

Dear Shareholders,

The financial year of 2003/04 was a watershed for China HealthCare Holdings Limited (the "Company") and its subsidiaries (the "Group"). During the year, the Group has successfully re-positioned and transformed itself into a facilitating platform for international healthcare players to gain timely and cost-effective access to healthcare market in the People's Republic of China ("PRC") and embarked on its journey into the enormously promising healthcare industry in the PRC with a whole series of new initiatives to achieve solid growth in the future. In connection with this new business direction, the Company is very pleased to have brought in swissfirst (Lie) Opportunities Anlagegesellschaft AG ("Swiss Fund"), a Liechtenstein incorporated fund with more than CHF 1 billion under its management and long term Swiss and European institutional and private investors as its principals, as its substantial strategic shareholder in November 2003; and Guo Kang Pharmaceutical and Medical Supplies Limited ("Guo Kang"), which is the Hong Kong based window company of the Ministry of Health of the PRC ("MOH"), as its exclusive and non-competing strategic partner and shareholder in December 2003. The Company is also very pleased to have other prominent European institutional investors as its shareholders in early 2004. To reflect the new business direction of the Group, the Company's name was changed to China HealthCare Holdings Limited ("CHC") on 27 November 2003 and the Company's board of directors has been joined by two new executive members.

In view of the tough competitive landscape of the low-end electronic parts industry, the Group disposed of its entire interests in the electronics manufacturing business in February 2004 and intends to phase out the remaining electronic parts trading business. Focused on the objective to create shareholders value, taking such actions has been a necessary step for the Group to concentrate its human and financial resources on its expansion into the PRC healthcare sector.

The overall business development strategy of the Group in the PRC healthcare sector is to provide value added premium services by utilising, upgrading and franchising the PRC healthcare infrastructure that the Group has unique and privileged access to. In line with this strategy,

- 1) The Group has consolidated Beijing Universal Medical Assistance Co., Ltd. ("BUMA") as its subsidiary; which is the only Sino-foreign joint venture company in the PRC authorised by the MOH to operate an exclusive nationwide medical assistance service and certain other premium medical services in the PRC. At present, BUMA offers membership service that provides its fee-paying members guaranteed access to a nationwide network of 914 hospitals (the "Network Hospitals") pre-selected by the MOH for emergency assistance and other premium medical services.
- 2) The Group is on route to launch an operation to offer high-end plastic surgery and cosmetic care in Beijing. The operation will be branded by a leading international player in the field bringing in its standards of treatment and care. The Group is also in the process of launching specialty centers of premium medical services in several major cities in the PRC. Again, such

specialty centers aim to operate in accordance with the standards of leading international players in their respective specialties and be branded by them.

- 3) The Group has established a wholly owned subsidiary, China Clinical Trials Centre Limited ("CCTC") to operate a contract research organisation ("CRO") in Beijing and entered into a memorandum of understanding with a leading regional clinical research institution to provide technical and operational support to the CRO. The Group has been systematically exploring the opportunities of procuring clinical trials and distribution licenses in the PRC for innovative therapeutics and diagnostics being developed by biotech companies and funded by life science Venture Capital companies in the western countries. As part of the Network Hospitals, the Group inherited relationships with about half of the Designated Clinical Study Centers in the PRC that have been approved by the State Food & Drug Administration of the PRC ("SFDA").
- 4) Other projects in the pipeline which we are extremely excited about include a project called "Safe Blood for China" (the "Project"). The Project assimilates a similar project in Africa, where an independent body worked with various regulatory parties, to ensure the availability and quality of safe and efficient blood supply and transfusion throughout the continent. While working closely with the MOH, the Group will take a leadership role in its capacity as the turnkey manager to implement and manage training programs, distribution of supplies, equipments, information systems etc. to blood centers and hospitals in the PRC to achieve the Project's objectives. In connection with the Project, the Group has consolidated Shanghai Haoyuan Biotech Company Limited as its subsidiary, which engages in developing, producing and marketing clinical reagents and other related products highly relevant to the Project.

We look forward to quickly creating franchised and synergetic value from what has been outlined above.

In closing, I would like to express my greatest appreciation for the work and effort of all staffs of the Group. I would also like to extend my sincere gratitude to all our business partners and shareholders for their support and confidence in the Group over the years. Under the leadership of the new Board and senior management and the continued support of our shareholders and business partners, I am highly confident that the Group will have many very exciting and rewarding developments for many years to come.

Yours sincerely,

**Dr. Li Zhong Yuan**

*Chairman*

Hong Kong, 27 July 2004