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## China HealthCare Holdings Limited

中國衛生控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 673)

### ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2010

The board of directors (“**Directors**”) of China HealthCare Holdings Limited (the “**Company**”) announced the audited consolidated financial results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 March 2010 together with the comparative figures for the corresponding year ended 31 March 2009 as follows:

#### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2010

	Notes	2010 HK\$'000	2009 HK\$'000 (Restated)
<b>Revenue</b>	5	<b>2,776,413</b>	2,870,719
Cost of sales		<u>(2,750,762)</u>	<u>(2,844,481)</u>
<b>Gross profit</b>		<b>25,651</b>	26,238
Other income	6	<b>2,564</b>	4,334
Distribution expenses		<b>(11,294)</b>	(9,007)
Administrative expenses		<b>(43,816)</b>	(35,503)
Other operating expenses		<b>(1,269)</b>	(49)
Finance costs	7	<b>(63,878)</b>	(15,625)
Loss on recalculation of liability component of redeemable convertible cumulative preference shares		<b>(18,194)</b>	–
Impairment loss recognised in respect of loan receivables		–	(18,909)
Impairment loss recognised in respect of prepayment for acquisition of non-current assets		–	(7,045)
Impairment loss recognised in respect of trade and other receivables		<b>(3,717)</b>	(466)
Gain on disposal of financial assets at fair value through profit or loss		<b>108</b>	–
Gain on disposal of subsidiaries		<b>2,533</b>	2,510
Gain on deemed disposal of a subsidiary		<b>56</b>	54,993
Fair value loss on financial assets at fair value through profit or loss		–	(67)
Fair value (loss) gain on derivative component of convertible bonds		<b>(6,040)</b>	8,711
Fair value gain on derivative component of redeemable convertible cumulative preference shares		<b>18,871</b>	23,449
Gain on repurchase of convertible bonds		–	1,470
<b>(Loss) profit before tax</b>		<b>(98,425)</b>	35,034
Income tax expense	8	<b>(386)</b>	(1,451)
<b>(Loss) profit for the year</b>	9	<b>(98,811)</b>	33,583

	<i>Notes</i>	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000 (Restated)
Other comprehensive income			
Exchange differences arising on translation		<b>2,388</b>	2,095
Release of exchange differences upon disposal of subsidiaries		<b>102</b>	164
		<hr/>	<hr/>
Other comprehensive income for the year		<b>2,490</b>	2,259
		<hr/>	<hr/>
<b>Total comprehensive (expenses) income for the year</b>		<b>(96,321)</b>	35,842
		<hr/> <hr/>	<hr/> <hr/>
<b>(Loss) profit for the year attributable to:</b>			
– Owners of the Company		<b>(89,695)</b>	18,806
– Minority interests		<b>(9,116)</b>	14,777
		<hr/>	<hr/>
		<b>(98,811)</b>	33,583
		<hr/> <hr/>	<hr/> <hr/>
<b>Total comprehensive (expenses) income attributable to:</b>			
– Owners of the Company		<b>(87,605)</b>	20,755
– Minority interests		<b>(8,716)</b>	15,087
		<hr/>	<hr/>
		<b>(96,321)</b>	35,842
		<hr/> <hr/>	<hr/> <hr/>
<b>Basic and diluted (loss) earnings per share (HK\$)</b>	<i>11</i>	<b>(0.38)</b>	0.08
		<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2010

	<i>Notes</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i> (Restated)
<b>Non-current assets</b>			
Property, plant and equipment		8,482	10,875
Goodwill		32,582	31,360
Other intangible assets		2,012	622
Prepayment for acquisition of non-current assets		–	–
Interest in an associate		–	1
		<u>43,076</u>	<u>42,858</u>
<b>Current assets</b>			
Inventories		22,724	26,490
Trade receivables	12	38,602	39,759
Prepayments, deposits and other receivables		16,355	15,027
Loan receivables		–	–
Financial assets at fair value through profit or loss		–	56
Restricted bank balances		153,894	100,042
Bank balances and cash		20,241	56,391
		<u>251,816</u>	<u>237,765</u>
<b>Current liabilities</b>			
Trade payables	13	2,070	762
Other payables and accrued expenses		33,361	31,362
Amounts due to directors		5,188	1,220
Derivative component of convertible bonds		6,046	5,220
Derivative component of redeemable convertible cumulative preference shares		6,239	25,110
Liability component of convertible bonds		52,147	53,359
Liability component of redeemable convertible cumulative preference shares		176,820	100,860
Secured bank loans		34,200	–
Income tax payables		216	227
		<u>316,287</u>	<u>218,120</u>
<b>Net current (liabilities) assets</b>		<u>(64,471)</u>	<u>19,645</u>
<b>Total assets less current liabilities</b>		<u>(21,395)</u>	<u>62,503</u>
<b>Non-current liability</b>			
Deferred tax liabilities		423	–
<b>Net (liabilities) assets</b>		<u>(21,818)</u>	<u>62,503</u>
<b>Capital and reserves</b>			
Share capital		26,202	23,437
Reserves		(138,961)	(60,289)
<b>Equity attributable to owners of the Company</b>		<u>(112,759)</u>	<u>(36,852)</u>
Minority interests		90,941	99,355
		<u>(21,818)</u>	<u>62,503</u>

Notes:

## 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 annual report. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The 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 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 of approximately HK\$6,531,000. This error was corrected in 2010 and the 2009 comparative figures were retrospectively adjusted. As a result of correcting this error, the balance of other payables as at 31 March 2009 and finance costs for the year ended 31 March 2009 have decreased by approximately HK\$6,531,000, the accumulative losses as at 31 March 2009 have decreased by approximately HK\$6,531,000 and the earnings per share for the year ended 31 March 2009 has increased by HK\$0.03. As this event had no effect on the consolidated financial statements as at 1 April 2008, no consolidated statement of financial position as at 1 April 2008 has been presented in accordance with the requirement of the HKAS 1 (Revised) Presentation of Financial Statements.

## 2. BASIS OF PREPARATION

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Company and its subsidiaries (collectively referred to as the “Group”).

As at 31 March 2010, the Group had net current liabilities of approximately HK\$64,471,000 and net liabilities of approximately HK\$21,818,000. Furthermore, the Group had bank balances of approximately HK\$153,894,000 which are subject to restrictions imposed by the non-redeemable convertible preference share holders of the Company’s subsidiary pursuant to the terms of the subscription agreement.

During the year ended 31 March 2010, the Group was unable to redeem the convertible bonds which had been due on 18 May 2009 (“CB1”). At 31 March 2010, the overdue principal and interest of CB1 were approximately HK\$42,524,000 and HK\$1,796,000 respectively. In addition, the Group has convertible bonds with original maturity date of 1 June 2011 (“CB3”) and redeemable convertible cumulative preference shares with original maturity date of 28 July 2011 (“PS”) with outstanding amounts as at 31 March 2010 of approximately HK\$13,873,000 and HK\$183,059,000 respectively. Such amounts have become repayable on demand due to cross default with the default on CB1 which had triggered the Company’s obligation in early redemption of CB3 and PS. The Group has been actively in discussions with the holders of the convertible bonds for standstills, and a majority of the holders of the convertible bonds have verbally indicated they would not take immediate legal action against the Company to enforce their rights under the convertible bonds, and these would, de facto, allow the Group to defer the redemption of the convertible bonds, with a view to continue working on a potential restructuring of its capital structure with PS holder, the holder of the redeemable convertible cumulative preference shares of the Company. Also, the Group is

currently in discussion with certain prospective external resources providers to bring in viable assets and/or projects to restructure its defaulted financial obligation, and to solve the Group's solvency problem. In the mean time, the Group is implementing stringent cost control measures. The directors of the Company are of the opinion that continuous financial support will be provided by the Group's prospective investors to finance its future working capital and financial requirements, provided that the restructuring of capital structure with PS holder is successful.

Accordingly, notwithstanding that the Group is unable to redeem the convertible bonds on demand, the directors of the Company are of the opinion that it is still appropriate to prepare the consolidated financial statements for the year ended 31 March 2010 on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the consolidated financial statements.

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Hong Kong Accounting Standard (“HKAS”) 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC) – Interpretation (“Int”) 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK (IFRIC) – Int 13	Customer Loyalty Programmes
HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK (IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

## **New and revised HKFRSs affecting presentation and disclosure only**

### *HKAS 1 (Revised 2007) Presentation of Financial Statements*

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

### *HKFRS 8 Operating Segments*

HKFRS 8 is a disclosure standard. The adoption of HKFRS 8 has not resulted in a re-designation of the Group's reportable segments nor changes in basis of measurement of segment profit or loss, segment assets and segment liabilities.

### *Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)*

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expand disclosures in accordance with the transitional provision set out in the amendments.

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)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>3</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>7</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>5</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Revised)	First-time Adoption of HKFRSs <sup>1</sup>
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters <sup>4</sup>
HKFRS 1 (Amendment)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>6</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>4</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HKFRS 9	Financial Instruments <sup>8</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>7</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

<sup>3</sup> Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2010.

<sup>5</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

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 consolidated financial statements.

#### **4. SEGMENT INFORMATION**

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 April 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group's operating and reportable segments under HKFRS 8 which are based on the nature of business are as follows:

- Sales of medical devices and consumables
- B-to-B healthcare services
- B-to-C consumer services
- Investment holding



(a) **Segment revenues and results**

The following is an analysis of the Group's revenue and results by reportable segment.

**For the year ended 31 March 2010**

	Sales of medical devices and consumables <i>HK\$'000</i>	B-to-B healthcare services <i>HK\$'000</i>	B-to-C consumer services <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE					
External sales	<u>13,114</u>	<u>6,653</u>	<u>2,756,646</u>	<u>-</u>	<u>2,776,413</u>
Segment results	<u>(2,328)</u>	<u>(2,872)</u>	<u>(10,554)</u>	<u>-</u>	(15,754)
Unallocated corporate expenses					(36,885)
Other income					1,839
Interest income					725
Fair value loss on derivative component of convertible bonds					(6,040)
Fair value gain on derivative component of redeemable convertible cumulative preference shares					18,871
Finance costs					(63,878)
Gain on disposal of financial assets at fair value through profit or loss					108
Gain on deemed disposal of a subsidiary					56
Gain on disposal of a subsidiary					<u>2,533</u>
Loss before tax					<u>(98,425)</u>



For the year ended 31 March 2009

	Sales of medical devices and consumables <i>HK\$'000</i>	B-to-B healthcare services <i>HK\$'000</i>	B-to-C consumer services <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> (Restated)
REVENUE					
External sales	<u>4,922</u>	<u>7,381</u>	<u>2,858,416</u>	<u>-</u>	<u>2,870,719</u>
Segment results	<u>(1,355)</u>	<u>(1,575)</u>	<u>2,052</u>	<u>-</u>	(878)
Unallocated corporate expenses					(17,909)
Other income					3,042
Interest income					1,292
Fair value loss on financial assets at fair value through profit or loss					(67)
Fair value gain on derivative component of convertible bonds					8,711
Fair value gain on derivative component of redeemable convertible cumulative preference shares					23,449
Gain on repurchase of convertible bonds					1,470
Impairment loss recognised in respect of loan receivables					(18,909)
Impairment loss recognised in respect of prepayment for acquisition of non-current assets					(7,045)
Finance costs					(15,625)
Gain on deemed disposal of a subsidiary					54,993
Gain on disposal of subsidiaries					<u>2,510</u>
Profit before tax					<u>35,034</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represents the results of each segment without allocation of central administration costs, directors emoluments, other income, interest income, fair value loss on financial assets at fair value through profit or loss, fair value gain on derivative component of convertible bonds, fair value loss/gain on derivative component of redeemable convertible cumulative preference shares, gain on repurchase of convertible bonds, impairment loss recognised in respect of loan receivables, impairment loss recognised in respect of prepayment for acquisition of non-current assets, finance costs, gain on disposal of financial assets at fair value through profit or loss, gain on deemed disposal of a subsidiary and gain on disposal of subsidiaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

**(b) Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable segment:

**At 31 March 2010**

	Sales of medical devices and consumables <i>HK\$'000</i>	B-to-B healthcare services <i>HK\$'000</i>	B-to-C consumer services <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>					
Segment assets	<u>8,802</u>	<u>37,420</u>	<u>217,149</u>	<u>-</u>	263,371
Unallocated corporate assets					<u>31,521</u>
Consolidated assets					<u>294,892</u>
<b>LIABILITIES</b>					
Segment liabilities	<u>2,926</u>	<u>4,931</u>	<u>13,711</u>	<u>-</u>	21,568
Unallocated corporate liabilities					<u>295,142</u>
Consolidated liabilities					<u>316,710</u>

At 31 March 2009

	Sales of medical devices and consumables <i>HK\$'000</i>	B-to-B healthcare services <i>HK\$'000</i>	B-to-C consumer services <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> (Restated)
<b>ASSETS</b>					
Segment assets	<u>7,860</u>	<u>16,115</u>	<u>192,377</u>	<u>-</u>	216,352
Unallocated corporate assets					<u>64,271</u>
Consolidated assets					<u>280,623</u>
<b>LIABILITIES</b>					
Segment liabilities	<u>872</u>	<u>5,484</u>	<u>10,505</u>	<u>-</u>	16,861
Unallocated corporate liabilities					<u>201,259</u>
Consolidated liabilities					<u>218,120</u>

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than financial assets as fair value through profit or loss, bank balances and cash and other corporate assets; and
- all liabilities are allocated to reportable segments other than amounts due to directors, derivative component of convertible bonds, derivative component of redeemable convertible cumulative preference shares, liability component of convertible bonds, liability component of redeemable convertible cumulative preference shares, secured bank loans, income tax payables, deferred tax liabilities and other corporate liabilities.

(c) **Other segment information**

**For the year ended 31 March 2010**

	Sales of medical devices and consumables <i>HK\$'000</i>	B-to-B healthcare services <i>HK\$'000</i>	B-to-C consumer services <i>HK\$'000</i>	Unallocated corporate assets <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:					
Addition to non-current assets ( <i>Note</i> )	-	51	358	1,494	1,903
Amortisation	-	-	314	-	314
Depreciation	<u>284</u>	<u>1,536</u>	<u>1,335</u>	<u>1,279</u>	<u>4,434</u>
Amounts regularly provided to the chief operating decision maker but not included in measure of segment profit or loss or segment assets:					
Interest income	-	3	234	488	725
Finance costs	-	-	641	63,237	63,878
Income tax expense	<u>95</u>	<u>-</u>	<u>291</u>	<u>-</u>	<u>386</u>

**For the year ended 31 March 2009**

	Sales of medical devices and consumables <i>HK\$'000</i>	B-to-B healthcare services <i>HK\$'000</i>	B-to-C consumer services <i>HK\$'000</i>	Unallocated corporate assets <i>HK\$'000</i> (Restated)	Consolidated <i>HK\$'000</i> (Restated)
Amounts included in the measure of segment profit or loss or segment assets:					
Addition to non-current assets ( <i>Note</i> )	1,821	633	1,918	44	4,416
Amortisation	-	-	228	-	228
Depreciation	<u>369</u>	<u>1,951</u>	<u>2,920</u>	<u>466</u>	<u>5,706</u>
Amounts regularly provided to the chief operating decision maker but not included in measure of segment profit or loss or segment assets:					
Interest income	9	6	162	1,115	1,292
Finance costs	-	-	118	15,507	15,625
Income tax expense	<u>38</u>	<u>-</u>	<u>1,413</u>	<u>-</u>	<u>1,451</u>

*Note:* Non-current assets excluded goodwill and interest in an associate. Additions to non-current assets for the year ended 31 March 2010 included additions resulting from acquisition through business combinations, amounting to HK\$53,000 (2009: Nil).

**(d) Geographical information**

For the year ended 31 March 2010 and 2009, the Group's operations and its non-current assets are principally located in PRC (the country of domicile), mainly including Shanghai, Beijing, Guangdong, Nanjing and Hong Kong. Accordingly, no geographical segment information is presented.

**(e) Information about major customers**

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	<b>Year ended 31 March</b>	
	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	<b>526,583</b>	557,668

The above revenue was from the segment of B-to-C consumer services.

**5. REVENUE**

An analysis of the Group's revenue which represents sales of medical devices and consumables, revenue from B-to-C consumer services and income of B-to-B healthcare services is as follows:

	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Sales of medical devices and consumables	<b>13,114</b>	4,922
Revenue from B-to-C consumer services	<b>2,756,646</b>	2,858,416
Income of B-to-B healthcare services	<b>6,653</b>	7,381
	<b>2,776,413</b>	2,870,719

## 6. OTHER INCOME

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Interest income on bank deposits	725	903
Other interest income	–	389
Government grants ( <i>Note</i> )	–	1,217
Dividend income	3	2
Rental income from medical devices	57	–
Exchange gains	482	–
Others	<u>1,297</u>	<u>1,823</u>
	<u><u>2,564</u></u>	<u><u>4,334</u></u>

*Note:* Government grants represent subsidies to foreign owned enterprises as awards for investing in the PRC. They were determined at the sole discretion of the relevant PRC government.

## 7. FINANCE COSTS

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i> (Restated)
Interests on bank loans wholly repayable within five years	641	118
Effective interest expenses on convertible bonds wholly repayable within five years	5,272	5,254
Effective interest expenses on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	<u>57,965</u>	<u>10,253</u>
	<u><u>63,878</u></u>	<u><u>15,625</u></u>

## 8. INCOME TAX EXPENSE

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Current tax – PRC		
Provision for the year	386	1,341
Underprovision in prior years	<u>–</u>	<u>110</u>
	<u><u>386</u></u>	<u><u>1,451</u></u>

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 consolidated financial statements as the Group did not generate any assessable profit arising from Hong Kong for both years.

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 subsidiary in the PRC ranged from 18% to 25% for the year ended 31 March 2010 (2009: 15% to 33%).

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%).

## 9. (LOSS) PROFIT FOR THE YEAR

	<b>2010</b>	2009
	<i>HK\$’000</i>	<i>HK\$’000</i>
(Loss) profit for the year had been arrived at after charging:		
Amortisation of other intangible assets included in administrative expenses	<b>314</b>	228
Auditor’s remuneration	<b>714</b>	900
Cost of inventories recognised as expenses	<b>2,744,524</b>	2,840,615
Depreciation	<b>4,434</b>	5,706
Net exchange losses	–	53
Impairment loss recognised in respect of obsolete inventories	<b>1</b>	–
Loss on written off of interest in an associate	<b>1</b>	–
Loss on disposal of/written off of property, plant and equipment	<b>564</b>	46
Operating leases payments in respect of land and buildings	<b>2,959</b>	2,713
Research and development expenditure	<b>95</b>	661
Staff costs (including directors’ remuneration)		
– Salaries and allowances	<b>13,815</b>	10,804
– Retirement benefit scheme contributions	<b>2,057</b>	1,681
	<b>15,872</b>	12,485

## 10. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the end of the reporting period (2009: Nil).



## 11. (LOSS) EARNINGS PER SHARE

### (a) Basic

The calculation of the basic (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i> (Restated)
(Loss) profit for the year attributable to the owners of the Company	<u>(89,695)</u>	<u>18,806</u>
	2010	2009
Weighted average number of ordinary shares	<u>236,113,873</u>	<u>234,367,577</u>

### (b) Diluted

Diluted (loss) earnings per share was the same as the basic (loss) earnings per share as there were no dilutive effect from the assumed conversion of the Company's outstanding convertible bonds and redeemable convertible cumulative preference shares since their exercise would result in an decrease in loss and increase in profit per share for the years ended 31 March 2010 and 2009 respectively.

## 12. TRADE RECEIVABLES

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Trade receivables	47,622	48,624
Less: allowance for doubtful debts	<u>(9,020)</u>	<u>(8,865)</u>
	<u>38,602</u>	<u>39,759</u>

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 reporting date.

	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Within 30 days	<b>34,406</b>	36,161
31 to 60 days	<b>515</b>	271
61 to 90 days	<b>929</b>	620
91 to 120 days	<b>546</b>	1,979
Over 120 days	<b>2,206</b>	728
	<hr/>	<hr/>
Total	<b>38,602</b>	39,759
	<hr/> <hr/>	<hr/> <hr/>

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of HK\$2,873,000 (31 March 2009: HK\$2,294,000) which were past due as at the reporting date for which the Group has not provided for impairment loss.

Aging of trade receivables which are past due but not impaired:

	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Within 90 days	<b>368</b>	784
91 to 120 days	<b>299</b>	1,264
Over 120 days	<b>2,206</b>	246
	<hr/>	<hr/>
	<b>2,873</b>	2,294
	<hr/> <hr/>	<hr/> <hr/>

Trade receivables that were past due but not impaired were related to a number of independent customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group did not hold any collateral over these balances.

Movement in the allowance for doubtful debts:

	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
At 1 April	<b>8,865</b>	8,295
Exchange realignment	<b>25</b>	166
Impairment loss recognised	<b>130</b>	404
	<hr/>	<hr/>
At 31 March	<b>9,020</b>	8,865
	<hr/> <hr/>	<hr/> <hr/>

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK\$9,020,000 (2009: HK\$8,865,000). The individually impaired receivables related to customers who were in financial difficulties. The Group did not hold any collateral over these balances.

### 13. 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.

	<b>2010</b> <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Within 30 days	<b>1,189</b>	762
31 to 60 days	<b>240</b>	–
61 to 90 days	<b>64</b>	–
91 to 120 days	<b>174</b>	–
Over 120 days	<b>403</b>	–
	<hr/>	<hr/>
Total	<b>2,070</b>	762
	<hr/> <hr/>	<hr/> <hr/>

The average credit period on purchases of goods ranged from 30 to 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

### 14. EVENTS AFTER THE REPORTING PERIOD

On 13 May 2010, the Company issued two zero coupon convertible notes with nominal value of HK\$15,000,000 and HK\$20,000,000 respectively and with a term of one year maturity. Subsequently, during May 2010, HK\$2,000,000 of convertible notes has been converted into 6,248,047 ordinary shares.

## **EXTRACT FROM INDEPENDENT AUDITOR'S REPORT**

### **Basis for disclaimer of opinion**

As explained in note 2 to the consolidated financial statements, as at 31 March 2010, the Group had net current liabilities of approximately HK\$64,471,000 and net liabilities of approximately HK\$21,818,000. Furthermore, the Group had bank balances of approximately HK\$153,894,000 which are subject to restrictions imposed by the non-redeemable convertible preference shareholders of a subsidiary pursuant to the terms of the subscription agreement.

During the year ended 31 March 2010, the Group was unable to redeem the convertible bonds which had been due on 18 May 2009 ("CB1"). At 31 March 2010, the overdue principal and interest of CB1 were approximately HK\$42,524,000 and HK\$1,796,000 respectively. In addition, the Group has convertible bonds with original maturity date of 1 June 2011 ("CB3") and redeemable convertible cumulative preference shares with original maturity date of 28 July 2011 ("PS") with outstanding amounts as at 31 March 2010 of approximately HK\$13,873,000 and HK\$183,059,000 respectively. Such amounts have become repayable on demand due to cross default with the default on CB1 which had triggered the Company's obligation in early redemption of CB3 and PS.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depend on the successful outcome of the Group's ongoing negotiations (the "Negotiations") with the convertible bonds holders, preference shareholders and prospective external resources providers to bring in viable assets and/or projects to restructure its defaulted financial obligations, and to solve the Group's solvency problem. Due to the uncertainty of the outcome of the Negotiations, we were unable to ascertain whether the assumptions made by the directors of the Company in preparing the consolidated financial statements on a going concern basis are proper and appropriate.

Should the Group be not able to continue its business as a going concern, adjustments would be necessary to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The consolidated financial statements have not incorporated any of these adjustments. However, the uncertainty surrounding the outcome of the Negotiations raises significant doubt about the Company's ability to continue as a going concern and we have disclaimed our opinion.

### **Disclaimer of Opinion: Disclaimer on View Given by Fundamental Uncertainty Relating to the Going Concern Basis**

Because of the significance of the fundamental uncertainty relating to the going concern basis, we do not express an opinion as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **FINAL DIVIDEND**

The Directors do not recommend the payment of any final dividend to the shareholders (2009: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Results**

For the year ended 31 March 2010, the Group reported a turnover of approximately HK\$2,776.4 million, representing a decrease of 3.3% as compared to HK\$2,870.7 million for the previous financial year. The Group's net loss from ordinary activities attributable to shareholders for the year was approximately HK\$89.7 million as compared to profit of approximately HK\$18.8 million (restated) for the previous financial year. Basic loss per share for the year was HK\$0.38 (2009: earnings per share HK\$0.08 (restated)).

### **Business Operation**

During the past financial year, 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 intra-China/inbound China/China outbound mobility, and ageing demographics. The Group's vision is to become a consumer oriented service provider to embrace the mega trend in China, and to materialize such a vision the Group is building and scaling up its head-count based consumer services and products.

### **Review of the Group's business operations**

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; has enabled its POS terminals onto almost 8,000 distribution outlets (convenience stores and others) in Shanghai – the most comprehensive network there; and continues to maintain an estimated #1 market share for China Mobile top-up cards in Shanghai. Since the beginning of the financial year, the Group has been implementing a strategic growth initiative to position the business operation to move into payments sector and has taken systematic steps to identify and remove constrains in management; capital; expertise and technology.

The operation has been drawing upon both global perspective and local expertise to form and implement its road map of the strategic growth initiative. The initiative entails expansion of geography; products and channels, i.e. expanding into viable coastal regions beyond Shanghai in geography; viable transaction processing products and services beyond mobile top-up in products; and viable channels beyond existing ones in Shanghai to increase economy of scale. In expanding geography and channels, the operation has established its subsidiary in Shandong, the 2nd largest provincial mobile market in China, and such a subsidiary has secured relevant regulatory approvals and vendor rectifications for mobile top-up and is "acquiring" a large number of quality distribution outlets there; in expanding products into payments sector, the operation has upgraded its IT platform to connect with China UnionPay and enabled its

POS payment terminals into public channels (such as convenience stores and pharmacies etc.) and households to process payments of credit card bills etc. Also of critical importance, in taking measures to remove constraints in human resources to the initiative, the operation has had continued success in upgrading its critical human resources of senior and middle managers in marketing; technology and channel management.

Directors would like to report that the operation of the Group's consumer services business has had a decrease of about 3.6% in terms of overall revenues as compared with the same period in 2009.

In Group's other business operations, i.e. healthcare services focusing on travel-related emergency medical assistance and distribution of medical devices/consumables, directors would like to report that the operations have had a decrease of 9.9% and an increase of 166.4% respectively in terms of revenues as compared with those in the same period in 2009.

### **Review of the Group's financial distress**

During the past financial year, the Group's listing entity China HealthCare Holdings Ltd. ("CHC" or "HoldCo"), as the Group's ultimate holding company, doesn't have sufficient cash on hand and has been in default to its obligations to repay two convertible bonds (the "CBs") of outstanding principals of about US\$5.5 million and HK\$11 million respectively as of the date, 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 over the past financial year, the directors consider that a solution would necessarily require injection of substantial external resources, and in practice the Group has to bring in viable asset(s) and/or project(s) to enable a restructuring of its defaulted financial obligations. As such the directors have been making every best effort in working with relevant stakeholders to bring viable asset(s) and/or project(s) into the Group to solve its solvency problem.

Facing the financial distress above and as the Group's operations are service oriented and human capital heavy, directors have been making every best effort in alleviating the ongoing negative impacts of the financial distress and sustaining the underlying operations.

### **Liquidity and Capital Resources**

During the year under review, the Group's cash and cash equivalents amounted to approximately HK\$174.1 million as at 31 March 2010, where about HK\$153.9 million is in its subsidiary Harvest Network Ltd. ("Harvest") and its use is restricted for Harvest's working capital and other purpose only.

The Group's total borrowings as at 31 March 2010 amounted to HK\$263.2 million, all of which were represented by convertible bonds, preference shares and secured bank loans.

As at 31 March 2010, the Group's secured bank loans were repayable within one year and were denominated in RMB. The secured bank loans were charged at a fixed interest rate of 4.617%.

On this basis, the gearing ratio is calculated at (2.33) (2009: (4.18) (restated)), based on an amount of shareholders' equity of HK\$(112,759,000) (2009: HK\$(36,852,000)).

### **Contingent Liabilities**

As at 31 March 2010, there were no contingent liabilities of the Group.

### **Charge on Group's Assets**

As at 31 March 2010, there was no charge on the Group's assets.

### **Employees and Remuneration Policy**

As at 31 March 2010, the Group employed 160 (2009: 128) staff members. Total staff cost including Directors' emoluments was HK\$15.9 million as compared to HK\$12.5 million for the previous year.

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 a 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.

### **FUTURE PROSPECT**

While the Group's HoldCo is facing financial distress which has ongoing negative impacts on the Group's operating activities, the Group is making every best effort, and at the same time looking forward to the support and cooperation of our shareholders; stakeholders and business partners, to work out a solution to HoldCo's solvency problem.

From a macro perspective of 20-year time horizon on China's consumer markets by McKinsey, the Chinese one defines world's largest growth opportunity in consumer services. Pending overcoming the Group's immediate financial distress of its HoldCo, the Group's business operations and associated head-count based consumer services and products are on track to embrace the mega trend.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31 March 2010.



## **CODE OF CORPORATE GOVERNANCE PRACTICE**

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practice (the “Code”) as set out in Appendix 14 of the Listing Rule throughout the year, except for the deviations disclosed in the Company’s latest interim report for the six months ended 30 September 2009. Detailed information is set out in the Corporate Governance Report included in the Company’s Annual Report to be despatched to the shareholders in due course.

The Company has adopted the Model Code (Appendix 10 to the Listing Rules) as its own code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the year.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

## **AUDIT COMMITTEE**

The Group’s Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including the review of the Group’s audited results for the year ended 31 March 2010.

## **PUBLICATION OF RESULTS ANNOUNCEMENT**

The information as required by Appendix 16 of the Listing Rules will be published on the Stock Exchange’s website (<http://www.hkex.com.hk>) and [www.chinahealthcareltd.com](http://www.chinahealthcareltd.com) in due course.

On Behalf of the Board  
**Zhou Bao Yi**  
*Executive Director*

Hong Kong, 28 July 2010

*As at the date of this announcement, the board of directors of the Company comprises Dr. Li Zhong Yuan and Mr. Zhou Bao Yi, all of whom are executive directors; Mr. Martin Treffer who is non-executive director; and Mr. Mu Xiang Ming, Mr. Jiang Bo and Dr. Yan Shi Yun, all of whom are independent non-executive directors.*

\* *For identification purpose only*