

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

### 1. BASIS OF PRESENTATION

The condensed consolidated interim 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 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2006, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosure <sup>1</sup>
HKFRS 7	Financial Instruments Disclosure <sup>1</sup>
HK(IFRIC)-INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives <sup>3</sup>
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 November 2006

### 3. SEGMENT INFORMATION

For management purposes, the Group is currently organized into four operating divisions – (i) producing and trading of biotechnology products, (ii) provision for healthcare services, (iii) selling mobile phone usage fees by e-commerce and (iv) investment holding. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's revenue and segment results by business and geographical segments is as follows:

#### Business segments

	Producing and trading of biotechnology products (Unaudited) HK\$'000	Provision for healthcare services (Unaudited) HK\$'000	Selling mobile phone usage fees by e-commerce (Unaudited) HK\$'000	Investment holding (Unaudited) HK\$'000	Consolidated Total (Unaudited) HK\$'000
Income statement					
For the six months ended					
30 September 2006					
Segment revenue	1,682	1,661	375,525	-	378,868
Segment results	(1,124)	(6,379)	1,352	-	(6,151)
Other operating income					10,122
Unallocated corporate expenses					(13,455)
Loss from operations					(9,484)
Share of profit of associates					26
Finance costs					(5,637)
Loss before taxation					(15,095)
Taxation					(202)
Loss for the period					(15,297)

# CHINA HEALTHCARE HOLDINGS LIMITED

## Business segments

	Producing and trading of biotechnology products (Unaudited) HK\$'000	Provision for healthcare services (Unaudited) HK\$'000	Selling mobile phone usage fees by e-commerce (Unaudited) HK\$'000	Investment holding (Unaudited) HK\$'000	Consolidated Total (Unaudited) HK\$'000
Income statement For the six months ended 30 September 2005					
Segment revenue	2,840	706	-	-	3,546
Segment results	(845)	(6,748)	-	(4,500)	(12,093)
Other operating income					372
Unallocated corporate expenses					(12,304)
Loss from operations					(24,025)
Finance costs					(1,565)
Loss before taxation					(25,590)
Taxation					-
Loss for the period					(25,590)

## Geographical segments

The Group's operations are principally located in Hong Kong and other regions of the People's Republic of China ("Mainland China").

**4. LOSS FROM OPERATIONS**

Loss from operations has been arrived at after charging (crediting):

	<b>For the six months ended 30 September</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	<b>1,863</b>	1,049
Amortisation of intangible assets	<b>130</b>	95
Fair value loss on derivative component of convertible bonds	<b>627</b>	–
(Profit)/Loss on disposal of property, plant and equipment	<b>(3)</b>	3
Interest Income	<b>(1,226)</b>	(348)
Fair value gain on derivative component of redeemable convertible cumulative preference shares	<b>(8,509)</b>	–
	<b>–</b>	<b>–</b>

**5. FINANCE COSTS**

	<b>For the six months ended 30 September</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Interest on convertible bonds wholly repayable within five years	<b>1,275</b>	1,565
Dividend and amortisation on liability component of redeemable convertible cumulative preference shares	<b>1,451</b>	–
Issue costs on redeemable convertible cumulative preference shares	<b>2,907</b>	–
Interest on other loans	<b>4</b>	–
	<b>5,637</b>	1,565

## 6. TAXATION

No provision for Hong Kong Profits Tax has been made since the Group did not generate any assessable profits during the period (2005: Nil).

Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>For the six months ended 30 September</b>	
	<b>2006 (unaudited) HK\$'000</b>	2005 (unaudited) HK\$'000
Current – Mainland China	<b>202</b>	–

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses due to the unpredictability of future profit streams.

## 7. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of any interim dividend (2005: Nil).

## 8. BASIC LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	<b>For the six months ended 30 September</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Net loss for the period attributable to equity holders of the Company	<b>(15,007)</b>	(23,641)
Weighted average number of ordinary shares for the purposes of basic loss per share	<b>'000 234,368</b>	'000 226,143

No diluted loss per share have been presented for the six months ended 30 September 2006 and 2005 as there are no dilutive potential ordinary shares in issue for both periods and the exercise of the Company's outstanding convertible bonds, redeemable convertible cumulative preference shares and options are not assumed since their exercise would decrease the loss per share.

**9. TRADE RECEIVABLES**

The Group allows a credit period of 10 to 60 days to its customers. The aged analysis of the Group is as follows:

	<b>At 30 September 2006 (Unaudited) HK\$'000</b>	At 31 March 2006 (Audited) HK\$'000
Within 30 days	<b>3,213</b>	280
31 – 60 days	<b>431</b>	273
61 – 90 days	<b>126</b>	156
91 – 120 days	<b>477</b>	165
Over 120 days	<b>928</b>	2,415
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Total	<b>5,175</b>	3,289
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The directors consider that the carrying amount of trade receivables approximates their fair value.

**10. TRADE PAYABLES**

The aged analysis of trade payables of the Group is as follows:

	<b>At 30 September 2006 (Unaudited) HK\$'000</b>	At 31 March 2006 (Audited) HK\$'000
Within 30 days	<b>22</b>	42
31 – 60 days	<b>104</b>	–
61 – 90 days	<b>33</b>	4
91-120 days	<b>112</b>	494
over 120 Days	<b>118</b>	869
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Total	<b>389</b>	1,409
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The directors consider that the carrying amount of trade payables approximates their fair value.

11. CONVERTIBLE BONDS

	Convertible Bonds due on 18 May 2009 (the "CB1") HK\$'000	Convertible Bonds due on 6 August 2010 (the "CB2") HK\$'000	Total HK\$'000
At 1 April 2006	48,992	–	48,992
Nominal value of convertible bonds issued during the period (note 14(a))	–	18,400	18,400
Derivative component of convertible bonds	–	230	230
Interest charged during the period	1,229	46	1,275
Interest paid during the period	(772)	–	(772)
<b>At 30 September 2006</b>	<b>49,449</b>	<b>18,676</b>	<b>68,125</b>

CB1 carry 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. Each CB1 entitles the holder to convert the bonds into new 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.

CB2 carry interest at 2% per annum payable semi-annually in arrears with the first interest payment due on 6 February 2007 and the last interest payment due on 6 August 2010. Each CB2 entitles the holder to convert the bonds into new shares of the Company at a conversion price, subject to adjustment, of HK\$1.16 per share during the period from 7 August 2006 to 6 August 2010. In addition, if CB2 remain outstanding on the maturity date, the Company will redeem the principal of CB2 at 100% of their face value. Details are disclosed in the Company's circular dated 16 June 2006.

The directors consider that the carrying amount of the liability component of the convertible bonds approximates their fair value.

**12. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES**

The net proceeds received from the issue of the redeemable convertible preference shares ("PS") have been split between the liability and derivative component, as follows:

	HK'000
Nominal value of PS issued during the period	117,000
Transaction cost related to liability component	(10,294)
Derivative component at the issuance date	<u>(26,906)</u>
Liability component at the issuance date	79,800
Dividend and amortisation on liability component	<u>1,451</u>
Liability component at 30 September 2006	<u>81,251</u>
Derivative component at the issuance date	26,906
Fair value gain recognised in current period	<u>(8,509)</u>
Derivative component at 30 September 2006	<u>18,397</u>

On 28 July 2006, the Company issued 15,000 PS. The PS carry dividend at 2% per annum payable, subject to adjustment to 5% on certain special events, 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. Each PS entitles the holder to convert the preference shares into new shares of the Company at a conversion price, subject to adjustment, of HK\$1.16 per share at any time from 28 July 2006 to maturity date. 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 then 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.



13. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Authorised:		
Ordinary shares of HK\$0.1 each	5,000,000,000	500,000
Non-voting preference shares of HK\$10.0 each	100,000,000	<u>1,000,000</u>
<b>At 31 March 2006 and 30 September 2006</b>		<u><u>1,500,000</u></u>
Issued and fully paid:		
Ordinary shares of HK\$0.1 each		
<b>At 31 March 2006 and 30 September 2006</b>	<u><u>234,367,577</u></u>	<u><u>23,437</u></u>

14. ACQUISITION OF SUBSIDIARIES

- (a) On 26 May 2006, the Group acquired 100% equity interest in Shanghai New Everstep Investment Management & Consultancy Limited ("SNEI") at a total cash consideration of HK\$4,484,000.

On 1 August 2006, the Group acquired 70% equity interest in Shanghai Harvest Network Technology Co. Limited ("Shanghai Harvest") at a total consideration of HK\$36.4 million, of which HK\$18 million was satisfied in cash and HK\$18.4 million was satisfied by the issue of convertible notes.

The net assets acquired in the transactions, and the goodwill arising, are as follows:

	Shanghai Harvest HK\$'000	SNEI HK\$'000	Total HK\$'000
Net assets acquired	17,788	2,938	20,726
Goodwill arising on acquisition	18,612	1,546	<u>20,158</u>
Total consideration	<u>36,400</u>	<u>4,484</u>	<u>40,884</u>
Satisfied by:			
Cash	18,000	–	18,000
Offsetting amount advanced to third party	–	4,484	4,484
Issue of convertible bonds (note 11)	18,400	–	<u>18,400</u>
	<u>36,400</u>	<u>4,484</u>	<u>40,884</u>

	<b>Shanghai Harvest</b>	<b>SNEI</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Net cash outflow arising on acquisition:			
Cash consideration paid	(18,000)	–	(18,000)
Cash and cash equivalents acquired	12,525	2,968	15,493
	(5,475)	2,968	(2,507)
	(5,475)	2,968	(2,507)

The subsidiaries acquired during the period contributed HK\$375,525,000 of revenue and HK\$1,022,000 of profit before tax for the period between the dates of acquisition and the balance sheet date.

- (b) On 1 August 2006, the Group acquired the additional 12.46% equity interest in CHC (Shanghai) Medical & Healthcare Services Limited at a cash consideration of HK\$802,000.

#### **15. RELATED PARTY TRANSACTIONS**

No significant related party transaction was entered into by the Group during the period ended 30 September 2006.

#### **16. POST BALANCE SHEET EVENT**

On 1 November 2006, the Group acquired 60% equity interest in Shanghai EPay Information Technology Company Limited ("Shanghai EPay") at a cash consideration of approximately HK\$1 million. Shanghai EPay is a domestic company incorporated in Mainland China and is principally engaged in distribution of mobile charge prepayments and other prepaid e-commerce products and services.