



HUA XIA HEALTHCARE HOLDINGS LIMITED

華夏醫療集團有限公司*

(Formerly known as GRANDY CORPORATION 泓迪有限公司*)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)



First Quarterly Report 2006/07



* For Identification Purpose Only

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This report, for which the directors (the “Directors”) of Hua Xia Healthcare Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



HIGHLIGHTS

- The Group has recorded a total turnover of approximately HK\$18,964,000 for the three months ended 30 June 2006 as compared to a total turnover of approximately HK\$6,082,000 recorded in the corresponding period in 2005, representing an increase of turnover of approximately 212%.
- The Group has recorded a net profit attributable to equity holders for the three months ended 30 June 2006 of approximately HK\$5,202,000 as compared to a net loss attributable to equity holders of approximately HK\$884,000 recorded in the corresponding period in 2005.
- The basic and diluted earnings per share of the Company for the three months ended 30 June 2006 were approximately HK\$1.01 cents and HK\$0.89 cents respectively (2005: basic loss HK\$0.26 cents (adjusted)).
- The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2006 (2005: Nil).



FINANCIAL RESULTS

The board (the "Board") of Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 30 June 2006, together with the unaudited comparative figures for the corresponding period in 2005 as follows:

Unaudited Consolidated Income Statement

	Notes	Unaudited Three months ended 30 June	
		2006 HK\$'000	2005 HK\$'000
TURNOVER	3	18,964	6,082
Cost of sales		(7,656)	(2,477)
Gross profit		11,308	3,605
Other income		212	5
Selling and distribution costs		(225)	(432)
Administrative expenses		(5,575)	(4,068)
PROFIT/(LOSS) FROM OPERATIONS		5,720	(890)
Finance costs		(229)	(17)
PROFIT/(LOSS) BEFORE TAXATION		5,491	(907)
Taxation	4	(311)	–
PROFIT/(LOSS) FOR THE PERIOD		5,180	(907)
Attributable to:			
Equity holders of the Company		5,202	(884)
Minority interests		(22)	(23)
		5,180	(907)
DIVIDENDS		–	–
EARNINGS/(LOSS) PER SHARE			
– Basic (cents)	5	1.01	(0.26)
– Diluted (cents)	5	0.89	N/A



NOTES TO THE UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2006

1. General

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company are listed on GEM of the Stock Exchange.

The Company acts as an investment holding company while its subsidiaries are engaged in the production, sourcing, sales and marketing, design and development of environmental products and ancillary services for combating environmental problems in the areas of energy-saving, enzyme treatments and waste water treatment businesses.

2. Basis of preparation

The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

In 2004, the HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the new HKFRS in the preparation of financial statements from 1 April 2005 onwards. The adoption of these new HKFRS has no material impact on the Group's results of operations and financial position for the three months ended 30 June 2006.

The accounting policies adopted in preparing the unaudited consolidated results for the period ended 30 June 2006 are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2006.



3. Turnover

Turnover represents the aggregate of net amounts received and receivable from third parties in connection with the sales of environmental protection products and provision of related services, and provision of hospital management services.

	Unaudited	
	Three months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Sales of environmental protection products and provision of related services	10,905	6,082
Provision of hospital management services	8,059	—
	<u>18,964</u>	<u>6,082</u>

4. Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profits deriving from Hong Kong's operations during the period (2005: Nil).

Provision for corporate income tax of approximately 5% in average had been made for income derived from the provisions of hospital management and environmental protection consultancy services in the PRC (2005: Nil).

5. Earnings/(loss) per share

The calculation of basic earnings (2005: loss) per share for the three months ended 30 June 2006 was based on the net profit of approximately HK\$5,202,000 (2005: loss HK\$884,000) and on the weighted average number of 517,403,548 shares (2005: 344,119,576 (restated) shares) in issue during the period after adjusting for the effects of the rights issue on 11 April 2006. The basic loss per share for 2005 had been adjusted accordingly.



Diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the three months ended 30 June 2006, the Company had one category of dilutive potential ordinary shares: unlisted convertible notes. The unlisted convertible notes were assumed to have been converted into ordinary shares and the net profit was adjusted to eliminate the interest expenses less the tax effect.

	Unaudited	
	Three months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
Profit/(loss) attributable to equity holders of the Company	5,202	(884)
Interest expense on unlisted convertible notes (net of tax)	180	–
Profit/(loss) used to determine diluted earnings per share	5,382	(884)
	2006	2005 (Restated)
Weighted average number of ordinary shares in issue	517,403,548	344,119,576
Adjustments for assumed conversion of unlisted convertible notes	86,956,521	–
Weighted average number of ordinary shares of diluted earnings per share	604,360,069	344,119,576
	2006	2005
Diluted earnings per share	HK\$0.89 cents	N/A

No diluted loss per share had been presented for the three months ended 30 June 2005 as share options outstanding during the three months ended 30 June 2005 had an anti-dilutive effect on basic loss per share.



6. Capital and reserves (unaudited)

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note (a))	Translation reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible notes reserves HK\$'000	Statutory enterprise expansion fund HK\$'000 (Note (c))	Statutory reserve HK\$'000 (Note (b))	Warrants reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 April 2005	13,904	56,022	2,935	355	-	-	-	-	-	(54,220)	18,996	133	19,129
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	(280)	-	-	-	-	-	-	(280)	-	(280)
Net loss for the period	-	-	-	-	-	-	-	-	-	(884)	(884)	(23)	(907)
At 30 June 2005	13,904	56,022	2,935	75	-	-	-	-	-	(55,104)	17,832	110	17,942
At 1 April 2006	17,247	60,764	2,935	453	113	499	37	37	-	(51,103)	30,982	36	31,018
Net profit for the period	-	-	-	-	-	-	-	-	-	5,202	5,202	(22)	5,180
Issue of shares	8,623	-	-	-	-	-	-	-	-	-	8,623	-	8,623
Premium arising on issue of shares	-	1,725	-	-	-	-	-	-	-	-	1,725	-	1,725
Issuing expenses	-	(718)	-	-	-	-	-	-	-	-	(718)	-	(718)
Share-based payment expense	-	-	-	-	(113)	-	-	-	-	-	(113)	-	(113)
Exercise of share options	242	-	-	-	-	-	-	-	-	-	242	-	242
Premium arising on exercise of share options	-	255	-	-	-	-	-	-	-	-	255	-	255
Transfer to reserve	-	-	-	-	-	-	-	-	2,067	-	2,067	-	2,067
At 30 June 2006	26,112	62,026	2,935	453	-	499	37	37	2,067	(45,901)	48,265	14	48,279

Note:

- The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of a subsidiary acquired pursuant to a group reorganisation in 2001.
- As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall set aside 10% of its net profit after taxation for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the Board and by the relevant authority, to offset accumulated losses or increase capital.
- As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall appropriate 5% to 10% of its net profit after taxation as the statutory enterprise expansion fund. The Directors shall have discretion in determining the percentage within the range specified by the relevant PRC laws and regulations.

7. Interim dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2006 (2005: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Results of the Group for the three months ended 30 June 2006 have shown significant improvement in turnover compared with the corresponding period ended 30 June 2005. Turnover of the Group for the three months ended 30 June 2006 was approximately HK\$18,964,000 in comparison with HK\$6,082,000 in 2005, representing an increase of approximately 212%. Net profit attributable to equity holders for the three months ended 30 June 2006 was HK\$5,202,000 in comparison with a net loss of approximately HK\$884,000 in 2005, representing an increase of approximately 688%.

The improvement in revenue for the three months ended 30 June 2006 was mainly driven by the contribution in turnover by the manufacture and sale and trading of environmental friendly household products, the environmental protection consultancy services to hospitals and hospital management services in the PRC. The turnover of these new lines of products and services represented approximately HK\$14,756,000 equivalent to approximately 78% of the Group's turnover for the three months ended 30 June 2006.

Business Review and Outlook

Waste water treatment businesses

The Group's waste water treatment businesses for government and commercial projects are mainly carried out through Youngdong Environmental Engineering Co., Ltd. ("Youngdong") in Korea. Youngdong's turnover for the three months ended 30 June 2006 totalled approximately HK\$3,839,000 (2005: HK\$3,406,000).

The Group also provides cleansing and ancillary services to both public and private housing in Hong Kong for cleansing of fresh and flush roof tanks, sump tanks and water tanks since December 2004. The turnover for this division of business for the three months ended 30 June 2006 recorded approximately HK\$224,000 (2005: HK\$155,000).

Energy saving products and enzyme treatments

The Group's energy saving and enzyme treatment divisions recorded a total turnover of approximately HK\$145,000 for the three months ended 30 June 2006 (2005: HK\$2,669,000). The significant decrease in turnover was due to intense market competition and fall in demand for the products.



Trading of environmental friendly household products

In July 2005, the Group had commenced a new business line of trading of household products made from the environmental friendly melamine materials which are widely used in environmental conscious countries. The turnover recorded in this line of business for the three months ended 30 June 2006 was approximately HK\$1,079,000.

Manufacture of melamine materials and related products

On 5 September 2005, the Group had completed the acquisition of a production line through the wholly-owned subsidiary, Prime Source (Fujian) Chemical Co. Ltd., incorporated in the Fujian Province, the PRC. The production line comprises machineries and other supporting equipment such as storage tanks, grinding machines, electrical distributors and pipelines for the production of melamine materials. Melamine materials are raw materials used in the manufacture of household products which are widely used in environmental conscious countries and are durable, non-toxic and easy to be processed. The production line has generated approximately HK\$4,417,000 turnover for the three months ended 30 June 2006.

Environmental protection consultancy and management services for hospitals

Since October 2005, the Group has entered into the service agreements with hospitals in the PRC to provide professional consulting services in the areas of environmental protection such as energy saving, waste water treatments, and improvement on the hospitals' air and water quality. The turnover recorded in these services for the three months ended 30 June 2006 was approximately HK\$1,201,000.

In addition to rendering environmental protection services for hospitals, the Group subcontracts its services to a hospital management company in the PRC to provide hospital management services. The turnover recorded in these services for the three months ended 30 June 2006 was approximately HK\$8,059,000.

Future prospects

Under the environment of fast economic growth in the PRC and more people becoming aware of the importance of health, the Directors believe that the healthcare market in the PRC provides abundant business opportunities for the Group in the future.



On 12 June 2006, Grand Brilliant Corporation Limited (“Grand Brilliant”), a wholly-owned subsidiary of the Company entered into a conditional Sale and Purchase Agreement with the Vendor to acquire the 760 shares of US\$1.00 each of Day View Group Limited and all 76% of all obligations, liabilities and debts owing or incurred by Day View Group Limited to its existing shareholders, including the Vendor and a minority shareholder. The total consideration amounted to approximately HK\$96,860,000 and will be satisfied by the following manner:

- (i) HK\$10,000,000 as deposit which has already been paid by Grand Brilliant pursuant to the MOU as earnest money;
- (ii) approximately HK\$76,860,000 by procuring the Company to allot and issue shares at an issue price of HK\$0.61 per share upon completion of the transaction; and
- (iii) HK\$10,000,000 by cash upon completion of the transaction

For further details, please refer to the Company’s announcements dated 30 March 2006 and 15 June 2006 respectively.

Day View Group Limited indirectly holds 51% interests in a hospital management company in Shanghai, Shanghai Humanity Hospital Management Company Limited. Day View Group Limited and its subsidiaries, including Shanghai Humanity Hospital Management Company Limited, are principally engaged in the business of healthcare management and training and consultancy for hospitals in the PRC, which include advising on management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support. The Directors consider that the acquisition will enhance the Group’s overall business performance, strengthen its revenue bases and diversify its business risk through the synergistic effect.



The Directors also intend to explore more business opportunities in the promising healthcare sector in the PRC including but not limited to possible future investments in or cooperations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the Directors believe will have growth potentials) and to consider undertaking those businesses which are complimentary to the existing business as a further step to the acquisition in order to benefit from the growth in the healthcare sector and enhance shareholders' returns in the long-run. In this regard, on 12 July 2006, the Company announced that Grand Brilliant entered into a non-legally binding letter of intent with the Vendor in relation to the proposed acquisition of the whole or part of equity interests to be indirectly held by the Vendor in Shanghai Humanity Hospital. Under the letter of intent, both Grand Brilliant and the Vendor will proceed to the negotiation for a legally binding formal agreement on or before 30 September 2006 (or such a later date to be agreed by the parties). For further details, please refer to the Company's announcement dated 12 July 2006.

While developing the business in the healthcare market in the PRC, the Group will continue to pursue its principal business in the environmental business in order to maximise greater returns for the Company and the shareholders.

Capital Structure

- (a) On 20 April 2006, the Directors proposed to increase the authorised share capital of the Company from HK\$30,000,000 divided into 600,000,000 shares of HK\$0.05 each to HK\$100,000,000 divided into 2,000,000,000 shares of HK\$0.05 each by the creation of an additional 1,400,000,000 unissued shares of HK\$0.05 each. The increase in authorised share capital was approved by the shareholders at the extraordinary general meeting held on 9 May 2006.

For further details, please refer to the Company's circular dated 20 April 2006.



- (b) On 18 May 2006, the Company entered into a conditional warrant placing agreements with Triumph Sky Finance Limited and Happy Woodstock Limited (the “Subscribers”) in relation to a private placing of 51,707,000 warrants to each of the Subscribers, making up an aggregate of 103,414,000 warrants collectively, at an issue price of HK\$0.02 per warrant. The warrant placing was completed on 5 June 2006 and 103,414,000 warrants had been issued. The net proceeds from the warrant placing of approximately HK\$1,500,000 will be applied as general working capital of the Group. The warrants entitle the Subscribers to subscribe for new shares at an initial subscription price of HK\$0.62 per new share for a period of 18 months commencing from the date of issue of the 103,414,000 warrants. A total fund of approximately HK\$64,100,000 will be raised upon full exercise of the subscription rights attaching to the warrants by the holders of warrants.

For further details, please refer to the Company’s announcements dated 22 May 2006 and 5 June 2006 respectively.

- (c) The Company had issued HK\$18,000,000 unlisted convertible notes on 11 January 2006 and the holders of these unlisted convertible notes are entitled to convert those unlisted convertible notes into a total of 86,956,521 shares (adjusted as a result of the rights issue completed on 11 April 2006) at the conversion price of HK\$0.207 (adjusted as a result of the rights issue completed on 11 April 2006) upon the exercise of the conversion rights attached to the unlisted convertible notes at any time after expiry of six months after the issue date, (i.e. 10 July 2006) and up to the close of business on the maturity date. On 12 July and 20 July 2006 respectively, a total of HK\$9,500,000 unlisted convertible notes had been converted into a total of 45,893,709 shares. At present, there are a total of 41,062,812 shares equivalent to HK\$8,500,000 unlisted convertible notes outstanding for conversion.

Change of Company Name

The Company (formerly known as Grandy Corporation) is renamed as Hua Xia Healthcare Holdings Limited following the passing of a special resolution at the Company’s extraordinary general meeting held on 12 July 2006 and being registered by the Registrar of Companies in the Cayman Islands. The certificate of the change of the Company’s name was received on 3 August 2006. The registration of the change of the Company’s name at the Companies Registry in Hong Kong is under process.



DISCLOSURE OF INTERESTS

Directors' and chief executive's interests in shares, underlying shares and debentures

As at 30 June 2006, the interests and short position of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by Directors of the Company as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

Long positions in shares:

Name of Director	Capacity	Number of shares	Approximate percentage of the total issued share capital
Yung Kwok Leong ^{Note 1}	Interest in controlled corporation ^{Note 1}	122,804,000	23.51%
	Beneficial owner	4,125,000	0.79%
Shum Ngai Pan ^{Note2}	Beneficial owner	3,600,000	0.69%
Weng Jiaying ^{Note2}	Beneficial owner	3,750,000	0.72%

Notes:

1. These shares are held through Easeglory Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Mr. Yung Kwok Leong.
2. Ms. Shum Ngai Pan and Mr. Weng Jiaying are executive Directors.



Save as disclosed above, as at 30 June 2006, none of the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Substantial shareholders' interests and short positions in shares and underlying shares

As at 30 June, 2006, other than the interests of a Director or chief executive of the Company as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures" above, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in shares:

Name of shareholder	Capacity	Number of shares	Approximate percentage of the total issued share capital
Easeglory Holdings Limited (Note 1)	Beneficial owner	122,804,000	23.51%
Yung Muk Ying (Note 1)	Interest of spouse	126,929,000	24.30%
Top Rainbow Ltd. (Note 2)	Beneficial owner	67,351,887	12.90%
Yang Pei Gen (Note 2)	Interest in controlled corporation	67,351,887	12.90%
Lu Jin Ming (Note 2)	Interest of spouse	67,351,887	12.90%
Wu Wendong (Note 3)	Beneficial owner	126,000,000	24.13%



- Notes:
1. The issued share capital of Easeglory Holdings Limited is 100% beneficially owned by Mr. Yung Kwok Leong, an executive Director and the chairman of the Company. Ms. Yung Muk Ying is deemed to be interested in 126,929,000 shares by virtue of her being the spouse of Mr. Yung Kwok Leong.
 2. The issued share capital of Top Rainbow Ltd. is 100% beneficially owned by Mr. Yang Pei Gen. Ms. Lu Jin Ming is deemed to be interested in the Company by virtue of her being the spouse of Mr. Yang Pei Gen.
 3. 126,000,000 shares are beneficially owned by Mr. Wu Wendong upon completion of the acquisition of Day View Group Limited.

Save as disclosed above, as at 30 June 2006, the Directors of the Company were not aware of any other person (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures" above, at no time since incorporation of the Company were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.



SHARE OPTION SCHEMES

(i) Pre-IPO Scheme

As at 30 June 2006, there were 1,034,400 outstanding share options pursuant to the Pre-IPO Scheme adopted on 20 April 2002. A breakdown setting out the number of outstanding share options and their respective exercise price, both of which have been adjusted as a result of the share consolidation and the rights issue, and their respective exercise period under the Pre-IPO Scheme is as follows:

	Exercise period	Exercise price	Number of share options outstanding
Former employee and advisor of the Company	26 April 2002 to 9 May 2012	HK\$0.541	1,034,400

(ii) Post-IPO Scheme

In July 2005, 15,000,000 share options conferring rights to subscribe for 15,000,000 shares were granted to Directors and employees of the Group. These 15,000,000 share options had then further been adjusted as a result of the rights issue to become 16,098,750 share options to subscribe for 16,098,750 shares. As at 30 June 2006, these 16,098,750 share options had all been exercised during the period from October 2005 to April 2006.



On 12 July and 24 July 2006 respectively, the Company passed board resolutions pursuant to the Post-IPO Scheme adopted on 20 April 2002 to grant a total of 42,500,000 share options to Directors, consultants and employees of the Group. It was resolved that share options be offered to the Directors, consultants and employees at the subscription price of HK\$0.83 and HK\$0.82 per share respectively with a 10 year exercise period each commencing from 13 July and 24 July 2006 respectively. A breakdown setting out the number of share options granted, their respective exercise price and exercise period is as follows:

	Exercise period	Exercise price	Number of share options granted
Directors			
Yung Kwok Leong	13 July 2006 to 12 July 2016	HK\$0.83	2,450,000
Shum Ngai Pan	13 July 2006 to 12 July 2016	HK\$0.83	2,800,000
Weng Jiaxing	13 July 2006 to 12 July 2016	HK\$0.83	2,700,000
Chen Jin Shan	13 July 2006 to 12 July 2016	HK\$0.83	5,200,000
Employees and consultants of the Group	13 July 2006 to 12 July 2016	HK\$0.83	16,850,000
	24 July 2006 to 23 July 2016	HK\$0.82	12,500,000



DIRECTORS' SERVICE CONTRACTS

There is no service contract entered into between the Company and Mr. Yung Kwok Leong, the executive Director and chairman of the Company. Ms. Shum Ngai Pan, Mr. Chen Jin Shan and Mr. Weng Jiaying have been appointed as executive Directors by way of letters of appointment with the Company for a period of one year commencing 25 April 2006 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Mr. Chan Francis Ping Kuen, an independent non-executive Director, has been appointed by way of a letter of appointment with the Company for a period of one year commencing from 27 September 2004 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing. All the other independent non-executive Directors, namely Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei, have entered into non-executive Directors' contracts with the Company for a term of one year commencing on 22 April 2002 and will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Save as disclosed above, none of the Directors has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the three months ended 30 June 2006, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.



COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes or may compete with the business of the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the period ended 30 June 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the period ended 30 June 2006 except that: (i) the roles of chairman and chief executive officer are not separated and are performed by the same individual; and (ii) no nomination committee of the Board is established.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.



AUDIT COMMITTEE

The Company established an audit committee on 2 November 2001, with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules.

The primary duties of the audit committee are (i) to review the annual reports and accounts, half-year reports and quarterly reports and give advice and comments thereon to the Directors; and (ii) to review and supervise the financial reporting process and internal controls. The audit committee comprises the three independent non-executive Directors of the Company.

The audit committee has reviewed the Group's results for the three months ended 30 June 2006.

On behalf of the Board of
Hua Xia Healthcare Holdings Limited
Yung Kwok Leong
Chairman

Hong Kong, 14 August 2006

As at the date of this report, the executive Directors are Mr. Yung Kwok Leong, Ms. Shum Ngai Pan, Mr. Chen Jin Shan and Mr. Weng Jiaying. The independent non-executive Directors are Mr. Chan Francis Ping Kuen, Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei.