited) As at 30 September 2010		2009
Number of shares			
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	10,893,533,978		4,066,373,604
Effect of dilutive potential ordinary share:			
Convertible bonds and share options	5,055,095,080		5,789,000,000
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	15,948,629,058		9,855,373,604

From continuing operations

The calculation of the basic and diluted earnings/(loss) per share from continuing operations attributable to owners of the Company is based on the following data:

Profit/(loss) figures are calculated as follows:

	(Unaudited) For the nine months ended 30 September 2010		2009
	<i>HK\$'000</i>		<i>HK\$'000</i>
Profit/(loss) for the period attributable to owners of the Company	134,873		(17,144)
(Loss)/profit for the period from discontinued operations	(7,504)		11,528
Profit/(loss) for the purpose of basic earnings/(loss) per share from continuing operations	142,377		(28,672)
Effect of dilutive potential ordinary share:			
Interest on convertible bonds (net of tax)	10,669		7,079
Profit/(loss) for the purpose of diluted earnings/(loss) per share from continuing operations	153,046		(21,593)

The denominators used are the same as those detailed above for both basic and diluted profit/(loss) per share.

No diluted loss per share from continuing operations has been presented as the potential ordinary shares in respect of outstanding share options and convertible bonds are anti-dilutive for 2009.

From discontinued operations

Basic loss per share for the discontinued operation is HK0.07 cents (2009: earning per share of HK0.28 cents) based on the loss for the period from the discontinued operations of approximately HK\$8 million (2009: profit for the period of HK\$12 million) and the denominators detailed above for both basic and diluted loss per share.

No diluted loss per share from discontinued operations has been presented as the potential ordinary shares in respect of outstanding share options and convertible bonds are anti-dilutive for both period.

5. Dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2010 (2009: Nil).

6. Comparative figures

Certain comparative figures have been reclassified to conform with current year's presentation.

BUSINESS REVIEW AND OUTLOOK

Healthcare information technology in the PRC

On 23 October 2009, the Company completed the acquisition of the entire equity interest of Wealthy China Group Limited (“Wealthy China”), which holds a 100% interest in Beijing Upway Science & Technology Development Co., Ltd (“Upway”) and 60% interest in China Chief Medical Standards Database Co., Ltd. (“CCMSD”). The total investment by the Company amounted to approximately HK\$498 million provides entry into China’s hospital information technology market. The total acquisition was transacted by the issuance of convertible bonds with the conversion price of HK\$0.168 per share.

In the year of 2009, the consideration of convertible bonds in the amount of HK\$498 million had been fully converted into 2,964,285,714 ordinary shares.

The National Institute of Hospital Administration (“NIHA”) of China and the China National Institute of Standardization were partners in development of the services. It would accelerate its positioning in Healthcare Information Technology (“HIT”) demanded by Chinese hospital system through the products and service provided by the subsidiaries Upway and CCMSD. The followings are their principal products:

I) Electronic Medical Records (EMR) Systems

The Company has applied its proprietary software and technology to develop the professional medical record templates which are easy to input medical data with high efficiency. The medical records can be directly converted into database format for quick storage. The EMR systems is compatible and integrated with all sorts of HIS systems. The data transfer is barrier-free. All medical data is scalable to be extracted for multiple search applications. In the opinion of the Board, the technology employed in the Company products are in leading positions and ahead of the rivals.

The Company is currently working with 2,688 Chinese medical hospitals through the association with various medical science academies, and, is working with several specialty clinics, i.e. 800 Hepatic (Liver) Outpatient Clinics and 800 Nephrology (Kidney) Outpatient Clinics.

During this quarter, the Company's EMR systems recorded an income of HK\$19,752,000. As hospital patrons are under the management of governmental administrative entities in China, all the expenses are funded by the state or local authorities, which usually make payment during the period from November to December of the previous year and from February to June of the following year. As a result, the Company recorded a significant drop in sales during the third quarter. The Company's sales contracts of EMR for Single Disease Category shall commence in the fourth quarter.

II) Regional Public Health Medical System

A) *Urban Regional Health Platform*

The Company will use its proprietary software and technology to work with the local regional healthcare government agencies to establish the regional residents' health archives according to the Ministry of Health in China ("MOHC") requirements and standards. The information will be shared among various local and national health agencies. All the project fees will be borne by the local government. Normally, it will take three years to complete the whole project from designing phase to full scale operation.

The Company is currently proposing to work with the following local government:

- 1) Xizang, Tibet
- 2) City of Yantai, Shandong Province
- 3) City of Suzhou, Jiangsu Province
- 4) City of Kaifeng, Henan Province

The Company has reached an understanding for proposed cooperation with the People's Government of Tibetan Autonomous Region in respect of Regional Public Health System and commenced testing for the installation of EMR systems in some hospitals in Tibet in the third quarter. Since the duration of the cooperation exceeds three years, no revenue was recorded for this quarter.

B) Rural Regional Health Platform

The Company is also applying its proprietary systems and products to establish the Rural Regional Health Platform. These projects are developed by subsidiaries which working closely with City Health Bureaus for 20 years terms by using tele-medical technology to provide medical and healthcare services to rural residents. Each tele-medical center will be connected with multiple remote health clinics to provide simple medical diagnoses, personal health checks and medical referrals to city hospitals if necessary. These services will also simultaneously help to establish the rural EMR on each individual for local government health agencies. The tele-medical center will cost about RMB40 million to build. But the Company is licensed and entitled to collect all the fees from the patients and 50% to 80% of all medical expenses is subsidized by government health agencies. The Company has been working with the following:

- 1) City of Fuxin, Liaoning Province
- 2) City of Danzhou, Hainan Province
- 3) City of Tongliao, Inner Mongolia
- 4) The Xinjiang Production and Construction Corps
- 5) Yanbian Korean Autonomous Prefecture, Jilin Province
- 6) City of Baoji, Shannxi Province

The domestic company invested in the City of Fuxin in Liaoning Province to set up the Fuxin Tele-medical Service Department. Trial run of the service department was commenced in July 2010. The tele-medical business can cover a million of the rural population in the City of Fuxin. For rural residents to receive tele-medical diagnosis, a fee of RMB100 will need to be paid, 80% of which will be funded by the New Rural Cooperative Medical Insurance Schemes of the City of Fuxin, and the rural residents only need to pay 20%. It is expected that, by the end of 2010, 200,000 rural residents in the City of Fuxin will receive the services provided by the tele-medical center.

III) Hospital Pre-evaluation Service

The Company proprietary Hospital Pre-evaluation software is authorized by NIHA and Chinese Hospital Association. The primary function of the said software is to analyze the hospital management operation deficiencies in conjunction with national renowned hospital management consultants for improvement.

The above mentioned products are aimed at digitizing patients' medical records, matching historical symptoms to suggested diagnosis and prescriptions, whereas the hospital pre-evaluation service is able to aggregate all medical data into standardized and categorized medical analysis for evaluation of cost-benefit efficiency. These products target at better identification and medication of various diseases, more accurate matching of diagnoses and prescriptions, more optimal use and production of medicines, more economical allocation of hospital resources, and more effective public hygiene management. The business coverage includes Beijing, Hebei Province, Liaoning Province, Jilin Province, Shanxi Province, Inner Mongolia, Gansu Province, Xinjiang Province, Tibet, Hainan Province and Jiangsu Province.

The Hospital Pre-evaluation Service shall be undertaken in coordination with the Ministry of Health's 2010 Work Survey on Major Hospitals, which are expected to involve over 300 hospitals. It is expected that significant revenue will be recorded at the end of 2010.

1. Electronic Medical Records (EMR) System

Total sales recorded for the nine months ended 30 September 2010 by the domestic company from EMR Systems amounted to HK\$199 million, in which sales from Chinese Medicine Electronic Health Records by Single Disease Category business amounted to HK\$36 million.

The domestic company would continue to explore sales opportunities of EMR Systems in the scope of electronic health record by single disease category. It is expected to join hands with Wujieping Fund (吳階平基金會) to complete the sale of the EMR Systems by Single Disease Category specifically for liver diseases.

2. Regional Public Health Medical System

For the urban area network development of Regional Public Health Medical System, intentions of cooperation had been reached between municipal governments of Langfang of Hebei Province, Taiyuan of Shanxi Province and Suzhou of Jiangsu Province. For the third quarter, deliver of hardware of the system contribute HK\$84 million revenue in this segment.

For the rural area long distance medical system within the Regional Public Health Medical System, hardware installation had commenced in Fuxin, Liaoning Province, with operating income duly recognised. The domestic company had signed framework agreements with municipals of Danzhou of Hainan Province and Yanbian Korean Autonomous Prefecture of Jilin Province, and formal agreements was signed in June 2010 to duly commence rural area long distance medical cooperation.

3. Hospital Pre-evaluation Service

For the nine months ended 30 September 2010, Hospital Pre-evaluation Service generated a revenue of HK\$15 million.

Mining Business

The Directors are of the view that the mineral resource prices remain bullish in the long term due to the continued demand from developing countries such as the PRC, India and Russia. Thus the outlook for the mining industry in the PRC is promising. The Acquisition represents a good opportunity for the Group to tap into the mining industry.

The mining business has not started contributing revenues during the period. It is still subject to revision of production plans.

As at 30 September 2010, the issued Convertible Bonds of HK\$263 million were converted into 6,570 million shares and the outstanding principal amounted to HK\$202 million may convert into 5,055 million ordinary shares.

Automobile stamping and welding

On 4 March 2010, the Group announced that its wholly owned subsidiary, Hong Kong Chang Kang (Holdings) Limited, entered into an agreement on 26 February 2010 with Chongqing Changan Jinling Automobile Parts Co., Ltd., pursuant to which the subsidiary has agreed to sell all of its equity interest, which accounts for 49% in the JV Company at the consideration of RMB47 million in cash. The disposal has been completed in August 2010, the company will not maintain any automobile stamping and welding parts segment. The consideration will be used as general working capital, allowing the Group to focus its resources on its HIT related business which the Group considers should provide better return to the Group.

The loss after tax from discontinued operations for the six months ended 30 September 2010 was HK\$7.5 million. For the period, the JV Company has sold 597 thousands (same period in 2009: 493 thousands) ancillary stamping and welding parts for automobiles, and recorded sales of approximately HK\$819 million (same period in 2009: HK\$617 million). The Group has accounted for the sales on proportion and recorded turnover under discontinued operation of HK\$401 million and HK\$302 million for the period in 2010 and 2009 respectively. Its major customers include ChangAn Auto Co Ltd, ChangAn Ford Mazda, and ChangAn Ford Nanjing Corp etc.

Radio Trunking System Integration

For the nine months ended 30 September 2010, the radio trunking business did not record any turnover. There was no change in turnover as compared to the turnover in the same period in 2009. The zero turnover of the business was mainly due to the fact that most customers will place their orders in the second half of the year, so there is still yet to finalise the terms of software services and the business with customers in coming year.

The Group has actively promoted its own digital trunking communication system based on the software technology FDMA system. This facilitated new, existing and potential users to have better understanding towards the features of this technical product while pushed further in market development.

Group development

In 2010, the Group continues to stick with its operation strategy to integrate its resources and make adjustment to its business, the non-performing business will be gradually peeled off through disposal or other means to the same effect, so as to optimize the Group's asset and allocate the limited resources to explore business with brighter prospect, thus pursue the rapid development and healthy growth of the Group's business.

FINANCIAL REVIEW

For the nine months period ended 30 September 2010, the unaudited consolidated turnover of the Group from continuing operations was approximately HK\$305 million and none for the corresponding period in 2009. The unaudited profit attributable to shareholders for the nine months ended 30 September 2010 amounted to approximately HK\$137 million.

The turnover approximately of HK\$305 million was generated from the business of healthcare information technology ("HIT") that is a new business and was introduced into the Group since October 2009, thus there is no comparative figure for the corresponding period in 2009. No turnover of continuing operations from the business of radio trunking systems integration for the corresponding period in the current year and year 2009 because the purchasing orders from customers are still yet to finalised the terms of software services.

During the period, the Group obtained approximately HK\$2.9 million in other income on continuing operations. The Group generated interest income from bank deposit of approximately HK\$178 thousand during the period. The increase in other income by approximately HK\$2.4 million was due to the refund of business tax from HIT business of approximately HK\$2.6 million and decrease in value added tax refund of approximately HK\$0.2 million.

Distribution expenses for the nine months period ended 30 September 2010 approximately HK\$8.9 million was mainly represented marketing and promotions expenses from HIT business of approximately HK\$8.8 million for the period in the year 2010 and minor distribution cost incurred from inactive business of radio trunking systems software integration for the corresponding period in the current year.

Administrative expenses increase by approximately HK\$35.9 million to HK\$62.5 million was due to share based payment of approximately HK\$31 million from granted 270 million new share options to certain consultants and employees for services rendered with fair value equivalent, the extra administrative expenses brought from the new HIT business of approximately HK\$19.3 million and decrease in wages and other operating expenses from radio trunking system integrations business of approximately HK\$14.4 million.

Finance cost for the period of approximately HK\$5.1 million was convertible bonds imputed interest. The remaining convertible bonds were issued as consideration for acquisition of mining business located in Jiangxi in the year 2009 with imputed compound interest rate of 3.4% per annum.

As a result, the Group recorded the profit attributable to shareholder of approximately HK\$137.3 million for the nine months period ended 30 September 2010, but recorded the loss of approximately HK\$16.9 million for the corresponding period in last year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2010, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the ordinary shares of HK\$0.01 each of the Company

Name	Type of interest	Number of shares	Approximate percentage of issued share capital
Mr. Lu Chunming (<i>Note 1</i>)	Beneficial	830,000	0.01%

Notes:

1. Mr. Lu Chunming, an Executive Director of the Company has interest in the Company directly.

Long positions in the underlying shares

On 31 March 2010, share options of 10,000,000 shares at exercise price of HK\$0.186 were granted to a director of the Company, Mr. Stephen William Frostick, under the Share Option Scheme. These share options are exercisable for a period of 3 years from the date of granted unconditionally. Details are set out in "Share Option Schemes" on page 21 and 22.

Save as disclosed above, as at 30 September 2010, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at 30 September 2010, the following persons (other than the director and the chief executive of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in the ordinary shares of HK\$0.01 each of the Company

Name of the Shareholders	Type of interest	Number of shares	Number of underlying shares (Note 5)	Total Number of shares and underlying shares	Approximate percentage of issued share capital
Absolute Power International Limited ("Absolute Power") (Note 1)	Beneficial	–	2,727,000,000	2,727,000,000	24.19%
Wide Treasure Investment Limited ("Wide Treasure") (Note 2)	Beneficial	–	2,327,946,932	2,327,946,932	20.65%
Way Capital Investments Limited ("Way Capital") (Note 3)	Beneficial	1,482,142,857	–	1,482,142,857	13.15%
Glorywide Group Limited ("Glorywide") (Note 4)	Beneficial	1,482,142,857	–	1,482,142,857	13.15%

Notes:

1. Absolute Power is wholly owned by Hu Chao who is deemed to be interested in the shares.
2. Wide Treasure is wholly owned by She Zhangshu who is deemed to be interested in the shares.
3. Way Capital is wholly owned by Lau Wang Tai who is deemed to be interested in the shares.
4. Glorywide is wholly owned by Zhang Jie who is deemed to be interested in the shares.
5. The underlying shares of Absolute Power and Wide Treasure are in respect of the convertible bonds issued by the Company on 9 January 2009. The convertible bonds issued by the Company to Way Capital and Glorywide on 23 October 2009 were converted to 1,482,142,857 shares and 1,482,142,857 shares respectively on 4 December 2009.

Save as disclosed above, as at 30 September 2010, the Directors were not aware of any other person (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

SHARE OPTION SCHEME

The Company adopted a new share option scheme (“the Scheme”), which became effective for a period of 10 years commencing on 10 August 2007. Under the Scheme, the Directors of the Company may at their discretion to grant options to any eligible person to subscribe for the shares of the Company (“Share”) at the higher of: (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant; (ii) the average closing price of the Share as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. The offer of a grant of option shall remain open for acceptance within 21 days from the date of offer. A nominal consideration of HK\$1 is payable on acceptance of the grant of the option. The exercise period of the option must not be more than 10 years from the date of grant of the option.

The Company operates the Scheme for the purpose of advancing the interests of the Company and its shareholders by enabling the Company to grant options to attract, retain and reward any eligible persons which include any director of the Group, any employee of a Group, any consultant, adviser, agent supplier, customer, business partner and shareholder of the Group for their contribution or potential contribution to the Group.

The total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes in force from time to time must not in aggregate exceed 30% of the Share in issue from time to time.

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of the passing of the relevant resolution for adjusting the scheme.

Pursuant to the Scheme, as at 30 September 2010, the employees and consultants were granted share options to subscribe for shares of the Company, details of which were as follows:

Name or category of participant	As at 1 January 2010	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30 September 2010	Date of granted share options	Exercise period of share options	Exercise price of share options
Directors									
Stephen William Frostick	-	10,000,000	-	-	-	10,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK\$0.186
	-	10,000,000	-	-	-	10,000,000			
Employees	29,220,000	-	-	-	-	29,220,000	10 August 2007	10 August 2007 – 9 August 2012	HK\$0.380
Employees	-	52,000,000	-	-	-	52,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK\$0.186
	29,220,000	52,000,000	-	-	-	81,220,000			
Consultants	58,439,900	-	-	-	-	58,439,900	10 August 2007	10 August 2007 – 9 August 2012	HK\$0.380
Consultants	-	138,000,000	-	-	-	138,000,000	31 March 2010	31 March 2010 – 30 March 2013	HK\$0.186
Consultants	-	50,000,000	-	-	-	50,000,000	3 May 2010	3 May 2010 – 2 May 2013	HK\$0.186
Consultants	-	20,000,000	-	-	-	20,000,000	9 July 2010	9 July 2010 – 8 July 2013	HK\$0.186
	58,439,900	208,000,000	-	-	-	266,439,900			
	87,659,900	270,000,000	-	-	-	357,659,900			

None of the employees and consultants of the Group had exercised their share options during the period ended 30 September 2010.

The total number of Shares available for issue under the Scheme as at the date thereof was 357,659,900 representing approximately 3% of the issued share capital of the Company.

COMPETING INTERESTS

The directors of the Company are not aware of, as at 30 September 2010, any business or interests of each directors of the Company, management shareholders and the respective associates (as defined in the GEM Listing Rules) of each that competes or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the nine months ended 30 September 2010.

AUDIT COMMITTEE

The audit committee has been established since July 2000 with defined terms of reference, which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the GEM Listing Rules, to review the Group's financial reporting, internal controls, and corporate governance and risk management matters and to make relevant recommendations to the Board.

The audit committee comprises three Independent Non-executive Directors of the Company, namely Mr. Lee Chi Hwa, Joshua (Chairman), Mr. Tso Hon Sai, Bosco and Mr. Chang Jun. The Group's unaudited results for the nine months ended 30 September 2010 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2010.

On behalf of the Board
China Public Healthcare (Holding) Limited
Stephen William Frostick
Chairman

Hong Kong, 11 November 2010

As at the date hereof, the board of directors of the Company comprises the three executive directors being Mr. Stephen William Frostick, Mr. Lu Chunming and Mr. Shao Heng; and three independent non-executive directors being Mr. Chang Jun, Mr. Tso Hon Sai, Bosco and Mr. Lee Chi Hwa, Joshua.