



中國衛生控股有限公司 CHINA HEALTHCARE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 673)

INTERIM REPORT 2010



CORPORATE INFORMATION

DIRECTORS

Executive Directors

Dr. Li Zhong Yuan (*Chairman*)

Mr. Zhou Bao Yi

Non-executive Director

Mr. Martin Treffer

Independent Non-executive Directors

Mr. Mu Xiang Ming

Mr. Jiang Bo

Dr. Yan Shi Yun

COMPANY SECRETARY

Mr. Tsui Siu Hung Raymond

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Hamilton HM11

Bermuda

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PRINCIPAL BANKER

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AUDITORS

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LEGAL ADVISERS

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PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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STOCK CODE

673

COMPANY WEBSITE

www.chinahealthcareltd.com

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	
	Notes	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (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)
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
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)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AT 30 SEPTEMBER 2010

	Notes	30 September 2010 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (Audited)
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)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Attributable to owners of the Company										
	Share capital	Share premium	Contributed surplus	Statutory reserves	Convertible bonds reserve	Foreign currency translation reserve	Share options reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009 (audited) (restated)	23,437	212,308	57,124	1,047	3,592	11,591	148	(346,099)	(36,852)	99,355	62,503
Total comprehensive income (expenses) for the period	-	-	-	-	-	192	-	(21,901)	(21,709)	(5,266)	(26,975)
At 30 September 2009 and 1 October 2009 (unaudited) (restated)	23,437	212,308	57,124	1,047	3,592	11,783	148	(368,000)	(58,561)	94,089	35,528
Total comprehensive income (expenses) for the period	-	-	-	-	-	1,898	-	(67,794)	(65,896)	(3,450)	(69,346)
Conversion of convertible bonds	2,765	8,933	-	-	-	-	-	-	11,698	-	11,698
Deemed disposal of a subsidiary	-	-	-	-	-	-	-	-	-	302	302
At 31 March 2010 and 1 April 2010 (audited)	26,202	221,241	57,124	1,047	3,592	13,681	148	(435,794)	(112,759)	90,941	(21,818)
Total comprehensive expenses for the period	-	-	-	-	-	(4,000)	-	(85,850)	(89,850)	(2,738)	(92,588)
Issue of convertible bonds	-	-	-	-	65,000	-	-	-	65,000	-	65,000
Conversion of convertible bonds	13,068	32,219	-	-	(34,820)	-	-	-	10,467	-	10,467
Share option granted	-	-	-	-	-	-	2,898	-	2,898	-	2,898
Share option exercised	244	1,568	-	-	-	-	(591)	-	1,221	-	1,221
At 30 September 2010 (unaudited)	39,514	255,028	57,124	1,047	33,772	9,681	2,455	(521,644)	(123,023)	88,203	(34,820)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Six months ended 30 September	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Net cash used in operating activities	(25,947)	(27,373)
Net cash used in investing activities	(1,142)	(107)
Net cash from financing activities	27,165	16,979
Net increase (decrease) in cash and cash equivalents	76	(10,501)
Effect of foreign exchange rate changes	(4,143)	353
Cash and cash equivalents at beginning of the period	174,135	156,433
Cash and cash equivalents at end of the period	170,068	146,285
Analysis of cash and cash equivalents:		
Restricted bank balances	90,229	119,658
Bank balances and cash	79,839	26,627
	170,068	146,285

NOTES TO THE CONDENSED CONSOLIDATED 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").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

4. SEGMENT INFORMATION (Continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

4. SEGMENT INFORMATION (Continued)

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 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)
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 HK\$'000 (Audited)	B-to-B healthcare services HK\$'000 (Audited)	B-to-C consumer services HK\$'000 (Audited)	Investment holding HK\$'000 (Audited)	Consolidated HK\$'000 (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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

6. INCOME TAX EXPENSE (Continued)

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 HK\$'000 (Unaudited)	2009 HK\$'000 (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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Loss for the period attributable to the owners of the Company	(85,850)	(21,901)
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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (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
	<hr/>	<hr/>
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 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (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
	<hr/>	<hr/>
Total	2,643	2,070

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

12. CONVERTIBLE BONDS AND NOTES

	30 September 2010 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (Audited)
Liability component		
Unsubordinated convertible bonds		
Convertible bonds issued with equity component (<i>Note a</i>)	45,003	44,320
Convertible bonds issued with derivative component (<i>Note b</i>)	4,606	7,827
	49,609	52,147
Derivative component		
Unsubordinated convertible bonds		
Convertible bonds issued with derivative component (<i>Note b</i>)	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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

12. CONVERTIBLE BONDS AND NOTES (Continued)

(a) Unsubordinated convertible bonds issued with equity component (Continued)

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 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (Audited)
Carrying amount at the beginning of the period/year	44,320	42,943
Interest charged for the period/year	683	1,377
	<hr/>	<hr/>
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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

12. CONVERTIBLE BONDS AND NOTES (Continued)

- (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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

12. CONVERTIBLE BONDS AND NOTES (Continued)

(b) Unsubordinated convertible bonds issued with derivative component (Continued)

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)
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

12. CONVERTIBLE BONDS AND NOTES (Continued)

- (b) Unsubordinated convertible bonds issued with derivative component (Continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

12. CONVERTIBLE BONDS AND NOTES (Continued)

- (c) Subordinated convertible notes issued with wholly equity component (Continued)

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 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");

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

13. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

- (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 admit 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;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

13. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

- (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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

13. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

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

	30 September 2010 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (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 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

13. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

14. SHARE CAPITAL (Continued)

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\$
<u>CB3</u>			
August 2010	21,900,000	0.3201	7,010,190
<u>SCN1</u>			
May – September 2010	46,298,027	0.3201	14,820,005
<u>SCN2</u>			
August 2010	<u>62,480,474</u>	0.3201	<u>20,000,000</u>
Total	<u>130,678,501</u>		<u>41,830,195</u>

Note c:

In September 2010, 2,442,000 share options were exercised and converted into 2,442,000 ordinary shares of HK\$0.1 each in the Company with exercise price of HK\$0.5 per share. Details of which have been set out in Note 16.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

15. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases are payables as follows:

	30 September 2010 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (Audited)
Within one year	1,775	1,638
In the second to fifth years inclusive	648	995
	2,423	2,633

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for average terms of one to five years and rentals are fixed throughout the terms of respective leases.

16. SHARE OPTIONS SCHEMES

Pursuant to the share option scheme adopted by the Company in 2001 (the "Old Scheme"), the Company may grant options to any directors or full time employees of the Company or its subsidiaries to subscribe for shares in the Company at a subscription price which is the higher of 80% of the average closed price of the Company's shares for the five trading days immediately preceding the date of grant or the nominal value of the Company's shares. The Old Scheme was replaced by the Company's existing share option scheme (the "New Scheme") which was adopted pursuant to a resolution passed on 8 April 2002, and will expire on 7 April 2012. All outstanding options continue to be valid and exercisable in accordance with the terms of the Old Scheme.

Under the New Scheme, the Board of Directors of the Company may grant options to eligible officers and employees, including directors of the Company and its subsidiaries ("Eligible Persons"), to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties who (i) have previously been and continue to be retained by the Group to provide business, legal or tax consultancy services or other professional services, whose expertise is valuable to the business development of the Group; or (ii) introduce investment opportunities to the Group; or (iii) contribute by way of introduction of new business to the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

16. SHARE OPTIONS SCHEMES (Continued)

The maximum number of shares in respect of which options may be granted under the New Scheme and any other schemes of the Company is not permitted to exceed 10% of the shares of the Company in issue at the adoption date. The Company may seek approval by the Company's shareholders in general meeting for granting options beyond the 10% limit, provided that the options in excess of the limit are granted only to Eligible Persons specifically identified by the Company before such approval is sought. Pursuant to a special resolution passed by the shareholders at a special general meeting held on 17 February 2005, the maximum number of options that can be granted by the Company to the Eligible Persons has been refreshed to 10% of number of shares in issue at the date of passing the special resolution. The total number of the shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time.

The number of share in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days from the date of grant. Upon acceptance of the options, the Eligible Person shall pay HK\$1 to the Company by way of consideration for the grant. Options may be exercised at any time from the date of grant to the expiry date of the New Scheme. The exercise price is determined by the directors of the Company, and shall be the highest of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five trading days immediately preceding the date of grant and the nominal value of the Company's shares.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

16. SHARE OPTIONS SCHEMES (Continued)

The maximum number of shares in respect of which options may be granted under the New Particulars of share options granted by the Company as at 30 September and 31 March 2010 are as follows:

Option type	Date of grant	Exercisable period		Exercise price HK\$
		From	To	
A	31 August 2001	31 August 2001	15 May 2011	8.6
B	2 February 2004	2 February 2004	7 April 2012	3.4
C	3 March 2005	3 March 2005	7 April 2012	2.325
D	20 June 2005	20 June 2005	7 April 2012	2.33
E	13 April 2010	13 April 2010	12 April 2020	0.5

The following tables summarise the movements in the Company's share options during the period ended 30 September 2010:

Old Scheme

Option type	Number of share options			
	Outstanding at 1 April 2010	Lapsed/ Exercised	Outstanding at 30 September 2010	
Directors	A	25,000	–	25,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

16. SHARE OPTIONS SCHEMES (Continued)

New Scheme

		Number of share options			
	Option type	Outstanding at 1 April 2010	Granted	Lapsed/ Exercised	Outstanding at 30 September 2010
Directors	B	1,500,000	-	-	1,500,000
	C	3,210,000	-	-	3,210,000
	E	-	5,406,000	(1,002,000)	4,404,000
Total of directors		4,710,000	5,406,000	(1,002,000)	9,114,000
Employees	B	60,000	-	-	60,000
	C	270,000	-	-	270,000
	E	-	6,570,000	(1,440,000)	5,130,000
Total of employees		330,000	6,570,000	(1,440,000)	5,460,000
Advisors and consultants	B	4,144,000	-	-	4,144,000
	C	4,422,000	-	-	4,422,000
	D	99,000	-	-	99,000
Total of advisors and consultants		8,665,000	-	-	8,665,000
Total		13,705,000	11,976,000	(2,442,000)	23,239,000

The following tables summarise the movements in the Company's share options during the year ended 31 March 2010:

Old Scheme

		Number of share options		
	Option type	Outstanding at 1 April 2009	Lapsed/ Exercised	Outstanding at 31 March 2010
Directors	A	25,000	-	25,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

16. SHARE OPTIONS SCHEMES (Continued)

New Scheme

		Number of share options			
Option type		Outstanding at 1 April 2009	Granted	Lapsed (Note)	Outstanding at 31 March 2010
Directors	B	3,000,000	–	(1,500,000)	1,500,000
	C	5,310,000	–	(2,100,000)	3,210,000
Total of directors		8,310,000	–	(3,600,000)	4,710,000
Employees	B	60,000	–	–	60,000
	C	270,000	–	–	270,000
Total of employees		330,000	–	–	330,000
Advisors and consultants	B	4,144,000	–	–	4,144,000
	C	4,422,000	–	–	4,422,000
	D	99,000	–	–	99,000
Total of advisors and consultants		8,665,000	–	–	8,665,000
Total		17,305,000	–	(3,600,000)	13,705,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

16. SHARE OPTIONS SCHEMES (Continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	30 September 2010		31 March 2010	
	Weighted average exercise price		Weighted average exercise price	
	in HK\$ per share	Number of share options	in HK\$ per share	Number of share options
At beginning of the period/year	2.783	13,730,000	2.781	17,330,000
Granted	0.5	11,976,000	–	–
Exercised	0.5	(2,442,000)	–	–
Lapsed	–	–	2.773	(3,600,000)
At the end of the period/year	1.847	<u>23,264,000</u>	2.783	<u>13,730,000</u>

The options outstanding at the end of the period/year have a weighted average remaining contractual life of 4.81 years (31 March 2010: 2.02 years).

The estimated fair value of the share options granted on 13 April 2010 is approximately HK\$2,898,000 were calculated using Binomial Option Pricing Model. The inputs to the model were as follows:

	13 April 2010
Share price of underlying share	HK0.49
Exercise price	HK\$0.5
Expected volatility	101%
Expected life	10 years
Risk-free rate	2.82%
Expected dividend yield	Nil

Expected volatility was determined by using the historical volatility of the Company's share price over the previous four years. The expected life using in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

16. SHARE OPTIONS SCHEMES (Continued)

The Group recognised the total expense of approximately HK\$2,898,000 for the six months ended 30 September 2010 (year ended 31 March 2010: Nil) in relation to share options granted by the Company.

Note: The grantee of the share options is no longer the director of the Group upon resignation on 25 August 2009. Those share options lapsed on the date of cessation of the employment with the Group.

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.

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES

Directors' and Chief Executives' Interests in Shares and Share Options

As at 30 September 2010, the interests or short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and convertible bonds of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director/ chief executive	Company/ Associated corporation	Capacity	Interests in shares (other than pursuant to equity derivatives)	Interests in underlying shares pursuant to equity derivatives	Total interest in shares/ underlying shares	Percentage of shares and underlying shares to issued shares at 30 Sept 2010
Dr. Li Zhong Yuan	The Company	Corporate	11,147,000 (Note 1)	-	11,147,000	2.82%
		Personal	13,296,000	6,244,000	19,540,000	4.95%
Mr. Martin Treffer	The Company	Corporate	1,295,000 (Note 2)	-	1,295,000	0.33%
		Personal	250,000	1,902,000	2,152,000	0.54%
Mr. Zhou Bao Yi	The Company	Personal	1,002,000	-	1,002,000	0.25%
Mr. Mu Xiang Ming	The Company	Personal	-	471,000	471,000	0.12%
Dr. Yan Shi Yun	The Company	Personal	-	261,000	261,000	0.07%
Mr. Jiang Bo	The Company	Personal	-	261,000	261,000	0.07%

Notes:

1. These shares are held through Pacific Annex Capital Limited which is wholly owned by Dr. Li Zhong Yuan.
2. These shares are held by 2Trade Group Limited which is beneficially owned by Mr. Martin Treffer as to 35%.
3. The underlying shares of equity derivatives represent the shares issuable upon the exercise of share options granted to the directors/ chief executives by the Company.

Save as disclosed above, none of the directors or chief executive of the Company had any interest or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests in Shares

As at 30 September 2010, so far as is known to Directors, those persons other than Directors and chief executive of the Company, who had the interests or short positions in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of Substantial Shareholders	Capacity	Interests in shares (other than pursuant to equity derivatives)	Interests in underlying shares pursuant to equity derivatives	Total interest in shares/ underlying shares	Percentage of shares and underlying shares to issued shares at 30 Sept 2010
Dragonrise Capital Advisors Inc.	Beneficial owner	62,480,474	–	62,480,474	15.81%
Capital Foresight Limited (Note 1)	Beneficial owner	–	364,687,500	364,687,500	92.29%
ZhongXing Limited (Note 2)	Beneficial owner	8,595,000	62,480,474	71,075,474	17.99%

Notes:

1. Capital Foresight Limited, the holder of the Preference Shares, is beneficially owned by Mr. Yu Feng, Mr. Chen Li Bo and Mr. Li Xiao Ru. Upon full conversion of the Preference Shares in accordance with their terms and conditions, 364,687,500 are expected to be issued to Capital Foresight Limited.
2. ZhongXing Limited, the holder of the convertible notes, is beneficially owned by Mr. Ho Kin. Upon full conversion of the convertible notes, 71,075,474 are expected to be issued to ZhongXing Limited.

Share Option Schemes

On 13 April 2010, the Group granted 5,406,000 and 6,570,000 share options with an exercise price of HK\$0.5 per share to directors and employees of the Group. The detailed terms of the share option schemes were disclosed in the Company's 2010 annual report.

The following table discloses details of options outstanding under the Company's share option schemes and movements during the period:

	Option type	Outstanding at 1 April 2010	Granted	Exercised	Lapsed	Outstanding at 30 September 2010
Directors						
Li Zhong Yoan	A	25,000	-	-	-	25,000
	B	1,500,000	-	-	-	1,500,000
	C	2,100,000	-	-	-	2,100,000
	E	-	2,619,000	-	-	2,619,000
Zhou Bao Yi	E	-	1,002,000	(1,002,000)	-	-
Martin Treffer	C	900,000	-	-	-	900,000
	E	-	1,002,000	-	-	1,002,000
Mu Xiang Ming	C	210,000	-	-	-	210,000
	E	-	261,000	-	-	261,000
Yan Shi Yun	E	-	261,000	-	-	261,000
Jiang Bo	E	-	261,000	-	-	261,000
Total Directors		4,735,000	5,406,000	(1,002,000)	-	9,139,000
Employees						
	B	60,000	-	-	-	60,000
	C	270,000	-	-	-	270,000
	E	-	6,570,000	(1,440,000)	-	5,130,000
Total employees		330,000	6,570,000	(1,440,000)	-	5,460,000
Advisors and consultants						
	B	4,144,000	-	-	-	4,144,000
	C	4,422,000	-	-	-	4,422,000
	D	99,000	-	-	-	99,000
Total advisors and consultants		8,665,000	-	-	-	8,665,000
Total		13,730,000	11,976,000	(2,442,000)	-	23,264,000

Option type	Date of grant	Exercisable Period	Exercise price HK\$	Closing price immediately before the date of grant HK\$
A	31 August 2001	31/8/2001-15/5/2011	8.600*	12.000*
B	2 February 2004	2/2/2004-7/4/2012	3.400	3.800
C	3 March 2005	3/3/2005-7/4/2012	2.325	2.325
D	20 June 2005	20/6/2005-7/4/2012	2.330	2.300
E	13 April 2010	13/4/2010-12/4/2020	0.500	0.490

* The price has been adjusted for consolidation of the Company's shares.

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