

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results and Dividends

During the six months ended 30 September 2005, the Group recorded a turnover of HK\$3.5 million from continuing operations, representing an increase of 68.8% as compared to HK\$2.1 million for the previous period and a net loss attributable to shareholders of HK\$23.6 million (2004: HK\$25.6 million). The basic loss per share for the period was HK10.5 cents (2004: HK12.0 cents).

The directors do not recommend the payment of any interim dividend to the shareholders (2004: Nil).

Business Review and Analysis

1 April 2005 signifies a clean start for the Group's exclusive focus to create a business platform to develop an integrated healthcare services' offering targeted primarily at foreign visitors to China, expatriate workers and, most importantly, the burgeoning affluent consumer segment along the country's eastern coastal cities. The Group, working in an expansive public-private partnership with the Chinese Ministry of Health (the "MOH") and leading public hospitals in China, and via other strategic partnerships with leading international healthcare institutions, continues to build up and fine tune its delivery platform for interrelated and complementary healthcare and wellness businesses. The services offered in these various business areas may differ, yet management has taken steps to build up its sales and marketing effort to its target consumers. The following core businesses are:

(i) *Emergency Assistance Medical Services ("EAMS")*

EAMS is a membership program, offered by the Group through its subsidiary Beijing Universal Medical Assistance Co., Ltd ("BUMA"), that provides post-pay, emergency medical assistance nationwide (via the 914 Network Hospitals selected by MOH and BUMA continues to be the only designated entity by the MOH with the right to utilize such a nationwide network) to local customers, foreign travelers and expatriates.

Having adequately stress-tested BUMA's operating protocols and management systems with approximately 45,000 fee paying members for the first part of the year, BUMA has continued to focus on EAMS membership recruitment and marketing campaign and is in negotiations with a number of potential channel partners, including insurance companies, financial institutions, and travel agencies. As of the date of this report, BUMA has signed up CTrip.com, a major PRC online travel agency listed on NASDAQ, as a channel partner to distribute EAMS products to PRC domestic air travelers; and finalized arrangements with Central Insurance, a major insurance company in Taiwan, to market EAMS memberships to its policy holders. In addition, BUMA is in final stage discussions with two other channel partners, one major PRC bank and one major PRC property/casualty insurance company, on attaching EAMS as valued added features to VIP credit card holders of the bank and policy holders of the insurance company. Materialization of such efforts shall provide BUMA with additional cost efficient, highly scalable membership distribution channels.

(II) Health Asset Management Services ("HAMS")

HAMS is a membership program, offered by the Group through its subsidiaries BUMA in Beijing and CHC (Shanghai) Medical & Healthcare Services Ltd. (the "Shanghai HAMS Clinic") in Shanghai. The programs are health management packages ranging from comprehensive medical consultations and check-ups to 24-hour private doctoral services, as well as "Green Channel" access to leading Chinese medical institutions and practitioners for the affluent Chinese population and expatriates. The Group has been proactively expanding "green channel partners" in select network hospital (85 Green Channel hospitals as of December 2005) in and around Beijing and Shanghai that are contractually committed to offer medical care to HAMS members on priority basis.

The Group's two fully operational HAMS Clinics are the most significant interface with its customer base and serve as the Group's centralized marketing, sales, and customer service platforms in Beijing and Shanghai.

In Beijing, the Group has continued to recruit institutional and individual HAMS memberships through the Beijing HAMS Clinic. During the period, BUMA has completed a contract with PetroChina-Hutchison IT Co., a sino-foreign joint venture between PetroChina and Hutchison Whampoa, to provide high-level HAMS service to approximately 60 of its executives in China. Other institutional HAMS clients of the Group in Beijing include: Guangdong Development Bank, SINA.com, Beijing Mobile, and China Railway Construction Corporation, etc. These ongoing contracts enable the Group to have a HAMS membership base of about 2,000 members in aggregate.

In Shanghai, the Group is actively developing its HAMS business through its Shanghai HAMS Clinic. In addition to the ability to provide basic diagnostic, consultation, evaluation and treatment procurement services similar to those in the Beijing HAMS Clinic, the 1700m² Shanghai HAMS Clinic also includes several specialized medical departments with a total of 30 doctors and nurses, with all necessary medical infrastructure necessary for conducting comprehensive health check ups.

The initial strategic focus of the Shanghai HAMS Clinic is to build up a high volume of customer flow for institutional executive health check-ups. Once customers have been acquired, the Group will seek to up-sell these patients into the higher value-added healthcare management services offered through the HAMS membership program. Focused efforts in building up a high throughput have been successful, and as of the date of this report, the Shanghai HAMS Clinic has been able to get 3,500 health check-ups completed. The institutional clients for the Group in Shanghai include Schering-Plough, Shenzhen Development Bank, Bank of Shanghai, China Merchants Bank, LVMH, Emerson, etc. The Shanghai HAMS Clinic has been stress tested to be able to handle over 1500 in-house health check-ups per month in addition to its off-site health check-ups practice whereby a team of medical professionals from the clinic spend a full day at a client site conducting health exams and collecting test samples.

The Group has finalized a strategic arrangement with leading practitioners from the Shanghai University of Traditional Chinese Medicine to integrate a traditional Chinese medicine (“TCM”) specialty center in the Shanghai HAMS Clinic and expects the unit to be up and running very soon. In addition to offering these services to the existing flow of patients, the Group will also coordinate special channels for offshore visitors; initially, these promotions will be marketed by the Group’s Korean channel partner, Evercare Inc.

Another business development project underway is to focus on distributing HAMS memberships by way of bundling various health management services with other health and lifestyle wellness consumption package(s) to consumers in Shanghai.

(III) Franchise Medical Specialties

Premium Specialty Centers (“PSC”)

The significant business line of specialty clinical care for the future growth of the overall business is the provision of Premium Specialty Centres (“PSCs”) to wealthy Chinese citizens and, to a lesser extent, expatriates. Combined with the transfer of knowledge and branding from leading Western medical institutions such as University of California, San Diego Medical School, these centers are designed to offer the highest quality diagnosis and treatment facilities available in China, with quality comparing favourably to Western private hospitals. This will allow the PSCs to command fees substantially higher than those even charged in the VIP sections of public hospitals. Leveraging the Group’s unique access to the Network Hospitals, these centers, located within or with the convenience of support from the most prestigious public hospitals in major Chinese cities, are expected to be a significant direct contributor to CHC’s revenue and profitability in the future, especially as the portfolio grows. The centers will form the critical mass of the Group’s premium clinical facilities in serving its target customer base.

As of the date of this report, the ob-gyn facility in the Shanghai First Maternity and Infant Health Hospital with UCSD Medical School as technical assistance provider and branding partner, opened for business in December. The plans for a urology facility in Shanghai and another ob-gyn facility in Beijing are progressing as planned and will be opening in near future; contract negotiations and other necessary preparatory work with further Network Hospitals for other PSCs are at various stages of development.

Cosmetic Surgery Clinics

The Group’s other core business line is the provision of premium cosmetic surgery clinics. Targeted at the same affluent urban market as the PSCs, the Group’s clinics provide consultation, advice and a range of surgical procedures, performed by leading plastic surgeons from Korea procured through Group’s in-depth connection in Korea. The Company plans to have a chain of such clinics and currently operates one clinic, CHC Aesthetic Clinic in Beijing, which opened in May 2005. The key attractions for customers are the presence of two respected Korean surgeons who perform the majority of the procedures by appointments in advance, in addition to the site’s premium environment. Korea is at the forefront of the boom in cosmetic surgery in Asia and the Chinese population puts a premium on surgery performed by Korean doctors. As of the date of this report, more than 100 cosmetic and plastic procedures have been performed in the CHC Aesthetic clinic.

EAMS, HAMS, and Franchise Medical Specialties comprise of the core of the Group's delivery platform and sales and marketing platform in the Group's effort in building up its own critical mass of consumers with size and scale for a full managed care system. In addition to these core businesses, the Group continues to develop other existing businesses of both economic and social value.

Liquidity and Financial Resources

As at 30 September 2005, the total assets of the Group is approximately HK\$176.5 million and net current assets of approximately HK\$89.4 million, representing a current ratio of 6.8 (31 March 2005: 2.4). At the balance sheet date, the total borrowings of the Group amounted to HK\$48 million, all of which represented by convertible bonds. In line with the business expansion goal of the Group, the Company issued HK\$51.3 million convertibles during the period, therefore, the gearing ratio of the Group as at 30 September 2005 has increased to 42.5% (31 March 2005: 14.7%), which was calculated on an amount of total equity of HK\$113,002,000 (31 March 2005: HK\$115,533,000). During the period, the Group spent HK\$20.4 million on operating activities and HK\$17.8 million on investing activities. As such, there was only HK\$13.1 million increase in cash position of the Group as at 30 September 2005.

Contingent Liabilities

As at 30 September 2005, there was no contingent liability of the Group.

Charge on Group's assets

As at 30 September 2005, there was no charge on the Group's assets.

Human Resources

As at 30 September 2005, the Group employed 141 (31 March 2005: 89) 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.