



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
2014

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Jia Hong Sheng (*Chairman*)
Dr. Li Zhong Yuan
Mr. Zhou Bao Yi
Mr. Chung Ho
Mr. Wang Jingming

Independent Non-executive Directors

Mr. Mu Xiang Ming
Mr. Jiang Bo
Dr. Yan Shi Yun
Mr. Zhao Hua

COMPANY SECRETARY

Mr. Tsui Siu Hung Raymond

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 801, 8/F
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKER

The Hong Kong and Shanghai Banking Corporation
Harcourt Road Branch
Ground Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

AUDITORS

Elite Partners CPA Limited
Suites 2B-4A, 20/F, Tower 5
China Hong Kong City
33 Canton Road
Tsim Sha Tsui, Hong Kong

LEGAL ADVISER

KING & WOOD MALLESONS
13/F Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
The Belvedere Building
66 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

673

COMPANY WEBSITE

<http://chc673.com>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Notes	Six months ended 30 September	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue	5	20,906	22,965
Cost of services		(14,790)	(14,140)
Gross profit		6,116	8,825
Other gain and (loss)	6	343	(9,838)
Selling and distribution expenses		(3,146)	(3,743)
Administrative expenses		(11,440)	(14,632)
Finance costs	7	(35,998)	(31,763)
Extinguishment of liability component of redeemable convertible cumulative preference shares		–	35,692
Fair value (loss)/gain on derivative component of redeemable convertible cumulative preference shares		(478)	1,109
LOSS BEFORE TAX	8	(44,603)	(14,350)
Income tax	9	(107)	(140)
LOSS FOR THE PERIOD		(44,710)	(14,490)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		84	1,745

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Notes	Six months ended 30 September	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX OF NIL		84	1,745
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(44,626)	(12,745)
Loss for the period attributable to:			
Owners of the Company		(42,080)	(11,678)
Non-controlling interests		(2,630)	(2,812)
		(44,710)	(14,490)
Total comprehensive loss for the period attributable to:			
Owners of the Company		(42,047)	(9,784)
Non-controlling interests		(2,579)	(2,961)
		(44,626)	(12,745)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	10		
Basic and diluted:			
– For loss for the period (HK cents)		6.4	1.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2014

	Notes	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		221	469
Goodwill		742	742
Intangible assets		–	–
Financial assets	14	1,101	1,579
Other receivables	12	757	1,512
Total non-current assets		2,821	4,302
CURRENT ASSETS			
Trade receivables	11	65,648	55,313
Prepayments, deposits and other receivables	12	96,502	124,592
Restricted bank balances		4,594	5,727
Cash and bank balances		38,993	20,951
Total current assets		205,737	206,583
CURRENT LIABILITIES			
Trade payables	13	2,316	13,894
Other payables and accrued expenses		40,664	32,506
Amounts due to directors		1,787	506
Interest-bearing loans from a director and a shareholder		552	552
Liability component of redeemable convertible cumulative preference shares	14	159,166	130,686
Liability component of convertible bonds	15	50,457	49,635
Income tax payables		692	2,881
Preference shares dividend payable of a subsidiary		79,453	72,757
Promissory note		8,000	8,000
Total current liabilities		343,087	311,417
NET CURRENT LIABILITIES		(137,350)	(104,834)
TOTAL ASSETS LESS CURRENT LIABILITIES		(134,529)	(100,532)
Net liabilities		(134,529)	(100,532)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AS AT 30 SEPTEMBER 2014

	Notes	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
EQUITY			
Equity attributable to owners of the Company			
Issued capital	16	68,329	63,329
Reserves		(241,358)	(204,940)
		(173,029)	(141,611)
Non-controlling interests		38,500	41,079
Total equity		(134,529)	(100,532)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Statutory reserves HK\$'000	Convertible bonds reserve HK\$'000	Foreign currency translation reserve HK\$'000	Share options reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Deficiency in assets HK\$'000
At 1 April 2014 (Audited)	63,329	326,331	57,124	1,047	3,592	15,574	1,656	(610,264)	(141,611)	41,079	(100,532)
Loss for the period	-	-	-	-	-	-	-	(42,080)	(42,080)	(2,630)	(44,710)
Other comprehensive income for the period	-	-	-	-	-	33	-	-	33	51	84
Total comprehensive income/(loss) for the period	-	-	-	-	-	33	-	(42,080)	(42,047)	(2,579)	(44,626)
Subscription of shares	5,000	5,629	-	-	-	-	-	-	10,629	-	10,629
At 30 September 2014 (Unaudited)	68,329	331,960*	57,124*	1,047*	3,592*	15,607*	1,656*	(652,344)*	(173,029)	38,500	(134,529)
At 1 April 2013 (Audited, as restated)	60,326	319,334	57,124	1,047	3,592	15,379	1,656	(542,694)	(84,236)	81,139	(3,097)
Loss for the period	-	-	-	-	-	-	-	(11,678)	(11,678)	(2,812)	(14,490)
Other comprehensive income/(loss) for the period	-	-	-	-	-	1,894	-	-	1,894	(149)	1,745
Total comprehensive income/(loss) for the period	-	-	-	-	-	1,894	-	(11,678)	(9,784)	(2,961)	(12,745)
Issue of loan share upon loan capitalization	3,003	6,997	-	-	-	-	-	-	10,000	-	10,000
At 30 September 2013 (Unaudited)	63,329	326,331*	57,124*	1,047*	3,592*	17,273*	1,656*	(554,372)*	(84,020)	78,178	(5,842)

* These reserve amounts comprise the consolidated deficiency in reserves of approximately HK\$241,358,000 (2013: HK\$147,349,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	5,013	23,888
NET CASH FLOWS GENERATED FROM/(USED IN) INVESTING ACTIVITIES	31	(615)
NET CASH FLOWS GENERATED FROM/(USED IN) FINANCING ACTIVITIES	11,910	(7,708)
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,954	15,565
Effect of foreign exchange rate changes, net	(45)	1,247
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	26,678	14,229
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	43,587	31,041
Analysis of cash and cash equivalents:		
Restricted bank balances	4,594	4,207
Cash and bank balances	38,993	26,834
	43,587	31,041

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda; and principal place of business is located at Unit 801, 8/F., China Insurance Group Building, 141 Des Voeus Road Central, Hong Kong.

2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and the basis of preparation adopted in the preparation of these interim condensed consolidated financial statements are consistent with those adopted in the annual consolidated financial statements of the Group for the year ended 31 March 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value. The unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except for when otherwise indicated.

In preparing the unaudited condensed consolidated interim financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the following:

- (i) The Group had net current liabilities of approximately HK\$137,350,000 and net liabilities of approximately HK\$134,529,000 as at 30 September 2014;
- (ii) The liability component of convertible bonds ("CB") with interest at amortised cost of approximately HK\$50,457,000 as at 30 September 2014; and
- (iii) the liability component of redeemable convertible cumulative preference shares ("PS") with interest at amortised cost of approximately HK\$159,166,000 as at 30 September 2014 which was originally past due. Pursuant to the Supplementary Agreement 2014, subject to the completion of the subscription agreement of the convertible note dated 3 June 2014 (the "Subscription of Convertible Note") as announced on 3 June 2014, the Company should redeem the Preference Shares principal in 5 days after the completion of the Subscription of Convertible Note, and settle all dividends. Should the company fail to complete the Subscription of Convertible Note, the settlement date to redeem the Preference Shares is further extended to 31 March 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

2. BASIS OF PREPARATION (Continued)

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Nevertheless, these unaudited condensed consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon whether the holders of the CB and PS agree to further extend the redemption date for the CB and PS. As at the date of this report, the Company obtained verbal consent to standstill from the majority of CB holder. In addition, the Company has entered into an Supplementary Agreement in 2014 with PS holder. Pursuant to the Supplementary Agreement 2014, subject to the completion of the subscription agreement of the convertible note dated 3 June 2014 (the "Subscription of Convertible Note") as announced on 3 June 2014, the Company should redeem the Preference Shares principal in 5 days after the completion of the Subscription of Convertible Note, and settle all dividends. Should the company fail to complete the Subscription of Convertible Note, the settlement date to redeem the Preference Shares is further extended to 31 March 2015. Furthermore, the Group is implementing stringent cost control measure and trying its very best to raise funds to further improve the liquidity position of the Group. Under these circumstances, the directors are of the opinion that it is appropriate to prepare the unaudited condensed consolidated interim financial statements for the six months ended 30 September 2014 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to made to write down the value of assets to their recoverable amounts, to provide for future liabilities which might arise and to reclassify non-current assets and non-current liabilities to current respectively. The effect of these adjustments has not been reflected in the unaudited condensed consolidated interim financial statements.

3. IMPACT OF NEW AND REVISED HKFRSs

In the Period, the Group has applied, for the first time, the following new interpretation ("Int") and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)*-Int 21	Levies

* HK(IFRIC) represents the Hong Kong (International Financial Reporting Interpretations Committee).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

3. IMPACT OF NEW AND REVISED HKFRSs (Continued)

The application of the above new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

The Group's operating segments, based on information reported to the directors being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided.

For management purposes the Group is organized into business units based on their products and services and has two reportable operating segments as follows:

- B-to-C consumer services; and
- Healthcare service

Segment assets excluded cash and bank balances except for restricted bank balances and corporate assets as these assets are managed on a group basis.

Segment liabilities excluded interest-bearing loans from a director and a shareholder, amounts due to directors, liability component of convertible bonds, liability component of redeemable convertible cumulative preference shares, promissory note, preference shares dividend payable of a subsidiary and other corporate liabilities as these liabilities are managed on a group basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

4. OPERATING SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's revenue and results by operating segment for the six months ended 30 September 2014 and 2013.

	B-to-C consumer service		Healthcare service		Total	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Segment revenue						
Revenue from external customers	9,450	10,848	11,456	12,117	20,906	22,965
Segment results	203	1,195	227	417	430	1,612
Reconciliation:						
Interest income and unallocated gains					343	36,890
Corporate and other unallocated expenses					(9,378)	(21,089)
Finance costs-unallocated					(35,998)	(31,763)
Loss before tax					(44,603)	(14,350)
Depreciation and amortisation	196	241	-	1	196	242
Reconciliation: Unallocated depreciation and amortisation					39	4,466
					235	4,708

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

4. OPERATING SEGMENT INFORMATION (Continued)

The following tables are an analysis of the Group's assets as at 30 September 2014 and 31 March 2014:

	As at 30 September 2014 (Unaudited)		
	B-to-C consumer service HK\$'000	Healthcare service HK\$'000	Total HK\$'000
SEGMENT ASSETS	90,864	6,763	97,627
Corporate and other unallocated assets			110,931
Total assets			208,558

	As at 31 March 2014 (Audited)		
	B-to-C consumer service HK\$'000	Healthcare service HK\$'000	Total HK\$'000
SEGMENT ASSETS	81,433	6,108	87,541
Corporate and other unallocated assets			123,344
Total assets			210,885

5. REVENUE

Revenue, which is also the Group's turnover, represented the commission income earned from provision of B-to-C consumer service and the income from provision of healthcare service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

6. OTHER GAIN AND LOSS

Included in other gain and loss for the period ended 30 September 2013, is a provision of HK\$10,000,000 which represents a non-refundable deposit made to preference shareholders to extend the final settlement date to redeem the preference shares. The preference shareholders have the right to forfeit the deposit if the redemption of the preference shares does not take place on or before 30 November 2013. The directors of the Company are in a view that the Company is unable to redeem the preference shares on or before 30 November 2013, as a result, a provision of the said deposit has been fully recognised.

7. FINANCE COSTS

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on loans from a director and a shareholder	–	99
Effective interest expenses on convertible bonds wholly repayable within five years	822	784
Effective interest expenses on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	28,480	24,184
Dividend payable to convertible preference share issued by a subsidiary	6,696	6,696
	35,998	31,763

8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Amortisation of intangible assets	–	4,459
Depreciation of property, plant and equipment	235	249
Interest income	(31)	(106)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

9. INCOME TAX

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

Subsidiaries established in Mainland China are subject to the PRC enterprise income tax at the standard rate of 25% (2013: 25%).

	Six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Current tax – PRC	107	140

10. LOSS PER SHARE

	Six months ended 30 September	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Loss attributable to owners of the Company, used in the basic loss per share calculation	(42,080)	(11,678)
Number of shares	2014	2013
Weighted average number of ordinary shares for the purpose of basic loss per share	662,721,389	610,972,296

For the period ended 30 September 2014 and 30 September 2013, the convertible financial instruments had an anti-dilutive effect on the basic loss per share and were ignored in the calculation of diluted loss per share. Accordingly, no diluted loss per share has been presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

11. TRADE RECEIVABLES

The Group's credit policies for each of its principal activities are as follows:

- (i) Provision of B-to-C consumer services pre-charge are with credit terms of 180 days
- (ii) Provision of healthcare service are with credit terms of 90 days

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Within 1 month	3,789	3,540
1 to 3 months	7,352	8,616
3 months	54,507	43,157
	65,648	55,313

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Other receivables (<i>note (i)(ii)</i>)	63,360	93,874
Less: Non-current portion of other receivables (<i>note (ii)</i>)	(757)	(1,512)
	62,603	92,362
Deposits (<i>note (iii)</i>)	32,156	32,140
Prepayments	1,743	90
Current portion of prepayments, deposits and other receivables	96,502	124,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES(Continued)

Notes:

- (i) Approximately RMB42,997,000 (equivalent to approximately HK\$54,249,000) were amounts of sales proceeds of and due from the disposed subsidiaries;
- (ii) Under non-current portion and current portion are amount of approximately HK\$757,000 and HK\$5,436,000 respectively with respect to a secured loan of RMB8,000,000 granted by the Group to an independent third party pursuant to a loan agreement dated 26 July 2011, the loan is interest-free and repayable within 5 years;
- (iii) Approximately RMB25,000,000 (equivalent to approximately HK\$31,543,000) were deposit for customer services.

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which no recent history of default.

13. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Within 1 month	1,895	13,216
1 to 3 months	421	678
	2,316	13,894

14. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

On 28 July 2006, the Company entered into a preference share agreement ("Original Agreement") and issued 15,000 Preference Shares ("PS") of US\$0.01 each for a total cash consideration of US\$15,000,000 (approximately HK\$117,000,000). The PS holder is entitled to 2% dividend per annum or 5% compounded semi-annually subject to occurrence of special events as defined in the Original Agreement. Such maturity date is falling on the 5th anniversary of 28 July 2006 (i.e. 27 July 2011) or such later date ("conversion period"), but not later than the 7th anniversary of which the specific terms will be subjected to future agreement. An option embedded therein was granted to the PS holder that the PS could be converted at any time during the conversion period at the lower of HK\$0.3201; and 0.9 times of the volume-weighted average price of the Company's ordinary shares for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice; such redemption amount shall include a markup of 20% p.a. on the sum of principal and accumulated dividend payable at any early redemption date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

14. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

On 24 November 2012, the Company entered into a supplementary agreement (“Modification Agreement”) with the PS holder pursuant to which, the Company agreed to use its best endeavors to procure the fund raising to raise not less than US\$15 million (or its HK\$ equivalent) in net proceeds for the Company, of which US\$15 million (or its HK\$ equivalent) shall be applied to redeem the PS, on or before the 31 March 2013. Meanwhile, PS Holder agreed that it would not require the Company to redeem the PS nor would it exercise its conversion rights attached to all or any part of the PS at any time before 31 March 2013.

Subject to completion of the Fund Raising, the Company will redeem, and PS holder will accept the redemption of, all of the PS and in full and final settlement of all rights that PS Holder may have in respect of the PS whether under the Bye-laws of the Company or otherwise at an aggregate price of not more than US\$19 million, which shall be satisfied as to US\$15 million by payment of cash and as to not more than US\$4 million by the issue of a promissory note by the Company.

On 31 March 2013, the Company has further revised the Modification Agreement by entering into a supplementary agreement (“Supplementary Agreement”) with the PS holder. Pursuant to which, the Company shall redeem, and PS holder shall accept to extend the date of full and final settlement on or before 30 November 2013. In addition, the Supplementary Agreement specifically granted a conversion right to the Company that the sum of accumulated dividend payable from 1 December 2012 to 30 November 2013 is eligible to be settled by procuring ordinary shares of the Company at a pre-determined price of HK\$0.3201 or by cash at the date of maturity.

On 28 June 2013, the Company and the PS holder entered into an amendment agreement to the Supplementary Agreement dated 31 March 2013 (the “Amendment Agreement”).

Pursuant to the Amendment Agreement, the final settlement date to redeem the PS is extended from 30 November 2013 to 30 June 2014 provided that a non-refundable deposit of HK\$10 million (the “Deposit”) will be made to the PS holder before or by 29 June 2013 and the PS holder shall have the right to forfeit the Deposit if the redemption of the PS does not take place on or before 30 November 2013.

The calculation and settlement of the dividends of the PS from 1 December 2013 to 30 June 2014 shall be 6% per annum and the Company shall have the right to settle by way of issuance of shares to the PS holder at a pre-determined price of HK\$0.3201 per share.

Since the terms of the Modification Agreement, Supplementary Agreement and Amendment Agreement were different from the Original Agreement, hence, the financial liability are extinguished. The valuations were carried out by an independent qualified professional valuation firm not connected to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

14. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

On 30 June 2014, the Company and the PS holder entered into an supplementary agreement to the Amendment Agreement of the Preference Shares Agreement dated 28 June 2013 (the "Supplementary Agreement 2014"). Pursuant to the Supplementary Agreement 2014, subject to the completion of the subscription agreement of the convertible note dated 3 June 2014 (the "Subscription of Convertible Note") as announced on 3 June 2014, the Company should redeem the PS principal in 5 days after the completion of the Subscription of Convertible Note, and settle all dividends. Should the company fail to complete the Subscription of Convertible Note, the settlement date to redeem the PS is further extended to 31 March 2015.

Pursuant to the Supplementary Agreement 2014, the calculation and settlement of the dividends of the PS shall be (1) US\$4 million from 28 July 2006 to 30 November 2012 (the "Dividend I"), which shall be settled by promissory notes issued by the Company; (2) 5% per annum from 1 December 2012 to 30 November 2013 (the "Dividend II"), for which the Company shall have the right to settle by way of issuance of shares to the PS holder at a pre-determined price of HK\$0.25 per share; (3) 6% per annum from 1 December 2013 to 30 June 2014 (the "Dividend III"), for which the Company shall have the right to settle by way of issuance of shares to the PS holder at a pre-determined price of HK\$0.25 per share; and (4) 7% per annum from 1 July 2014 to 31 March 2015 (the "Dividend IV"), for which the Company shall have the right to settle by way of issuance of shares to the PS holder at a pre-determined price of HK\$0.15 per share.

(i) Liability component

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
At the beginning of the period/year	130,686	115,503
Interest charged for the period/year	28,480	50,875
Extinguishment of financial liability charged to profit or loss	-	(35,692)
At the end of the period/year	159,166	130,686

The fair value of the liability component of preference shares is determined using the discounted cash flow model ("DCF") with reference to the parameters as follows:

	Modification Agreement	Supplementary Agreement	Amendment Agreement
Effective interest rates	53.34%	48.81%	58.14%
Year	0.35	0.67	0.26
Dividend	semi-annual	semi-annual	semi-annual
Dividend per annum	5%	5%	6%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

14. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

(ii) Embedded derivative

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
At the beginning of the period/year, asset	(1,579)	(2,150)
Fair value change charged to profit or loss	478	571
At the end of the period/year, asset	(1,101)	(1,579)

The fair value of the embedded derivative of preference shares is determined using the Black Scholes Option Pricing Model with reference to the parameters as follows:

	Amendment Agreement	Supplementary Agreement 2014
Time to maturity	0.25	0.27
Risk free rate	0.14%	0.09%
Volatility	65.49%	64.36%
Strike price	HK\$0.32	HK\$0.25 and HK\$0.15
Spot price	HK\$0.30	HK\$0.265

15. CONVERTIBLE BONDS

On 19 May 2005, the Company issued CB with nominal value of US\$6,600,000 due on 18 May 2009. CB 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. CB 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 CB remain outstanding on the maturity date, the Company will redeem the principal of CB at 100% of their face value.

The effective interest rate of the liability component of CB is 3% per annum.

As at and up to 31 March 2011, CB with aggregate principal amount of US\$1,210,000 (equivalent to approximately HK\$9,372,000) had been repurchased by the Group at an aggregate consideration of approximately HK\$4,818,800. There is no repurchase of CB by the Group since 1 April 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

15. CONVERTIBLE BONDS (Continued)

On 18 May 2009, CB had matured, however, due to liquidity problem, the Group was unable to redeem CB at maturity. The Group's default in the redemption on CB had triggered the Company's early redemption obligation of CB and PS. Subsequent to the maturity date of CB, the Company reached an understanding with the major holder of CB to conditionally postpone the payment by the Company of the outstanding debts of CB for three years to 17 May 2013 if the Group can fulfil the conditions requested by the major holder of CB, which is a successful injection of substantial external resources into the Group, in short, and as long as no additional issuance of any debts by the Group that will rank pari passu with the CB upon and after successful injection of substantial external resources.

The 3% interest payables have not been paid since 18 May 2009. According to the terms and conditions of the CB, to the extent that interest is not paid on CB on the interest payment date, interest shall charge thereon from the interest payments date at a default rate of 5% per annum until date of payment.

The net proceeds received for the issue of CB have been split between the liability component and an equity component. The movement of the liability component is as follows:

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Carrying amount at the beginning of the period/year	49,635	48,064
Interest charged for the period/year	822	1,571
	50,457	49,635

Liability component of convertible bonds comprise of the following:

	30 September 2014 HK\$'000 (Unaudited)	31 March 2014 HK\$'000 (Audited)
Principal amount	42,042	42,042
Interest payable	7,344	6,718
Charge of overdue interest	1,071	875
	50,457	49,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

16. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Authorised:		
Ordinary shares of HK0.1 each		
At 1 April 2013, 31 March 2014, 1 April 2014 and 30 September 2014	<u>100,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.1 each		
At 1 April 2013	603,259,665	60,326
Issue of loan share upon loan capitalization (note i)	<u>30,030,030</u>	<u>3,003</u>
At 31 March 2014	633,289,695	63,329
Subscription of shares (note ii)	<u>50,000,000</u>	<u>5,000</u>
At 30 September 2014	<u>683,289,695</u>	<u>68,329</u>

Notes:

- (i) On 15 August 2013, the Company capitalized the principal amount of HK\$10 million of promissory note by means of issuing and allotting the 30,030,030 ordinary shares to the promissory note holder.
- (ii) On 23 May 2014, the Company and the subscribers, independent third parties, entered into subscription agreements to subscribe an aggregate of 50,000,000 shares of the Company, at HK\$0.212.

17. ACQUISITION OF A SUBSIDIARY

On 26 June 2013, the Group completed the acquisition of 51% equity interest in Shanghai Imperial Care Health Advocate Limited ("Shanghai Imperial") from an independent third party. The consideration of HK\$800,000 has been satisfied by cash on 25 June 2014.

The acquisition of Shanghai Imperial allows the Group to broaden the revenue base and improve the profitability of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

17. ACQUISITION OF A SUBSIDIARY (Continued)

The following summarized the recognised amount of identifiable assets acquired and liabilities assumed as at 26 June 2013:

	Amount recognised (fair value) HK\$'000
Net assets acquired of	
Property, plant and equipment	5
Cash and bank balances	129
Other payables and accrued expenses	(20)
	<hr/>
Net identifiable assets and liabilities	114
Non-controlling interests	(56)
Goodwill	742
	<hr/>
Consideration for acquisition satisfied by payable	800
	<hr/>
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Shanghai Imperial:	
Cash consideration paid	–
Cash and cash equivalent acquired	(129)
	<hr/>
Net inflow of cash and cash equivalents	<u>(129)</u>

18. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with the related parties:

	Six months ended 30 September	
	2014 HK\$'000	2013 HK\$'000
Nature of transactions		
Interest on loans from a director and a shareholder	–	99
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

18. RELATED PARTY TRANSACTIONS (Continued)

The remuneration of Directors and other members of key management of the Company during the period, which is determined by the remuneration committee having regard to the performance of individuals and market trends, is as follows:

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
Short-term benefits	1,559	1,611
Post-employment benefits	–	–
	1,559	1,611

19. LITIGATION

On or around 19 August 2010, Wingames Investments Limited (“Wingames”), an indirectly wholly-owned subsidiary of the Company, entered into the agreement (the “Agreement”) with Mascot Land Limited (“Procurer”), China Zhongfu Industry Co., Ltd. (“China Zhongfu”), Shanghai Zhongfu International Trading Co., Ltd. (“Shanghai Zhongfu”), Anhui Anhe Investment Consulting Co., Ltd. (“Anhui Anhe”), Mr. Wang Ji Sheng and Mr. Ge Qian Song (the “Management Guarantors”) (collectively known as “Guarantors”), being the independent third parties, to acquire equity interests of Shanghai Fu Shou Yuan Industrial Development Co., Ltd. and its affiliated entities, for a total consideration of HK\$3,360 million (the “VSA”), details of which have been set out in the Company’s circular dated 23 February 2011. The VSA transaction, however, became the subject of legal proceedings with Wingames and the Company as the plaintiffs and the other sides as the defendants in Hong Kong since 31 May 2011 (the “Proceeding”). On 6 May 2013, the parties to the Proceeding reached an agreement to settle the Proceeding, as a result, the Proceeding has been discontinued and this brings to an end the VSA. Relevant details and developments of the Proceeding are disclosed in a series of announcements since 3 June 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

20. FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
30 September 2014				
<i>Financial assets at FVTPL</i>				
Derivative financial assets	–	1,101	–	–

	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 March 2014				
<i>Financial liabilities at FVTPL</i>				
Derivative financial asset	–	1,579	–	–

There were no transfers between Level 1 and 2 during the year period ended 30 September 2014 and year ended 31 March 2014.

21. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the Board on 28 November 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results and Dividends

For the interim period ended 30 September 2014, the Group recorded a turnover of approximately HK\$20,906,000, representing a decrease of 9% as compared to HK\$22,965,000 for the corresponding period last year. Loss attributable to shareholders was HK\$42,080,000 (corresponding period in 2013: HK\$11,678,000). Basic loss per share for the period was HK6.4 cents (corresponding period in 2013: HK1.9 cents).

The Directors do not recommend the payment of any interim dividend to shareholders (corresponding period in 2013: Nil).

REVIEW OF BUSINESS OPERATION

During the period, the Group's business had principally continued to push forward the consumer oriented healthcare related services. Apart from the provision of B-to-C consumer services in Mainland China, the Group proactively provided services in relation to healthcare and third party administration to healthcare insurance companies via Shanghai Imperial, which achieved sound progress. During the period, revenue of the Group's operation primarily generated from provision of healthcare and third party administration services. Another business of the Group, "Cooling system distribution business", was unable to commence as scheduled due to restructuring and reform of national regulatory and operating institutions and resulting restrictions of market entry policy.

During the period, the Group extensively recruited talents to reinforce its management team to accommodate with the transformation of business into medical health services and established "Zhongwei Kanghong Hospital Management Co., Ltd." in Beijing to proactively extend its hospital management business.

Framework Agreement in relation to the Acquisition of Medical Projects

During the period, the Company entered into the "Framework Agreement" with an independent third party, targeting to acquire the assets and operating rights of a general hospital and nine treatment centers in Mainland China (Please refer to the announcement of the Company dated 30 September 2014 for details). If the acquisition transactions under the "Framework Agreement" are completed as scheduled, the Group will achieve a fundamental expansion of its core business, hence laying a solid foundation for future development and growth.

REVIEW OF FINANCIAL DISTRESS

During the period, the Group's listing entity China HealthCare Holdings Ltd., being the Group's ultimate holding company, continued to be insolvent due to its obligations of the Convertible Bonds ("CB") with outstanding principal of approximately US\$5.39 million and the Redeemable Convertible Preference Shares ("RCPS") with outstanding principal of US\$15 million.

During the period, the Group proactively introduced investors and entered into "subscription agreements" with independent third-party investors dated 8 April, 23 May and 3 June 2014 respectively to raise an aggregate of approximately HK\$650 million to resolve the outstanding debts and meet the needs of business development, of which the "subscription agreements" dated 23 May were completed during the period.

FUTURE PROSPECT

During the period, the Group has achieved significant progress in procuring external resources, strengthening our management team and developing our healthcare services business, which establishes a favorable situation for the business expansion of the Company for the year. The Board is of the view that the economic comprehensive development as well as urbanization and ageing society trends in China brought about tremendous opportunities for the modern medical services industry. The Company will grasp the opportunities and strive for greater heights, so as to achieve outstanding results.

Liquidity and Financial Resources

As at 30 September 2014, the current assets and net current liabilities of the Group are approximately HK\$205.7 million and HK\$343.1 million respectively, representing a current ratio of 0.60 (31 March 2014: 0.66). As at 30 September 2014, the total borrowings of the Group amounted to approximately HK\$217.6 million (31 March 2014: HK\$188.3 million), represented by convertible bonds, redeemable convertible cumulative preference shares and promissory note. The gearing ratio of the Group as at 30 September 2014 is (1.26) (31 March 2014: (1.33)), which was calculated on an amount of shareholders' equity of approximately HK\$(173,029,000) (31 March 2014: HK\$(141,611,000)).

On 23 May 2014, the Company and subscribers, independent third parties, entered into subscription agreements to subscribe an aggregate of 50,000,000 shares of the Company at HK\$0.212 per share. In June 2014, the subscriptions were completed raising net proceeds of HK\$10.4 million which have been used as general working capital for the Group.

Contingent Liabilities

As at 30 September 2014, there was no contingent liability of the Group.

Charge on Group's assets

As at 30 September 2014, there was no charge on the Group's assets.

Human Resources

As at 30 September 2014, the Group employed 67 (31 March 2014: 65) employees. Total staff cost including Directors' emoluments was HK\$2,648,000 as compared to HK\$2,367,000 for the previous period.

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 2014, 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
Dr. Li Zhong Yuan	The Company	Corporate	24,443,000 (Note 1)	2,619,000	27,062,000	3.96%
Mr. Zhou Bao Yi	The Company	Personal	1,002,000	-	1,002,000	0.15%
Mr. Mu Xiang Ming	The Company	Personal	261,000	-	261,000	0.04%
Mr. Jiang Bo	The Company	Personal	261,000	-	261,000	0.04%

Notes:

1. These shares are held through Timenew Limited which is wholly owned by Dr. Li Zhong Yuan.
2. 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 2014, 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
Firstsail Investments Limited (Note 1)	Beneficial owner	100,000,000	–	100,000,000	14.63%
ZhongXing Limited (Note 2)	Beneficial owner	69,422,474	–	69,422,474	10.16%
Dragonrisecapital Advisors Inc. (Note 3)	Beneficial owner	48,155,474	–	48,155,474	7.05%

Notes:

- (1) Firstsail Investments Limited was owned as to 50% by Chan Lee On and 50% by Shen Yuluo.
- (2) ZhongXing Limited was wholly-owned by Mr. Ho Kin.
- (3) Dragonrisecapital Advisors Inc. was wholly-owned by Mr. Yeung Ning.

Share Option Schemes

The Company operated a share option scheme which was expired on 7 April 2012 and a new share option scheme (the "New Scheme") was approved by the shareholders of the Company on 28 August 2012. Further details of the New Scheme were disclosed in the circular of the Company dated 31 July 2012. There was no change in any terms of the New Scheme during the period.

The following table discloses details of options outstanding and movements during the period:

	Option type	Outstanding at 1 April 2014	Granted	Exercised	Lapsed/ cancelled	Reclassified	Outstanding at 30 September 2014
Directors							
Li Zhong Yuan	E	2,619,000	-	-	-	-	2,619,000
Employees and others							
	E	3,351,000	-	-	-	-	3,351,000
Total		5,970,000	-	-	-	-	5,970,000

Option type	Date of grant	Exercise period	Exercise price HK\$	Closing price immediately before the date of grant HK\$
E	13 April 2010	13/4/2010-12/4/2020	0.500	0.490

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 2014, 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 four 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 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 and one executive director. 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 2014.

On behalf of the Board
China HealthCare Holdings Limited
Zhou Bao Yi
Executive Director

Hong Kong, 28 November 2014