THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hua Xia Healthcare Holdings Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. This circular does not constitute an offer of, nor is it intended to invite offers for, the securities of the Company.

HUA XIA HEALTHCARE HOLDINGS LIMITED
華夏醫療集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

PROPOSED OPEN OFFER OF NOT LESS THAN 350,692,167 OFFER SHARES AND NOT MORE THAN 368,117,579 OFFER SHARES AT HK$0.08 PER OFFER SHARE ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON RECORD DATE PAYABLE IN FULL ON APPLICATION

Financial adviser to the Company

博大資本國際有限公司
Partners Capital International Limited

Underwriters

華富嘉洛證券有限公司
Quam Securities Company Limited

博大證券有限公司
Partners Capital Securities Limited

Hantec Capital Limited

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

VEDA | CAPITAL
智略資本

A letter from the Independent Board Committee is set out on pages 26 to 27 of this circular. A letter from Veda Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 45 of this circular.

Shareholders should note that the Shares will be dealt with on an ex-entitlement basis commencing from Wednesday, 17 January 2007 and that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled.

To qualify for the Open Offer, any transfers of Shares (with the relevant share certificates) must be lodged with the Company's branch registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration by 4:30 p.m. on Thursday, 18 January 2007 Hong Kong time.

A notice convening the EGM to be held at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong on Wednesday, 24 January 2007 2006 at 8:30 a.m. is set out on pages 154 to 155 of this circular. Whether or not you are able to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business of the Company at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the accompanying from of proxy will not preclude you from attending and voting at the meeting should you so wish.

If, prior to the Latest Time for Termination (provided that if the date of the Latest Time for Termination shall be a business day on which a Storm Warning is or remains hoisted between 9.00 a.m. and 4.00 p.m. on that day, the date of the Latest Time for Termination shall be the next business day on which no Storm Warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day):

(1) in the reasonable opinion of Quam Securities on behalf of the Underwriters, the success of the Open Offer would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Quam Securities on behalf of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Quam Securities on behalf of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of Quam Securities on behalf of the Underwriters is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of Quam Securities on behalf of the Underwriters will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

(5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or

(6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the reasonable opinion of Quam Securities on behalf of the Underwriters, a material omission in the context of the Open Offer; or

(7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the announcement of the Company dated 14 December 2006, the circular or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

Quam Securities on behalf of the Underwriters shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement. If the Underwriters terminate the Underwriting Agreement, the Open Offer will not proceed.

* *for identification purpose only*

8 January 2007

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities trading on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities trading on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:–

"Application Form(s)"	the form(s) of application for use by the Qualifying Shareholders to apply for the Offer Shares
"associates"	has the meaning ascribed thereto in the GEM Listing Rules
"Board"	the board of Directors
"business day"	any day (other than a Saturday or Sunday or public holidays) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Company"	Hua Xia Healthcare Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
"Conversion Shares"	Shares to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes
"Convertible Notes"	the convertible notes with an outstanding principal amount of HK$7,000,000 conferring rights to subscribe a total of 33,816,425 Shares on the basis of an exercise price of HK$0.207 per Share (subject to adjustment)
"Directors"	directors of the Company
"Easeglory"	Easeglory Holdings Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is wholly and fully owned by Mr Yung
"EGM"	the extraordinary general meeting of the Company to be convened and held on or about 24 January 2007 to consider and approve the Open Offer
"Excess Application Form(s)"	the form(s) of application for excess Offer Shares

"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	Rules Governing the Listing of Securities on GEM
"Grand Brilliant"	Grand Brilliant Corporation Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
"Group"	the Company and its subsidiaries
"Hantec"	Hantec Capital Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee comprising the three independent non-executive Directors, namely Chan Francis Ping Kuen, Hsu Shiu Foo, William and Yu Chai Mei
"Independent Shareholders"	the independent Shareholders (Shareholders other than the controlling Shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the Company and their respective associates and those who are interested or involved in the Open Offer otherwise than being the Shareholders)
"Latest Lodging Date"	being 4:30 p.m. on 18 January 2007 or such other date and/or time as Quam Securities on behalf of the Underwriters and the Company may agree as the latest time for lodging transfer of the Shares and/or exercising the Share Options, Warrants and Convertible Notes in order to qualify for the Open Offer
"Latest Practicable Date"	3 January 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

"Latest Time for Termination"	4:00 p.m. on the third business day after the Latest Time for Acceptance or such later time or date as may be agreed between the Company and Quam Securities on behalf of the Underwriters, being the latest time to terminate the Underwriting Agreement
"Mr. Chen"	Mr. Chen Jin Shan, an executive Director
"Mr. Jiang"	Mr. Jiang Tao, an executive Director
"Mr. Weng"	Mr. Weng Jiaxing, an executive Director
"Mr. Yung"	Mr. Yung Kwok Leong, an executive Director and the chairman of the Company
"Ms. Shum"	Ms. Shum Ngai Pan, an executive Director and chief executive officer of the Company
"Offer Share(s)"	not less than 350,692,167 new Shares and not more than 368,117,579 new Shares, proposed to be offered to the Qualifying Shareholders for subscription on the terms and subject to the conditions set out in the Underwriting Agreement and in the Prospectus
"Open Offer"	the proposed offer for subscription by the Qualifying Shareholders for the Offer Shares at the Subscription Price on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents
"Overseas Shareholders"	Shareholders with registered addresses (as shown in the register of members of the Company on the Record Date) which are outside Hong Kong
"PCSL"	Partners Capital Securities Limited, a licensed corporation to carry on type 1 (dealing in securities) regulated activity under the SFO
"Post-IPO Share Option Scheme"	the post-IPO share option scheme adopted by the Company on 20 April 2002 which only came into effect after the initial listing of the Shares on GEM on 10 May 2002
"Post-IPO Share Options"	options to subscribe for Shares granted under the Post-IPO Share Option Scheme

"PRC"	the People's Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Company on 20 April 2002 which came into effect prior to the initial listing of the Shares on GEM on 10 May 2002
"Pre-IPO Share Options"	options to subscribe for Shares granted under the Pre-IPO Share Option Scheme
"Prohibited Shareholder(s)"	those Overseas Shareholders to whom the Company considers it necessary or expedient not to offer the Offer Shares based on the enquiry regarding the legal restrictions, if any, under the laws of the relevant jurisdictions where the Overseas Shareholders reside
"Prospectus"	a prospectus containing details of the Open Offer
"Prospectus Documents"	the Prospectus, the Application Form and the Excess Application Form
"Prospectus Posting Date"	24 January 2007 or such other date as may be agreed between Quam Securities on behalf of the Underwriters and the Company for the despatch of the Prospectus Documents
"Qualifying Shareholders"	Shareholders whose names appear on the register of members of the Company on the Record Date, other than the Prohibited Shareholders
"Quam Securities"	Quam Securities Company Limited, a licensed corporation to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under the SFO
"Record Date"	24 January 2007 or such other date as may be agreed between the Company and Quam Securities on behalf of the Underwriters for the determination of the entitlements under the Open Offer

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Options"	options to subscribe for Shares granted under the Share Option Schemes (subject to adjustment)
"Share Option Schemes"	the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme
"Share(s)"	ordinary share(s) of HK$0.05 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	HK$0.08 per Offer Share
"Underwriters"	Quam Securities, PCSL and Hantec
"Underwriting Agreement"	the underwriting agreement amongst the Company, the Underwriters and Mr. Yung dated 11 December 2006 in relation to the Open Offer
"Underwritten Shares"	not less than 283,552,667 Offer Shares and not more than 300,978,079 Offer Shares, being all Offer Shares less such number of Offer Shares agreed to be taken up or procured to be taken up by Mr Yung, Ms. Shum and Mr. Weng
"Veda Capital"	Veda Capital Limited, a license corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO
"Warrants"	the 103,414,000 warrants conferring rights to subscribe up to approximately HK$64,116,680 in aggregate for Shares, equivalent to the aggregate subscription price for a total of 103,414,000 Shares on the basis of an initial subscription price of HK$0.62 per Share (subject to adjustment)
"HK$"	Hong Kong dollars
"%"	per cent.

EXPECTED TIMETABLE

The expected timetable for the Open Offer is set out below:

	2007
Last day of dealings in Shares on a cum-entitlement basis	Tuesday, 16 January
First day of dealings in Shares on an ex-entitlement basis	Wednesday, 17 January
Latest Lodging Date	4:30 p.m. on Thursday, 18 January
Latest time and date for lodging forms of proxy for the purpose of the EGM	8:30 a.m. on Monday, 22 January
Register of members of the Company closes (both dates inclusive)	Friday, 19 January to Wednesday, 24 January
EGM	8:30 a.m. on Wednesday, 24 January
Record Date	Wednesday, 24 January
Despatch of the Prospectus Documents	Wednesday, 24 January
Announcement of the result of the EGM appears on the Stock Exchange's website	Thursday, 25 January
Register of members re-opens	Thursday, 25 January
Latest time for acceptance of, and payment for, the Open Offer *(note 1)*	4:00 p.m. on Wednesday, 7 February
Latest Time for Termination	4:00 p.m. on Monday, 12 February
Latest time for the Open Offer to become unconditional	4:00 p.m. on Monday, 12 February
Announcement of results of the Open Offer on the Stock Exchange's website	Tuesday, 13 February
Certificates for the Offer Shares to be despatched on or before	Wednesday, 14 February
Despatch of refund cheques in respect of excess unsuccessful applications	Wednesday, 14 February
Dealings in fully-paid Offer Shares commence on	Friday, 16 February

Notes:

1. The latest time for acceptance of and payment for Offer Shares will not take place if there is:

   - a tropical cyclone warning signal number 8 or above, or
   - a "black" rainstorm warning

   (i) in force in Hong Kong at any local time before 12:00 noon and on longer in force after 12:00 noon on Wednesday, 7 February 2007. Instead the latest time of acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same business day.

   (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Wednesday, 7 February 2007. Instead the latest time of acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

   If the latest time for acceptance of and payment for the Offer Shares does not take place on Wednesday, 7 February 2007, the dates mentioned in the section headed "Expected Timetable" in this circular may be affected. An announcement will be made by the Company in such event.

2. All times in this circular refer to Hong Kong time.

HUA XIA HEALTHCARE HOLDINGS LIMITED
華夏醫療集團有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8143)

Executive Directors:
Yung Kwok Leong *(Chairman)*
Shum Ngai Pan
Weng Jiaxing
Chen Jin Shan
Jiang Tao

Independent non-executive Directors:
Chan Francis Ping Kuen
Hsu Shiu Foo, William
Yu Chai Mei

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Room 1902
19/F., Sing Pao Building
No. 101 King's Road
North Point
Hong Kong

8 January 2007

To the Shareholders,

Dear Sir or Madam,

PROPOSED OPEN OFFER OF NOT LESS THAN 350,692,167 OFFER SHARES AND NOT MORE THAN 368,117,579 OFFER SHARES AT HK$0.08 PER OFFER SHARE ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON RECORD DATE PAYABLE IN FULL ON APPLICATION

INTRODUCTION

On 14 December 2006, the Board announced that the Company proposed to raise not less than approximately HK$28.06 million, before expenses, by an open offer of not less than 350,692,167 Offer Shares and not more than 368,117,579 Offer Shares at a subscription price of HK$0.08 per Offer Share, payable in full on application, on the basis of one Offer Share for every two Shares held on Record Date.

* *for identification purpose only*

As the Open Offer, when aggregated with the rights issue of the Company announced by the Company in March 2006, will increase the issued share capital of the Company by more than 50% within the 12 month period immediately preceding the announcement of the Company dated 14 December 2006 in relation to the Open Offer, the Open Offer is subject to approval by the Independent Shareholders at the EGM by poll in accordance with the requirements of Rules 10.39, 10.39A and 10.39B of the GEM Listing Rules. Given that there is no controlling Shareholder, Shareholders who are interested or involved in the Open Offer, being the Directors, namely Mr. Yung, Ms. Shum and Mr. Weng and Easeglory, a company wholly and beneficially owned by Mr. Yung, together with their respective associates, will abstain from voting at the EGM in respect of the resolution to approve the Open Offer pursuant to Rule 10.39(1) of the GEM Listing Rules. The Independent Shareholders will be advised by the Independent Board Committee in respect of the Open Offer. Veda Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with further details of the Open Offer, the recommendation from the Independent Board Committee in respect of the Open Offer, the advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer and to give you notice of the EGM at which a resolution will be proposed to consider and, if thought fit, approve the Open Offer.

OPEN OFFER

Issue Statistics

Basis of the Open Offer:	One Offer Share for every two Shares held on the Record Date
Number of existing Shares in issue:	701,384,334 Shares as at the Latest Practicable Date
Number of Offer Shares to be issued:	Not less than 350,692,167 Offer Shares and not more than 368,117,579 Offer Shares (as the holders of the Post-IPO Share Options and the Warrants have undertaken the Company, the Underwriters and Mr. Yung not to exercise the Post-IPO Share Options and the Warrants on or before the Latest Lodging Date)
Subscription Price:	HK$0.08 per Offer Share payable in full on application

As at the Latest Practicable Date, the Company has 42,500,000 outstanding Post-IPO Share Options, 1,034,400 outstanding Pre-IPO Share Options, 103,414,000 outstanding Warrants and 33,816,425 outstanding Conversion Shares which in aggregate entitling holders thereof to subscribe for 180,764,825 Shares. Save as disclosed above, the Company does not have any other outstanding warrants or securities in issue which are convertible or exchangeable into Shares.

Subscription Price

The Subscription Price of HK$0.08 per Offer Share will be payable in full upon application for the Offer Shares and (where applicable) application for excess Offer Shares under the Open Offer. The Subscription Price represents:

1. a discount of approximately 67.35% to the closing price of HK$0.2450 per Share as quoted on the Stock Exchange on 11 December 2006, being the last trading day of the Shares on the Stock Exchange prior to the suspension of the trading in the Shares;

2. a discount of approximately 65.03% to the average of the closing prices of HK$0.2288 per Share quoted on the Stock Exchange for the 5 trading days up to and including 11 December 2006;

3. a discount of approximately 68.24% to the average of the closing prices of HK$0.2519 per Share quoted on the Stock Exchange for the 10 trading days up to and including 11 December 2006;

4. a discount of approximately 57.89% to the theoretical ex-rights price of HK$0.1900 based on the closing price of HK$0.2450 per Share as quoted on the Stock Exchange on 11 December 2006; and

5. a discount of approximately 71.43% to the closing price of HK$0.2800 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

As (i) the Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to the low liquidity of the Shares in the market as indicated by the average daily trading volume of approximately 1,300,000 Shares for the last 30 trading days up to and including 11 December 2006, representing approximately 0.19% of the existing issued share capital of the Company; (ii) to increase the attractiveness of the Open Offer to the Qualifying Shareholders, the Qualifying Shareholders are offered a chance to subscribe for the Offer Shares at a relatively low price and to maintain their respective pro-rata shareholdings in the Company; and (iii) the Open Offer is subject to approval of the Independent Shareholders, the Directors consider the terms of the Open Offer (including the setting of the Subscription Price at a discount to the average closing prices as mentioned above) to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders only.

To qualify for the Open Offer, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date, and not be a Prohibited Shareholder.

In order to be registered as members on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Company's share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on Thursday, 18 January 2007.

The invitation to apply for the Offer Shares to be made to the Qualifying Shareholders will not be transferable or capable of renunciation and there will not be any trading of nil-paid entitlements of the Offer Shares on the Stock Exchange.

Closure of register of members

The register of members of the Company will be closed from Friday, 19 January 2007 to Wednesday, 24 January 2007, both dates inclusive, to determine the eligibility of the Shareholders to the Open Offer. No transfer of Shares will be registered during this period.

Rights of Prohibited Shareholders

The Prospectus Documents will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong. To determine the identities of the Prohibited Shareholders and in compliance with the relevant GEM Listing Rules, the Company will make necessary enquiries regarding the legal restrictions, if any, under the laws of the relevant jurisdictions and will only exclude the Prohibited Shareholders for the Open Offer if it would be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place after making relevant enquiries. The Company will send the Prospectus to Prohibited Shareholders for their information only but the Company will not send any Application Forms or Excess Application Forms to the Prohibited Shareholders.

Having reviewed the register of members as at the Latest Practicable Date, the Company noted that no Shareholders have maintained addresses located outside of Hong Kong. Hence, no Shareholders will be excluded from the Open Offer. Further details of the Prohibited Shareholders will also be disclosed in the Prospectus.

Application for excess Offer Shares

Under the Open Offer, Qualifying Shareholders may apply for any unsold entitlements of the Prohibited Shareholders and any Offer Shares not taken up by the Qualifying Shareholders. Application can be made by completing the Excess Application Form and lodging the same with a separate remittance for the excess Offer Shares being applied for.

The Directors will allocate the excess Offer Shares at their discretion and on a fair and equitable basis by reference to the number of excess Offer Shares applied for by each Qualifying Shareholder, but will give preference to topping up odd lots to whole board lots.

Shareholders with Shares held by a nominee company are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

Status of the Offer Shares

The Offer Shares (when allotted and fully paid) will rank pari passu with the then existing Shares in issue in all respects on the date of allotment and issue of the Offer Shares. Holders of fully paid Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Offer Shares.

Share Certificates for Offer Shares and refund cheques

Subject to the fulfillment of the conditions of the Open Offer as set out in the section headed "CONDITIONS OF THE OPEN OFFER" below, certificates for all fully-paid Offer Shares and refund cheques in respect of unsuccessful excess applications (if any) are expected to be posted on or before Wednesday, 14 February 2007 to those Shareholders who have accepted and (where applicable) applied for, and paid for the Offer Shares by ordinary post and at their own risks.

Fractions of Offer Shares

Fractional entitlements of Offer Shares will not be allotted and will be aggregated. All Offer Shares arising from the aggregation of such fractional entitlements will be taken up by the Underwriters.

Odd lots arrangement

The Company will not procure an agent to arrange for odd lots matching service.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty and any other applicable fees and charges in Hong Kong.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on GEM, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date for dealings in the Offer Shares on GEM or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date:	11 December 2006
Underwriters:	Quam Securities, PCSL and Hantec Each of the Underwriters and its respective ultimate beneficial owners are third parties independent of the Company and connected persons (as defined in the GEM Listing Rules) of the Company
Number of Offer Shares:	Not less than 350,692,167 Offer Shares and not more than 368,117,579 Offer Shares (as the holders of the Post-IPO Share Options and the Warrants have undertaken the Company, the Underwriters and Mr. Yung not to exercise the Post-IPO Share Options and the Warrants on or before the Latest Lodging Date)

Number of Underwritten Shares:	Not less than 283,552,667 Offer Shares and not more than 300,978,079 Offer Shares (of which Quam Securities underwrites not less than 163,552,667 Offer Shares and not more than 180,978,079 Offer Shares, PCSL underwrites 70,000,000 Offer Shares and Hantec underwrites 50,000,000 Offer Shares) If the number of Underwritten Shares that are not being taken up is less than or equal to 283,522,667 Offer Shares, or is less than or equal to 300,978,079 Offer Shares, as the case may be, the Underwriters shall subscribe for, or procure subscription of all those Underwritten Shares not being taken up in proportion to their respective entitlement (subject to the adjustment in accordance with the provision of the set-off arrangements as set out in the Underwriting Agreement), as the case may be
Commission:	an underwriting commission of 2.5% of the aggregate Subscription Price in respect of the maximum number of Underwritten Shares

Undertakings

As at the Latest Practicable Date, Mr. Yung was interested in 4,125,000 Shares and 2,450,000 Post-IPO Share Options conferring rights to subscribe for 2,450,000 Shares and Easeglory, a company wholly owned by Mr. Yung, was interested in 122,804,000 Shares. Pursuant to the Underwriting Agreement, Mr. Yung has irrevocably undertaken the Company and the Underwriters in the Underwriting Agreement (i) not to exercise any of the 2,450,000 Post-IPO Share Options granted to him on or before the Latest Lodging Date and (ii) to subscribe or procure the subscription of the 2,062,500 Offer Shares and 61,402,000 Offer Shares to which Mr. Yung and Easeglory respectively are entitled pursuant to the Open Offer.

As at the Latest Practicable Date, Ms. Shum was interested in 3,600,000 Shares and 2,800,000 Post-IPO Share Options conferring rights to subscribe for 2,800,000 Shares. Pursuant to the undertaking letters from Ms. Shum, Ms. Shum has irrevocably undertaken the Company, the Underwriters and Mr. Yung (i) not to exercise any of the 2,800,000 Post-IPO Share Options granted to her on or before the Latest Lodging Date and (ii) to subscribe or procure the subscription of the 1,800,000 Offer Shares to which Ms. Shum is entitled pursuant to the Open Offer.

As at the Latest Practicable Date, Mr. Weng was interested in 3,750,000 Shares and 2,700,000 Post-IPO Share Options conferring rights to subscribe for 2,700,000 Shares. Pursuant to the undertaking letters from Mr. Weng, Mr. Weng has irrevocably undertaken the Company, the Underwriters and Mr. Yung (i) not to exercise any of the 2,700,000 Post-IPO Share Options granted to him on or before the Latest Lodging Date and (ii) to subscribe or procure the subscription of the 1,875,000 Offer Shares to which Mr. Weng is entitled pursuant to the Open Offer.

As at the Latest Practicable Date, Mr. Chen was interested in 5,200,000 Post-IPO Share Options conferring rights to subscribe for 5,200,000 Shares. Pursuant to the undertaking letter from Mr. Chen, Mr. Chen has irrevocably undertaken the Company, the Underwriter and Mr. Yung not to exercise any of the 5,200,000 Post-IPO Share Options granted to him on or before the Latest Lodging Date.

As at the Latest Practicable Date, Mr. Jiang was interested in 5,200,000 Post-IPO Share Options conferring rights to subscribe for 5,200,000 Shares. Pursuant to the undertaking letter from Mr. Jiang, Mr. Jiang has irrevocably undertaken the Company, the Underwriter and Mr. Yung not to exercise any of the 5,200,000 Post-IPO Share Options granted to him on or before the Latest Lodging Date.

Other than Mr. Yung, Ms. Shum, Mr. Weng, Mr. Chen and Mr. Jiang, each of the other holders of the Post-IPO Share Options granted under the Post-IPO Share Option Scheme has given an irrevocable undertaking to the Company, the Underwriters and Mr. Yung not to exercise on or before the Latest Lodging Date the Post-IPO Share Options granted to the holder.

Each of the holders of the Warrants has given an irrevocable undertaking to the Company, the Underwriters and Mr. Yung not to exercise on or before the Latest Lodging Date the subscription rights attaching to the Warrants held by the holder.

Each of Ms. Shum, Mr. Weng, Mr. Chen, Mr. Jiang and all other holders of the Post-IPO Options and holders of the Warrants has given an irrevocable undertaking to the Company, the Underwriters and Mr. Yung as mentioned above, as the Company, the Underwriters and Mr. Yung are parties to the Underwriting Agreement. The Company considers that as Mr. Yung is the single largest Shareholder and the chairman of the Group, Mr. Yung was added as a party to the Underwriting Agreement.

Subject to and upon the terms and conditions of the Underwriting Agreement, the Underwriters have agreed to underwrite not less than 283,552,667 Underwritten Shares (assuming all the Pre-IPO Share Options and the conversion rights attaching to the Convertible Notes are not being exercised on or before the Latest Lodging Date) and not more than 300,978,079 Underwritten Shares (assuming all the Pre-IPO Share Options and the conversion rights attaching to the Convertible Notes are being exercised on or before the Latest Lodging Date).

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that if the date of the Latest Time for Termination shall be a business day on which a Storm Warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next business day on which no Storm Warning is or remains hoisted between 9:00 a.m. and 4:00 p.m. on that day):

(1) in the reasonable opinion of Quam Securities on behalf of the Underwriters, the success of the Open Offer would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Quam Securities on behalf of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Quam Securities on behalf of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of Quam Securities on behalf of the Underwriters is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of Quam Securities on behalf of the Underwriters will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

(5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or

(6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the reasonable opinion of Quam Securities on behalf of the Underwriters, a material omission in the context of the Open Offer; or

(7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the announcement of the Company dated 14 December 2006, the circular or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

Quam Securities on behalf of the Underwriters shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

If the Underwriters terminate the Underwriting Agreement, the Open Offer will not proceed.

CONDITIONS OF THE OPEN OFFER

The Open Offer is conditional, inter alia, upon:

(1) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the GEM Listing Rules and the Companies Ordinance not later than the Prospectus Posting Date;

(2) the passing by the Independent Shareholders at the EGM of an ordinary resolution to approve the Open Offer;

(3) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Prohibited Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus Posting Date; and

(4) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares by no later than the first day of their dealings.

The Company shall use all reasonable endeavours to procure the fulfillment of all the conditions precedent by the Latest Time for Termination or such other date as the Company and Quam Securities on behalf of the Underwriters may agree and in particular shall furnish such information, supply such documents, pay such fees, give such undertakings and do all such acts and things as may be necessary in connection with the listing of the Offer Shares or to give effect to the Open Offer and the arrangements contemplated in the Underwriting Agreement.

WARNING OF RISKS OF DEALING IN SHARES

If the Underwriter terminates the Underwriting Agreement or the conditions of the Open Offer are not fulfilled, the Open Offer will not proceed. **Accordingly, the Open Offer may or may not proceed and the Shareholders and potential investors are advised to exercise caution when dealing in the Shares and consult their professional advisers if they are in any doubt about their positions.**

Shareholders should note that the Shares will be dealt with on an ex-entitlement basis commencing from Wednesday, 17 January 2007 and that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on or before 4:00 p.m. on Monday, 12 February 2007), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE OPEN OFFER

Scenario 1: Assuming all the Pre-IPO Share Options and the conversion rights attaching to the Convertible Notes are not being exercised on or before the Latest Lodging Date:

	As at the Latest Practicable Date		Immediately following completion of the Open Offer on the assumption as set out in Note 1		Immediately following completion of the Open Offer on the assumption as set out in Note 2	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Mr. Yung and Easeglory *(Note 3)*	126,929,000	18.10	190,393,500	18.10	190,393,500	18.10
Ms. Shum *(Note 4)*	3,600,000	0.51	5,400,000	0.51	5,400,000	0.51
Mr. Weng *(Note 4)*	3,750,000	0.53	5,625,000	0.53	5,625,000	0.53
Mr. Wu Wendong *(Note 5)*	126,000,000	17.96	189,000,000	17.96	126,000,000	11.98
Underwriters *(Note 6)*	–	–	–	–	283,552,667	26.95
Public Shareholders	441,105,334	62.90	661,658,001	62.90	441,105,334	41.93
Total	701,384,334	100.00	1,052,076,501	100.00	1,052,076,501	100.00

Scenario 2: Assuming all the Pre-IPO Share Options and the conversion rights attaching to the Convertible Notes are being exercised on or before the Latest Lodging Date:

	As at the Latest Practicable Date		Assuming all the Pre-IPO Share Options and the conversion rights attaching to the Convertible Notes are being exercised on or before the Latest Lodging Date		Immediately following completion of the Open Offer on the assumption as set out in Note 1		Immediately following completion of the Open Offer on the assumption as set out in Note 2	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Mr. Yung and Easeglory *(Note 3)*	126,929,000	18.10	126,929,000	17.24	190,393,500	17.24	190,393,500	17.24
Ms. Shum *(Note 4)*	3,600,000	0.51	3,600,000	0.49	5,400,000	0.49	5,400,000	0.49
Mr. Weng *(Note 4)*	3,750,000	0.53	3,750,000	0.51	5,625,000	0.51	5,625,000	0.51
Mr. Wu Wendong *(Note 5)*	126,000,000	17.96	126,000,000	17.11	189,000,000	17.11	126,000,000	11.41
Underwriters *(Note 7)*	–	–	–	–	–	–	300,978,079	27.25
Public Shareholders	441,105,334	62.90	475,956,159	64.65	713,934,238	64.65	475,956,159	43.10
Total	701,384,334	100.00	736,235,159	100.00	1,104,352,738	100.00	1,104,352,738	100.00

Notes:

1. Assuming all Shareholders take up their respective entitlements to the Offer Shares under the Open Offer.

2. Assuming none of the Shareholders (save for the Mr. Yung and Easeglory, Ms. Shum and Mr. Weng who have undertaken to subscribe for, or procure the subscription of) its pro-rata entitlement to Offer Shares in full under the Open Offer take up their respective entitlements to the Offer Shares under the Open Offer and, accordingly, the Underwriters will take up the Underwritten Shares in full pursuant to the terms of the Underwriting Agreement.

3. Mr. Yung, being an executive Director and the chairman of the Company is interested in 4,125,000 Shares and Easeglory, a company wholly owned by Mr. Yung, is interested in 122,804,000 Shares.

4. Ms. Shum is an executive Director and chief executive officer of the Company. Mr. Weng is an executive Director.

5. Mr. Wu Wendong is a substantial Shareholder and is a director of three non-wholly owned subsidiaries of the Company.

6. Quam Securities underwrites not less than 163,552,667 Offer Shares (representing approximately 15.55% of the enlarged issued share capital of the Company immediately following completion of the Open Offer under Scenario 1 above), PCSL underwrites 70,000,000 Offer Shares (representing approximately 6.65% of the enlarged issued share capital of the Company immediately following completion of the Open Offer under Scenario 1 above) and Hantec underwrites 50,000,000 Offer Shares (representing approximately 4.75% of the enlarged issued share capital of the Company immediately following completion of the Open Offer under Scenario 1 above)

7. Quam Securities underwrites not more than 180,978,079 Offer Shares (representing approximately 16.39% of the enlarged issued share capital of the Company immediately following completion of the Open Offer under Scenario 2 above), PCSL underwrites 70,000,000 Offer Shares (representing approximately 6.34% of the enlarged issued share capital of the Company immediately following completion of the Open Offer under Scenario 2 above) and Hantec underwrites 50,000,000 Offer Shares (representing approximately 4.53% of the enlarged issued share capital of the Company immediately following completion of the Open Offer under Scenario 2 above)

FUNDS RAISED DURING THE PAST 12 MONTHS

During the past 12 months immediately preceding the announcement of the Company dated 14 December 2006 in relation to the Open Offer, the Company has conducted the following fund raising activities:

1. The placing of unlisted Convertible Notes of HK$18 million (67,164,179 Shares may be allotted and issued upon full conversion of the Convertible Notes) at a conversion price of HK$0.268 per Share (subsequently adjusted to HK$0.207) as stated in the announcement of the Company dated 1 December 2005. The net proceeds of approximately HK$17.50 million were intended to be used as to approximately HK$4.38 million towards environmentally-related project, approximately HK$4.38 million towards general working capital of the Group and the balance towards projects or investments in the healthcare sector in Hong Kong and the PRC. The Company has applied (i) approximately HK$2 million for acquiring machineries for environmentally related projects in the PRC; (ii) approximately HK$4.5 million towards general working capital of the Group; and (iii) approximately HK$11 million for the payment of partial consideration for the acquisition of Day View Group Limited as stated in the announcement of the Company dated 15 June 2006.

2. The rights issue of 172,465,166 rights shares at a HK$0.06 per Share on the basis of one rights share for every two existing Shares as stated in the announcement of the Company dated 3 March 2006. The net proceeds of approximately HK$9.35 million were intended to be used as to approximately HK$0.50 million towards general working capital of the Group and the balance towards projects of investments in the healthcare sector. The Company has applied (i) approximately HK$3 million for the deposit for the proposed acquisition of Shanghai Humanity Hospital as stated in the announcement of the Company dated 12 July 2006; (ii) approximately HK$0.35 million towards general working capital of the Group and (iii) the balance of approximately HK$6 million for the payment of partial consideration for the acquisition of Day View Group Limited as stated in the announcement of the Company dated 15 June 2006.

3. The private placing of 103,414,000 non-listed Warrants at an issue price of HK$0.02 per Warrant as stated in the announcement of the Company dated 22 May 2006. The net proceeds of approximately HK$1.5 million were intended to be used for general working capital of the Group. The Company has applied approximately HK$1.5 million towards general working capital of the Group.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the provision of healthcare and hospital management services in the PRC. In addition, it is engaged in the manufacture and sales of environmental protection products as well as provision of related services, manufacture and sales of melamine and its related products.

Results of the Group for the year ended 31 March 2006 have shown improvement in turnover compared with 31 March 2005. Turnover of the Group for the year was approximately HK$41.09 million in comparison with HK$34.23 million in 2005, representing an increase of approximately 20%. Net profit attributable to equity holders for the year ended 31 March 2006 was HK$3.19 million in comparison with a net loss of HK$7.05 million in 2005, representing an increase of profitability of approximately 145%.

The improvement in revenue for the year ended 31 March 2006 was mainly driven by the contribution in turnover by the trading of environmental friendly household products and the environmental protection consultancy services to hospitals in the PRC. The turnover of these new lines of products and services represented approximately HK$17.88 million equivalent to approximately 44% of the Group's turnover for the year ended 31 March 2006.

The net profit attributable to equity holders was achieved by a combination of successes in the Group's new products and services as well as the significant decrease of the provision for impairment on trade receivables for the Group during the financial year ended 31 March 2006.

The Group has recorded a total turnover of approximately HK$39,688,000 for the six months ended 30 September 2006 as compared to a total turnover of approximately HK$15,578,000 recorded in the corresponding period in 2005, representing an increase of approximately 155%.

The Group has recorded a net profit attributable to equity holders for the six months ended 30 September 2006 of approximately HK$7,286,000 as compared to a net profit attributable to equity holders of approximately HK$500,000 recorded in the corresponding period in 2005.

As mentioned in the annual report of the Company for the year ended 31 March 2006 and the announcement of the Company dated 24 November 2006, 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. Therefore, the Directors believe that potential investments in healthcare sector in the PRC will provide a stable income source to the Group and will bring synergistic effect and positive opportunities in the promising healthcare sector in the PRC, the Directors intend to seek possible future investments in or cooperations with hospitals in the PRC and to consider undertaking those businesses which are complimentary to the existing business.

As disclosed in the announcement of the Company dated 15 June 2006, on 12 June 2006, Grand Brilliant entered into a sale and purchase agreement with Mr. Wu Wendong, pursuant to which Grand Brilliant has agreed to acquire from Mr. Wu Wendong 76% equity interests and shareholder's loans of Day View Group Limited for a consideration of HK$96.86 million. The group companies of Day View Group Limited engages principally in the business of healthcare management and training and consultancy for mainly hospitals in the PRC. Details of the acquisition and the related financial information were set out in the circular of the Company dated 28 July 2006. The completion of the acquisition took place on 24 November 2006.

As disclosed in the joint announcement of the Company and Town Health International Holdings Company Limited dated 19 October 2006 following the signing of an non-legally binding letter for the proposed acquisition of equity interests in a PRC hospitals announced by the Company on 12 July 2006, the Company has entered into a non-legally binding letter of intent with an objective to leverage on the resources and expertise of Town Health International Holdings Company Limited and the Company in their cooperative development in the medical and healthcare related business in the PRC. As additional time is required for the negotiation process on the terms of the proposed acquisition, the long-stop date of the letter of intent has been extended from 31 December 2006 to 31 March 2007 by mutual agreement of the parties. Unless it is further extended by mutual agreement of the parties, the letter of intent will lapse on 31 March 2007.

In addition, as disclosed in the announcement of the Company dated 24 November 2006, the Company entered into another non-legally binding letter of intent with Mr. Lin Guo Xiong and Fuzhou Taijiang Hospital, pursuant to which the Company intended to acquire equity interests in a hospital in the PRC. The Company is in the progress of conducting the due diligence exercise on the PRC hospitals. Further announcement will be made by the Company as and when appropriate in accordance with the GEM Listing Rules.

REASONS FOR THE OPEN OFFER

Although the Group has conducted three fund raising exercises during the past 12 months as mentioned above, the net proceeds of the three fund raisings had been utilized as mentioned above. In order to achieve the acquisition strategy of the Group, the Group's working capital requirements have accordingly increased. The Board therefore considers that the Open Offer represents an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position. Upon completion of the Open Offer, the Company will be in a good position to capture any potential business opportunity and facilitate its business expansion and to enhance its earning potential, and therefore enhance the overall value of the Shares. Moreover, the Board is of the view that it is in the interests of the Company and its Shareholders as a whole to raise the capital which through the Open Offer since it would allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Group.

USE OF PROCEEDS

The net proceeds of the Open Offer (after deduction of commission and expenses) are expected to amount to approximately HK$26.06 million (assuming no outstanding Share Options, no outstanding Warrants and no rights attaching to the Convertibles Notes are exercised on or before the Record Date), of which approximately HK$23.06 million will be used to finance future investments such as in the healthcare sectors in Hong Kong and the PRC, including, but not limited to, the payment of the considerations relating to the letter of intent for possible formation of joint ventures with Town Health International Holdings Company Limited for operating dental services and beauty services as announced by the Company on 19 October 2006 and the letters of intent for proposed acquisition of PRC hospitals as announced by the Company on 24 November 2006 and 12 July 2006, if such possible formation of joint ventures and proposed acquisition materialize, and approximately HK$3 million towards general working capital of the Group.

ADJUSTMENTS IN RELATION TO THE SHARE OPTION SCHEMES, THE WARRANTS AND THE CONVERTIBLE NOTES

Pursuant to the terms of the Share Option Schemes, the Warrants and the Convertible Notes, the exercise prices, the subscription price and conversion price of the respective Share Options, Warrants and Convertible Notes may be adjusted in accordance with the Share Option Schemes, the deed poll of the Warrants and the Convertible Notes upon the Open Offer becoming unconditional. Such adjustments will be verified by the auditors of the Company and the Company will notify the holders of the Share Options, the holders of the Warrants and the holders of the Convertible Notes the details of respective adjustments in the Prospectus.

EGM

As the Open Offer, when aggregated with the rights issue of the Company announced by the Company in March 2006, will increase the issued share capital of the Company by more than 50% within the 12 month period immediately preceding the announcement of the Company dated 14 December 2006 in relation to the Open Offer, the Open Offer is subject to approval by the Independent Shareholders at the EGM by poll in accordance with the requirements of Rules 10.39, 10.39A and 10.39B of the GEM Listing Rules. Given that there is no controlling Shareholder, Shareholders who are interested or involved in the Open Offer, being the Directors, namely Mr. Yung, Ms. Shum and Mr. Weng and Easeglory, a company wholly and beneficially owned by Mr. Yung, together with their respective associates, will abstain from voting at the EGM in respect of the resolution to approve the Open Offer pursuant to Rule 10.39(1) of the GEM Listing Rules.

A notice convening the EGM at which resolution will be proposed to consider, and if thought fit, to approve the Open Offer to be held at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong on Wednesday, 24 January 2007 at 8:30 a.m. is set out on pages 154 to 155 of this circular. Whether or not you are able to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business of the Company at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the accompanying from of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting in person.

PROCEDURES TO DEMAND A POLL

The following sets out the procedures by which Shareholders may demand a poll at the EGM.

Pursuant to article 66(1) of the Company's articles of association, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded (i) by the chairman of the meeting; or (ii) by at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or (iii) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or (iv) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

RECOMMENDATION

Your attention is drawn to the letters from the Independent Board Committee and Veda Capital which set out their recommendations in respect of the Open Offer and the principal factors considered by them in arriving at their recommendations.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

By order of the Board
Hua Xia Healthcare Holdings Limited
Yung Kwok Leong
Chairman

HUA XIA HEALTHCARE HOLDINGS LIMITED
華夏醫療集團有限公司 *

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8143)

PROPOSED OPEN OFFER OF NOT LESS THAN 350,692,167 OFFER SHARES AND NOT MORE THAN 368,117,579 OFFER SHARES AT HK$0.08 PER OFFER SHARE ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON RECORD DATE PAYABLE IN FULL ON APPLICATION

8 January 2007

To the Independent Shareholders

Dear Sir or Madam,

INTRODUCTION

We refer to the letter from the Board set out on pages 7 to 25 of this circular dated 8 January 2007 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Open Offer and to advise you as to whether or not the terms of the Open Offer are fair and reasonable and it would be in the interests of the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Open Offer. Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We also wish to draw your attention to the letter from the Board and the letter from Veda Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us and the Independent Shareholders in relation to the Open Offer as set out in the Circular.

* *for identification purpose only*

RECOMMENDATION

Having taken into account the principal factors and reasons considered by Veda Capital as stated in its letter of advice as set out on pages 28 to 45 of the Circular, we consider that the terms of the Open Offer are fair and reasonable and the Open Offer is in the interests of the Company and its Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Open Offer to be proposed at the EGM.

Yours faithfully,
For and on behalf of
the Independent Board Committee
Chan Francis Ping Kuen **Hsu Shiu Foo, William** **Yu Chai Mei**
Independent non-executive Directors

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, which has been prepared for the purpose of inclusion in the Circular.

VEDA | CAPITAL
智略資本
Veda Capital Limited
Suite 11-12, 13/F, Nam Fung Tower
173 Des Voeux Road Central, Hong Kong

8 January 2007

To the Independent Board Committee and the Independent Shareholders of
Hua Xia Healthcare Holdings Limited

Dear Sirs,

PROPOSED OPEN OFFER OF NOT LESS THAN 350,692,167 OFFER SHARES AND NOT MORE THAN 368,117,579 OFFER SHARES AT HK$0.08 PER OFFER SHARE ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON RECORD DATE PAYABLE IN FULL ON APPLICATION

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, details of which are set out in the letter from the Board (the "Board Letter") contained in this circular (the "Circular") dated 8 January 2007 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 14 December 2006, the Board announced that the Company proposes to raise not less than approximately HK$28.06 million before expenses by an open offer of not less than 350,692,167 Offer Shares and not more than 368,117,579 Offer Shares at a subscription price of HK$0.08 per Offer Share, payable in full on application, on the basis of one Offer Share for every two Shares held on the Record Date.

As the Open Offer, when aggregated with the rights issue of the Company announced by the Company in March 2006, will increase the issued share capital of the Company by more than 50% within the 12 month period immediately preceding the date of the announcement, i.e. 14 December 2006, the Open Offer is subject to approval by the Independent Shareholders at the EGM by poll in accordance with the requirements of Rules 10.39, 10.39A and 10.39B of the GEM Listing Rules.

The Independent Board Committee, comprising the independent non-executive Directors, namely Mr. Chan Francis Ping Kuen, Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei, which is not involved in or has no interest in the Open Offer and thus being independent, has been established to advise the Independent Shareholders in respect of the Open Offer. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms and conditions of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Open Offer is in the interests of the Company and the Independent Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the ordinary resolution to approve the Open Offer.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information including but not limited to the published information of the Group and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions contained or referred to in the Circular and all information, representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which are solely responsible, are true and accurate at the time when they were made and will continue to be accurate as at the date of the Circular.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Offer Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Offer Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Open Offer and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Open Offer and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

Financial and business highlights of the Group

The Group is principally engaged in the provision of healthcare and hospital management services in the PRC. In addition, it is engaged in the manufacture and sales of environmental protection products as well as provision of related services, manufacture and sales of melamine and its related products.

Financial year 2005 vs financial year 2004

For the year ended 31 March 2005, turnover of the Group was approximately HK$34.2 million, representing an increase of approximately 84% from the turnover for the year ended 31 March 2004 of approximately HK$18.6 million. The significant improvement in revenue was mainly driven by the acquisition of a wholly owned subsidiary which is a company involving mainly in environmental-related businesses, including the installation, engineering and management of waste water treatment systems and environmental facilities and the provision of environmental analyses and measurement services. The turnover contributed by this new wholly owned subsidiary represented approximately HK$24.5 million and was equivalent to approximately 71% of turnover of the Group for the year ended 31 March 2005. Net loss attributable to the Shareholders for the year ended 31 March 2005 was approximately HK$7.1 million, representing an improvement of approximately 80% from the net loss of approximately HK$34.7 million for the year ended 31 March 2004. The decrease in net loss attributable to the Shareholders was achieved by a combination of the successes in the Group's cost cutting measures and the fact that a significant portion of the loss for the year ended 31 March 2004 was related to one-off provisions and impairment in value of intangible assets which were of a non-recurring nature.

Financial year 2006 vs financial 2005

For the year ended 31 March 2006, turnover of the Group was approximately HK$41.1 million, representing an increase of approximately 20% over the turnover for previous financial year of approximately HK$34.2 million. The improvement in revenue was mainly driven by the contribution in turnover by the trading of environmental friendly household products and the environmental protection consultancy services to hospitals in the PRC. The turnover of these new lines of products and services represented approximately HK$17.88 million, representing approximately 44% of the Group's turnover for the year ended 31 March 2006. Net profit attributable to the Shareholders for the year ended 31 March 2006 was approximately HK$3.2 million whereas a net loss of approximately HK$7.1 million was recorded during the previous financial year. The net profit attributable to the Shareholders was achieved by a combination of successes in the Group's new products and services as well as the significant decrease of the provision for impairment on trade receivables for the Group for the year ended 31 March 2006.

Six months ended 30 September 2006 vs six months ended 30 September 2005

For the six months ended 30 September 2006, turnover of the Group was approximately HK$39.7 million, representing an increase of approximately 155% over the turnover for the same period in 2005 of approximately HK$15.6 million. Net profit attributable to the Shareholders for the six months ended 30 September 2006 was approximately HK$7.3 million, representing an significant increase of approximately 1,357% over that for the same period in 2005 of approximately HK$0.5 million. The improvement in revenue and net profit attributable to the Shareholders were mainly driven by the increased contribution by sales of environmental friendly melamine household products and the provision of the environmental protection consultancy services to hospitals and hospital management services in the PRC.

Recent developments of the Group

As mentioned in the annual report of the Company for the year ended 31 March 2006 and the announcement of the Company dated 24 November 2006, 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. Therefore, the Directors believe that potential investments in healthcare sector in the PRC will provide a stable income source to the Group and will bring synergistic effect and positive opportunities in the promising healthcare sector in the PRC, the Directors intend to seek possible future investments in or cooperations with hospitals in the PRC and to consider undertaking those businesses which are complimentary to the existing business.

As disclosed in the announcement of the Company dated 15 June 2006, on 12 June 2006, Grand Brilliant entered into a sale and purchase agreement with Mr. Wu Wendong, pursuant to which Grand Brilliant has agreed to acquire from Mr. Wu Wendong 76% equity interest of Day View Group Limited for a consolidation of HK$96.86 million. The group company of Day View Group Limited engages principally in the business of healthcare management and training and consultancy for mainly hospitals in the PRC. The completion of the acquisition took place on 24 November 2006.

As disclosed in the joint announcement of the Company and Town Health International Holdings Company Limited dated 19 October 2006 following the signing of an non-legally binding letter for the proposed acquisition of equity interests in a PRC hospitals announced by the Company on 12 July 2006, the Company has entered into a non-legally binding letter of intent with an objective to leverage on the resources and expertise of Town Health International Holdings Company Limited and the Company in their cooperative development in the medical and healthcare related business in the PRC. The Company and Town Health International Holdings Company Limited are still negotiating the terms of the proposed cooperation in order to finalise a formal commercial agreement.

In addition, as disclosed in the announcement of the Company dated 24 November 2006, the Company entered into another non-legally binding letter of intent with Mr. Lin Guo Xiong and Fuzhou Taijiang Hospital, pursuant to which the Company intended to acquire equity interests in a hospital in the PRC. The Company is in the progress of conducting the due diligence exercise on the PRC hospitals. Further announcement will be made by the Company as and when appropriate in accordance with the GEM Listing Rules.

Reasons for the Open Offer

Although the Group has conducted three fund raising exercises during the past 12 months as mentioned in the Board Letter, the net proceeds of the three fund raisings had been utilized as mentioned in the Board Letter. In order to achieve the acquisition strategy of the Group, the Group's working capital requirements have accordingly increased. The Board therefore considers that the Open Offer represents an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position. Upon completion of the Open Offer, the Company will be in a good position to capture any potential business opportunities and facilitate its business expansion and to enhance its earning potential, and therefore enhance the overall value of the Shares. We concur with the view of the Board that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Open Offer since it would allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Group.

Use of proceeds

The net proceeds of the Open Offer (after deduction of commission and expenses) are expected to amount to approximately HK$26.06 million (assuming no outstanding Share Options, no outstanding Warrants and no rights attaching to the Convertibles Notes are exercised on or before the Record Date), of which approximately HK$23.06 million will be used to finance future investments such as in the healthcare sectors in Hong Kong and the PRC, including, but not limited to, the payment of the considerations relating to the letter of intent for possible formation of joint ventures with Town Health International Holdings Company Limited for operating dental services and beauty services as announced by the Company on 19 October 2006 and the letters of intent for proposed acquisition of PRC hospitals as announced by the Company on 24 November 2006 and 12 July 2006, if such possible formation of joint ventures and proposed acquisition materialize, and approximately HK$3 million towards general working capital of the Group.

Terms of the Open Offer

The Open Offer is on the basis of one Offer Share for every two Shares held on the Record Date at the Subscription Price of HK$0.08 per Offer Share, payable in full on application, represents:

(i) a discount of approximately 67.35% to the closing price of HK$0.2450 per Share as quoted on the Stock Exchange on 11 December 2006, being the last trading day (the "Last Trading Day") of the Shares on the Stock Exchange prior to the suspension of the trading in the Shares;

(ii) a discount of approximately 65.03% to the average closing price of approximately HK$0.2288 per Share as quoted on the Stock Exchange for five trading days up to and including the Last Trading Day;

(iii) a discount of approximately 68.24% to the average closing price of approximately HK$0.2519 per Share as quoted on the Stock Exchange for ten trading days up to and including the Last Trading Day;

(iv) a discount of approximately 57.89% to the theoretical ex-rights price of approximately HK$0.1900 per Share based on the closing price of HK$0.2450 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(v) a discount of approximately 71.43% to the closing price of HK$0.2800 per Share on the Latest Practicable Date.

(a) Review on share prices and historical closing prices

The average daily closing price, the highest closing price, the lowest closing price and the average daily trading volume of the Shares as quoted on the Stock Exchange in each of the months during the period commencing from 12 December 2005 (being the commencement of the one-year period preceding the Last Trading Day, as we consider a one-year period provides a broad and sufficient time basis for assessing the performance of the Shares) up to and including the Latest Practicable Date (the "Review Period") are shown as follows:

Month	**Average daily closing price** *(HK$)*	**Highest closing price** *(HK$)*	**Lowest closing price** *(HK$)*	**Average daily trading volume of the month** *(Shares)*	**% of average daily trading volume of the month to the Shares in issue**[2] *(%)*
2005					
December (from 12 December onwards)	0.1815	0.1870	0.1730	249,846	0.0356
2006					
January	0.1541	0.1730	0.1430	115,684	0.0165
February	0.1475	0.1570	0.1400	420,300	0.0599
March	0.2724	0.4750	0.1470	2,486,157	0.3545
April	0.6421	0.7400	0.4400	3,880,610	0.5533
May	0.7122	0.8200	0.6600	2,070,921	0.2953
June	0.7247	0.7500	0.7000	840,905	0.1199
July	0.7914	0.8300	0.7300	2,676,064	0.3815
August	0.7026	0.7500	0.6600	2,414,157	0.3442
September	0.6005	0.6600	0.5000	1,235,483	0.1761
October	0.3713	0.4800	0.3000	767,400	0.1094
November	0.2877	0.3100	0.2650	1,257,573	0.1793
December (up to and including the Last Trading Day)	0.2391	0.2750	0.2100	1,497,143	0.2135
December (since the day that the Shares resumed trading)	0.2906	0.3300	0.2500	2,972,138	0.4238

Month	Average daily closing price (HK$)	Highest closing price (HK$)	Lowest closing price (HK$)	Average daily trading volume of the month (Shares)	% of average daily trading volume of the month to the Shares in issue[2] (%)
2007					
January (up to and including the Latest Practicable Date)	0.285	0.2900	0.2800	1,360,000	0.1939

Source: the Stock Exchange web-site (www.hkex.com.hk)

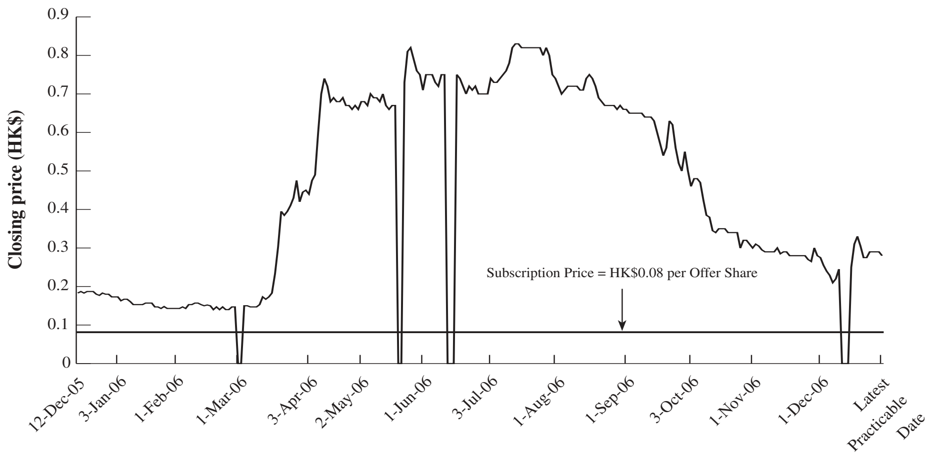
Note:

1. Average daily trading volume was calculated by excluding any days when trading of the Shares was suspended. The trading of the Shares was suspended during the days of 1 and 2 March 2006, 19 and 22 May 2006, 13 to 15 June 2006, and 12 to 14 December 2006.

2. the Company has 701,384,334 Shares in issue as at the Latest Practicable Date.

As shown in the above table, the Subscription Price is lower than all the monthly highest, lowest and average closing price of the Shares during the Review Period.

We also reviewed the historical closing price of the Shares versus the Subscription Price during the Review Period. The following chart illustrates the historical closing price of the Shares versus the Subscription Price during the Review Period:

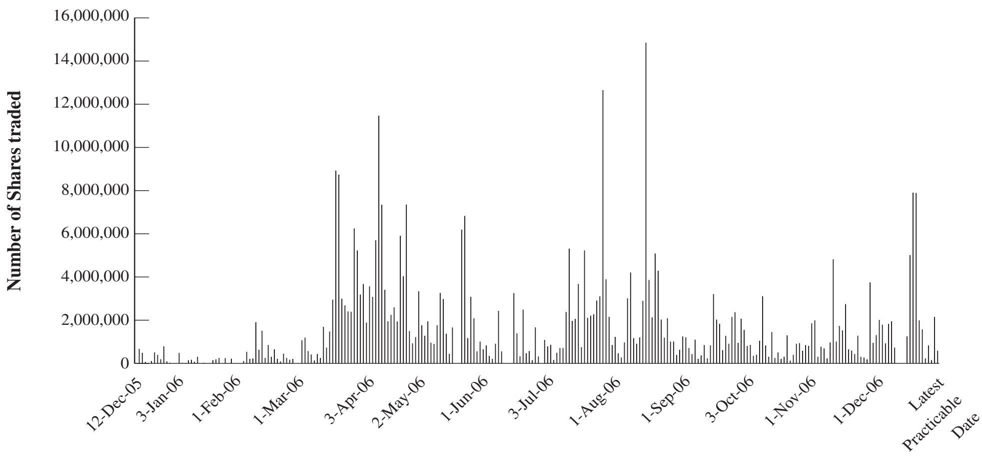


Note: The trading of the Shares was suspended during the days of 1 and 2 March 2006, 19 and 22 May 2006, 13 to 15 June 2006, and 12 to 14 December 2006.

As shown in the above chart, the closing price of the Shares ranged from HK$0.14 per Share to HK$0.83 per Share during the Review Period. Throughout the Review Period, the Shares were traded above the Subscription Price of HK$0.08 per Offer Share. The Subscription Price of HK$0.08 per Offer Share represents a discount of approximately 83% to the average closing price (on a simple average basis which we believe provide a clear and straight forward reference on the average performance of the Shares over the Review Period and the calculation for the average closing price has excluded those trading days when trading of the Shares was suspended) of approximately HK$0.459 per Share during the Review Period. We observe that it is common amongst the Comparables (as defined hereinafter) that, in order to enhance the attractiveness of an open offer exercise, the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares (Please refer to the table illustrated in the section headed "Comparisons with other open offers" below). Hence, the fact that the Subscription Price is lower than the prevailing market prices of the Shares is in line with the practice for the Comparables (as defined hereinafter) and is acceptable.

(b) Review on the trading volume of the Shares

The following chart illustrates the historical trading volume of the Shares as quoted on the Stock Exchange during the Review Period:



As shown in the "Percentage of average daily trading volume of the month to the Shares in issue" of the table in the subsection (a) headed "Review on share prices and historical closing prices" above in this letter, we noted that the liquidity of the Shares has been relatively low throughout the Review Period. The chart above in this subsection further shows that the liquidity of the Shares was particularly low between September 2006 and December 2006 (up to the Last Trading Day), with an average daily trading volume ranging from 767,400 Shares to 1,497,143 Shares, or approximately 0.1094% to 0.2135% of the Company's issued share capital of 701,384,334 Shares. After publication of the Announcement and up to the Latest Practicable Date, the average daily trading volume increase to approximately 2,679,022 Shares, or approximately 0.382% of the Shares in issue.

In view of the relatively low liquidity of the Shares on the Stock Exchange, we consider open offers and rights issues will be more practicable means for the Company to raise funds as compared to placing of new Shares. Meanwhile, an open offer will have better time and cost efficiency over rights issue as it will not have a trading period for nil-paid entitlements. As such, we consider that the Open Offer is in the interests of the Company and Shareholders as a whole when considering equity fund raising.

Comparison with other open offers

In assessing the fairness of the Subscription Price, we consider a broader comparison of open offers of ordinary shares of other listed companies to provide a more general reference for the pricing of the Open Offer. To the best of our knowledge, we have identified and reviewed all, being 24, open offers (the "Comparables") of the companies that are listed on the Stock Exchange, which announced the respective open offers during the Review Period. Details of the Comparables are summarized in the following table:

Company name *(Stock code)*	Date of announcement	Offer ratio	Subscription price *(HK$)*	Closing price as at the last trading day before the date of announcement *(HK$)*	Premium/ (Discount) I *(Note 1)*	Discount II *(Note 2)*	Dilution *(Note 3)*	Underwriting commission
Sunlink International Holdings Limited (2336)	7 December 2006	1 for 5	0.18	0.1350	(85.2)%	(67.3)%	17%	2.5%
Daqing Petroleum and Chemical Group Limited (362)	23 November 2006	1 for 2	0.3	0.415	(27.71)%	(20.42)%	33%	2.5%
Shanghai Donghua Petrochemical Co., Ltd. (8251)	25 October 2006	3.65 for 10	1.10	1.50	(26.67)%	(21.03)%	27%	2.0%
Cosmopolitan International Holdings Limited (120)	4 October 2006	2 for 1	0.05	0.086	(41.86)%	(19.35)%	67%	2.5%
Tak Shun Technology Group Limited (1228)	12 September 2006	2 for 5	0.05	0.121	(58.68)%	(50.50)%	29%	2.0%
Chinney Alliance Group Limited (385)	21 August 2006	2 for 3	0.25	0.24	4.2%	1.6%	40%	2.0%
Xin Corporation Limited (1141)	17 August 2006	3 for 1	0.12	0.209	(42.60)%	(15.5)%	75%	2.50%
Greater China Technology Group Limited (8032)	13 July 2006	3 for 2	0.015	0.045	(66.67)%	(44.44)%	60%	2.50%

Company name *(Stock code)*	Date of announcement	Offer ratio	Subscription price *(HK$)*	Closing price as at the last trading day before the date of announcement *(HK$)*	Premium/ (Discount) I *(Note 1)*	Discount II *(Note 2)*	Dilution *(Note 3)*	Underwriting commission
Kiu Hung International Holdings Limited (381)	6 July 2006	7 for 20	0.05	0.17	(70.59)%	(64.03)%	26%	2.50%
Carico Holdings Limited (729)	7 June 2006	1 for 1	0.120	0.248	(51.61)%	(34.78)%	50%	1.50%
Skyfame Realty (Holdings) Limited (59)	7 June 2006	13 for 40	0.900	1.25	(28.00)%	(22.40)%	25%	2.00%
FX Creation International Holdings Limited (8136)	26 May 2006	1 for 2	0.060	0.29	(79.31)%	(71.83)%	33%	2.50%
Pacific Plywood Holdings Limited (767)	18 May 2006	1 for 1	0.025	0.23	(89.13)%	(80.39)%	50%	2.50%
China Nan Feng Group Limited (979)	28 April 2006	3 for 1	0.600	1.66	(63.86)%	(30.64)%	75%	2.00%
Haywood Investment Limited (905)	27 April 2006	1 for 2	0.070	0.083	(15.66)%	(11.39)%	33%	Nil
China National Resources Development Holdings Limited (661)	26 April 2006	1 for 2	0.060	0.084	(28.6)%	(21.10)%	33%	2.50%
Great Wall Cybertech Limited (689)	21 April 2006	9 for 5	0.06	1.00	(94.00)%	(84.83)%	64%	2.5%
Heng Tai Consumables Group Limited (197)	1 March 2006	2 for 5	0.750	1.43	(47.60)%	(39.50)%	29%	2.50%
SYSCAN Technology Holdings Limited (8083)	28 February 2006	3 for 1	0.030	0.073	(58.90)%	(26.83)%	75%	1.00%
Uni-Bio Science Group Limited (690)	15 February 2006	2 for 1	0.500	0.61	(19.00)%	(18.20)%	67%	2.00%
Earnest Investment Holdings Limited (339)	23 February 2006	8 for 1	0.100	1.08	(90.70)%	(52.40)%	89%	1.50%
Fortuna International Holdings Limited (530)	27 January 2006	2 for 1	0.010	0.1	(90.00)%	(75.00)%	67%	1.00%
South Sea Petroleum Holdings Limited (76)	27 January 2006	1 for 2	0.200	0.34	(41.18)%	(31.03)%	33%	2.50%

Company name *(Stock code)*	Date of announcement	Offer ratio	Subscription price *(HK$)*	Closing price as at the last trading day before the date of announcement *(HK$)*	Premium/ (Discount) I *(Note 1)*	Discount II *(Note 2)*	Dilution *(Note 3)*	Underwriting commission
TCL Communication Technology Holdings Limited (2618)	22 December 2005	1 for 1	0.200	0.25	(20)%	(11)%	50%	2.50%
			Highest		**(94.00)%**	**(84.83)%**	**89%**	2.50%
			Lowest		**4.20%**	**1.60%**	**17%**	Nil
			Mean		**(51.39)%**	**(38.01)%**	**48%**	
The Company	**14 December 2006**	**1 for 2**	**0.08**	**0.2450**	**(67.35)%**	**(57.89)%**	**33%**	**2.5%**

Source: www.hkex.com.hk and the respective announcements containing details of the Comparables

Notes:

1 The discount of the subscription price to the closing price per share on the last trading day prior to the announcements in relation to the respective open offers.

2. The discount of the subscription price to the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to the announcements in relation to the respective open offers (the theoretical ex-rights price per share is calculated as (number of open offer shares x subscription price of the open offer + number of existing shares held x closing price per share on the last trading day prior to the announcement of the open offer)/(number of open offer shares + number of existing shares held), e.g. for the Open Offer, the theoretical ex-rights per Share is calculated as (1 x HK$0.08 + 2 x HK$0.245)/(1+2) = HK$0.19).

3. Maximum dilution effect of each open offer and is calculated as (1-number of existing shares held/(number of existing shares held + number of open offer shares)), e.g. for a 1 for 2 open offer, the maximum dilution effect is calculated as 1-2/(2+1))=33%.

We are mindful of the fact that pricing of an open offer may vary under different stock market conditions as well as among companies with different financial standings and business performance (including loss making companies and profit making companies). Nevertheless, we consider that a broader comparison of open offers announced recently would provide a more general reference for the reasonableness of the pricing of the Open Offer.

As shown above, the premiums/(discounts) of the Comparables of the subscription price over/(to) the closing price on the last trading day prior to the announcement (the "Closing Price Range") range from a premium of approximately 4.2% to a maximum discount of approximately 94% with a mean of approximately 51.39%. The discount of approximately of 67.35% of the Subscription Price to the closing price per Share on the Last Trading Day falls within the Closing Price Range, and is higher than the mean of the Closing Price Range.

The premiums/(discounts) of the Comparables of the subscription price to the theoretical ex-rights price on the last trading day prior to the announcement (the "Theoretical Price Range") range from a premium of approximately 1.6% to a maximum discount of approximately 84.83% with a mean of approximately 38.01%. The discount of approximately 57.89% of the Subscription Price to the theoretical ex-rights price per Offer Share based on the closing price per Share on the Last Trading Day also falls within the Theoretical Price Range, and is higher than the mean of the Theoretical Price Range.

We noted that the Subscription Price falls within the Closing Price Range and the Theoretical Price Range of the Comparables, and that the Subscription Price represents deeper discounts than the mean of the Closing Price Range and the Theoretical Price Range. We have discussed with the Directors about the reasons for the deep discount represented by the Subscription Price compared to the mean of the Closing Price Range and the Theoretical Price Range. First, as mentioned in the Board Letter and in the section headed "Review on the trading volume of the Shares" above in this letter, the Shares have low market liquidity and in order to increase the attractiveness of the Open Offer to the Qualifying Shareholders, the Open Offer offers the Qualifying Shareholders a chance to subscribe for the Offer Shares at a relatively low price and to maintain the respective pro-rata shareholdings of the Qualifying Shareholders in the Company. In view of the low turnover of the Shares, we believe that with such low turnover, it is difficult to attract Qualifying Shareholders to reinvest through the Open Offer at a subscription price without a substantial discount. Therefore, in order to attract the Qualifying Shareholders' interest and participation in the Open Offer so that the Group can secure more funding from the Open Offer to capture any potential business opportunity and facilitate its business expansion and to enhance its earning potential, and therefore enhance the overall value of the Shares, the Subscription Price represents a more substantial discount than most of the Comparables. We consider that a substantial discount is inevitable in order to provide incentives to the Shareholders to subscribe for the Open Offer.

Although there are no immediate financial needs by the Group (as majority of the net proceeds from the Open Offer will be used to finance future investments in the healthcare sectors in Hong Kong and the PRC) and there are sufficient internal resources available to the Group as at the Latest Practicable Date for general working capital purpose, taking into account that (i) the existing internal financial resources of the Group are expected to be not enough to finance future investments of the Group such as in the healthcare sectors in Hong Kong and the PRC, including, but not limited to, the payment of the considerations relating to the letter of intent for possible formation of joint ventures with Town Health International Holdings Company Limited for operating dental services and beauty services as announced by the Company on 19 October 2006 and the letters of intent for proposed acquisition of PRC hospitals as announced by the Company on 24 November 2006 and 12 July 2006; (ii) the Group reported a recent trend of improved performance as illustrated in the section headed "Financial and business highlights of the Group" above; (iii) the Open Offer enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to do so and provides an equal opportunity among the Qualifying Shareholders to share future benefits that may be brought about from the expansion of the Group's business through future investments; (iv) although the shareholdings interest of those Qualifying Shareholders who do not take up their entitlements under the Open Offer will be diluted, they have been given a fair chance to participate in the Open Offer and; (v) the Subscription Price falls within the Closing Price Range and the Theoretical Price Range of the Comparables, we consider that the Subscription Price is fair and reasonable so far as the Qualifying Shareholders are concerned.

Potential dilution effect on the shareholding interests of the Independent Shareholders

The attributable interest of the Qualifying Shareholders in terms of percentage shareholding in the Company who take up their entitlements in full under the Open Offer will remain unchanged upon completion of the Open Offer. Qualifying Shareholders who do not subscribe for their provisional entitlements under the Open Offer will have their shareholding interests diluted by a maximum of approximately 33%.

On the other hand, Qualifying Shareholders should note that they may apply for any unsold entitlements of the Prohibited Shareholders and any Offer Shares not taken up by the Qualifying Shareholders. Therefore, Qualifying Shareholders who are attracted by the prospects of the Group and wish to increase their shareholdings in the Company may increase their attributable interests in the Company at the Subscription Price.

In order to assess the fairness and reasonableness of the dilution effect of the Open Offer on the shareholding interests of the Independent Shareholders, we have made comparisons with other open offers of the Comparables. From the Comparables as set out in subsection headed "Comparisons with other open offers" above, we note that the dilutions of the respective open offers of the Comparables ranged from approximately 17% to approximately 89% with a mean dilution of approximately 48%. The dilution of the Open Offer falls within the range of the dilutions of the Comparables and is less than the mean dilution of the Comparables.

In view of the above and after taking into consideration the reasons and benefits of the Open Offer, together with the opportunity for Qualifying Shareholders to maintain their proportionate interests in the Company, the opportunity of applying for excess Offer Shares and the fact that the dilution of the Open Offers falls within the range of the dilutions of the Comparables, we consider that the potential dilution effect of the Open Offer is fair and reasonable.

Financial effects of the Open Offer

(i) Effect on net tangible assets

A statement of unaudited pro forma statement of adjusted consolidated net tangible assets of the Group based on the unaudited consolidated net tangible assets of the Group as at 30 September 2006 adjusted to reflect the effect of the Open Offer on the net tangible assets of the Group is set out in Appendix II to the Circular (the "Statement").

The unaudited consolidated net tangible assets of the Group were approximately HK$57,586,000 as at 30 September 2006. Based on 701,384,334 Shares in issue as at the Latest Practicable Date, the net tangible asset value per Share was approximately HK$0.0821. Based on the Statement, upon completion of the Open Offer, the unaudited pro forma adjusted consolidated net tangible assets of the Group would increase by approximately 45.25% to approximately HK$83,641,000 while the unaudited pro forma adjusted consolidated net tangible assets per Share of the Group would decrease by approximately 3.17% to approximately HK$0.0795 based on 1,052,076,501 Shares in issue immediately following the completion of the Open Offer (assuming that none of the Pre-IPO Share Options, Post-IPO Share Options and Warrants will be exercised and none of the Conversion Shares will be converted).

In light of the enhancement on the unaudited pro forma adjusted consolidated net tangible assets and the lowering of the gearing level (details of which will be discussed in the sub-section headed "Effect on gearing ratio" that follows) of the Group as a result of the Open Offer, we are of the opinion that the Open Offer is in the interests of the Company and the Shareholders as a whole. The slight decrease in the unaudited pro forma adjusted consolidated net tangible assets per share is an inevitable consequence of the Subscription Price being set at a discount to the net asset value per Share. However, considering that the Qualifying Shareholders are having an equal opportunity to take up the Offer Shares in accordance with their provisional entitlements under the Open Offer and the Open Offer will enlarge the capital base of the Company so as to facilitate any future development of the Group, we are of the view that the overall increase in the Group's unaudited pro forma adjusted consolidated net tangible assets to be favorable to the Company as a whole.

(ii) Effect on gearing ratio

The Group's gearing ratio (being total liabilities/total equity) was approximately 47.3% as at 30 September 2006. As a result of the increase in the net asset value of the Group immediately after the Open Offer, the Company's gearing ratio will be reduced immediately after the Open Offer. We consider the reduced gearing ratio provides the Company with more financial flexibility and hence is in the interests of the Company and the Shareholders.

(iii) Effect on liquidity

Total current assets and total current liabilities of the Group as at 30 September 2006 were reported as approximately HK$71.18 million and approximately HK$20.52 million respectively. Accordingly, the current ratio (being current assets/current liabilities) as at 30 September 2006 was about 3.5 times. The net proceeds from the Open Offer is expected to enhance its current asset value by approximately HK$26.06 million and thus improve the current ratio. Hence, the financial capability of the Company to look for expanded business opportunities will be enhanced accordingly.

The Open Offer will enhance the working capital position with no adverse impact on the gearing level of the Group. Therefore, we concur with the Directors' view that the Open Offer is in the interests of the Company and the Shareholders as a whole.

Underwriting arrangement

From the Comparables as set out in subsection headed "Comparisons with other open offers" above, we note that the commissions of the respective underwriters ranged form 1% to 2.5%, save for one of the Comparables which agreed to nil underwriting commission. We consider that the commission charged by the Underwriters of 2.5% in the Open Offer is within the range of underwriting commissions of the Comparables and is reasonable to the Company.

Subject to the fulfillment of the conditions contained in the Underwriting Agreement, it should also be noted that the Open Offer would not proceed if the Underwriters exercise its termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are included in the Board Letter. We consider such provision are in normal commercial terms and in line with the normal market practice.

RECOMMENDATION

Taking into consideration of the above mentioned principal factors and reasons, we consider that, on balance, the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Open Offer.

Yours faithfully,
For and on behalf of
Veda Capital Limited

Hans Wong	**Julisa Fong**
Managing Director	*Director*

1. SUMMARY OF FINANCIAL INFORMATION

The following table summarises the results, assets and liabilities of the Group for the last three financial years ended 31 March 2006 as extracted from the relevant published financial statements of the Group.

Results

	For the year ended 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
Results			
Turnover	41,088	34,230	18,578
Profit/(loss) before taxation	3,655	(6,666)	(39,447)
Taxation	(561)	(440)	–
Net profit/(loss) for the year	3,094	(7,106)	(39,447)
Profit/(loss) attributable to			
– Equity holders of the Company	3,191	(7,045)	(34,729)
– Minority interests	(97)	(61)	(4,718)
	3,094	(7,106)	(39,447)

Asset and liabilities

	As at 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
Assets and liabilities			
Total assets	59,162	28,655	27,126
Total liabilities	(28,144)	(9,526)	(9,402)
Total equity	31,018	19,129	17,724

2. AUDITED FINANCIAL STATEMENTS

Set out below are the audited financial statements of the Group as extracted from the annual report of the Group for the year ended 31 March 2006:

CONSOLIDATED BALANCE SHEET

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	6	14,585	2,342
Available-for-sale investments	7	138	131
Goodwill	9	1,893	1,893
		16,616	4,366
Current assets			
Inventories	11	3,250	2,373
Trade and other receivables	12	30,211	18,780
Pledged bank deposits	29	93	–
Cash and bank balances		8,992	3,136
		42,546	24,289
Total assets		59,162	28,655
Equity:			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	17,247	13,904
Reserves		13,735	5,092
		30,982	18,996
Minority interests		36	133
Total equity		31,018	19,129

	Note	2006 HK$'000	2005 HK$'000 (Restated)
LIABILITIES			
Current liabilities			
Trade and other payables	15	9,591	8,470
Obligations under finance leases-due within one year	16	111	7
Amounts due to directors	17	655	664
Amount due to minority shareholder of a subsidiary	17	160	160
Tax payable		568	225
		11,085	9,526
Long-term liabilities			
Convertible notes	18	16,762	–
Obligations under finance leases-due after one year	16	297	–
		17,059	–
Total liabilities		28,144	9,526
Total equity and liabilities		59,162	28,655
Net current assets		31,461	14,763
Total assets less current liabilities		48,077	19,129

BALANCE SHEET
At 31 March 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000*
Non-current assets			
Interests in subsidiaries	*10*	–	–
Current assets			
Prepayments		53	113
Bank balances		38	7
		91	120
Total assets		91	120
Equity:			
Capital and reserves attributable to the Company's equity holders			
Share capital	*13*	17,247	13,904
Reserves	*14*	(34,494)	(14,313)
Total equity		(17,247)	(409)
LIABILITIES			
Current liabilities			
Accruals and other payables		576	378
Tax payable		–	151
		576	529
Long-term liabilities			
Convertible notes		16,762	–
Total liabilities		17,338	529
Total equity and liabilities		91	120
Net current liabilities		(485)	(409)
Total assets less current liabilities		(485)	(409)

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Turnover	20	41,088	34,230
Cost of sales		(19,281)	(15,539)
Gross profit		21,807	18,691
Other revenue	20	40	79
Other income	21	3,465	–
Selling and distribution expenses		(1,986)	(2,017)
Administrative expenses		(18,408)	(17,912)
Provision for impairment on trade and other receivables		(964)	(3,715)
Provision for obsolete inventories		–	(1,282)
Loss on disposal of subsidiaries		–	(222)
Profit/(loss) from operations	21	3,954	(6,378)
Finance costs	24	(299)	(288)
Profit/(loss) before taxation		3,655	(6,666)
Taxation	25	(561)	(440)
Profit/(loss) for the year	26	3,094	(7,106)
Attributable to:			
Equity holders of the Company		3,191	(7,045)
Minority interests		(97)	(61)
		3,094	(7,106)
Dividends	28	–	–
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
– basic	27	HK0.73 cents	(HK2.05 cents)
– diluted	27	HK0.63 cents	N/A

All of the Group's activities are classed as continuing.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 March 2006

	Attributable to the equity holders of the Company										
	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))	Accumulated losses HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 April 2004, as previously reported as equity	11,587	50,064	2,935	(12)	–	–	–	–	(47,175)	–	17,399
At 1 April 2004, as previously separately reportedas minority interests	–	–	–	–	–	–	–	–	–	325	325
At 1 April 2004, as restated	11,587	50,064	2,935	(12)	–	–	–	–	(47,175)	325	17,724
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	355	–	–	–	–	–	–	355
Release upon disposal of subsidiaries	–	–	–	12	–	–	–	–	–	(131)	(119)
Net loss recognised directly in equity	–	–	–	367	–	–	–	–	–	(131)	236
Net loss for the year	–	–	–	–	–	–	–	–	(7,045)	(61)	(7,106)
Total loss for the year	–	–	–	367	–	–	–	–	(7,045)	(192)	(6,870)
Issue of shares	2,317	6,025	–	–	–	–	–	–	–	–	8,342
Issuing expenses	–	(67)	–	–	–	–	–	–	–	–	(67)
Total equity at 31 March 2005 and 1 April 2005, as restated	13,904	56,022	2,935	355	–	–	–	–	(54,220)	133	19,129
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	98	–	–	–	–	–	–	98
Net income recognised directly in equity	–	–	–	98	–	–	–	–	–	–	98
Net profit for the year	–	–	–	–	–	–	–	–	3,191	(97)	3,094
Total income for the year	–	–	–	98	–	–	–	–	3,191	(97)	3,192

	Attributable to the equity holders of the Company										
	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))*	Accumulated losses *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
Issue of shares	2,780	–	–	–	–	–	–	–	–	–	2,780
Premium arising on issue of shares	–	4,448	–	–	–	–	–	–	–	–	4,448
Issuing expenses	–	(627)	–	–	–	–	–	–	–	–	(627)
Share-based payment expenses	–	–	–	–	449	–	–	–	–	–	449
Exercise of share options	563	336	–	–	(336)	–	–	–	–	–	563
Premium arising on exercise of share options	–	585	–	–	–	–	–	–	–	–	585
Equity component of convertible notes	–	–	–	–	–	499	–	–	–	–	499
Transfer to reserve	–	–	–	–	–	–	37	37	(74)	–	–
Total equity at 31 March 2006	17,247	60,764	2,935	453	113	499	37	37	(51,103)	36	31,018

Note:

(a) 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.

(b) 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 of directors and by the relevant authority, to offset accumulated losses or increase capital.

(c) 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.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation		3,655	(6,666)
Adjustments for:			
Interest income		(35)	(73)
Interest expenses		299	288
Amortisation of goodwill		–	425
Amortisation of intangible assets		–	1
Bad debt written off		–	173
Bad debt recovered		(916)	–
Depreciation of property, plant and equipment		1,627	1,012
Exchange difference		(107)	294
Loss on disposal of property, plant and equipment		13	264
Loss on disposal of a subsidiary		–	222
Provision for impairment of trade and other receivables		964	3,542
Provision for obsolete inventories		–	1,282
Reversal of trade payables		(2,285)	–
Reversal of provision for obsolete inventories		(254)	–
Share-based payment expenses		449	–
Operating cash inflows before movements in working capital		3,410	764
(Increase)/decrease in inventories		(623)	1,750
Increase in trade and other receivables		(11,479)	(9,633)
Increase/(decrease) in trade and other payables		3,248	(424)
Net cash used in operations		(5,444)	(7,543)
Overseas tax paid		(67)	(215)
Hong Kong profit tax paid		(151)	–
Net cash used in operating activities		(5,662)	(7,758)

	Note	2006 *HK$'000*	2005 *HK$'000* (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		35	73
Purchase of property, plant and equipment		(13,685)	(299)
Purchase of available-for-sale investments		–	(131)
Purchase of subsidiaries (net of cash and and equivalents)	*30*	–	(3,081)
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	*31*	–	(485)
Increase in pledged bank deposits		(93)	–
Net cash used in investing activities		(13,743)	(3,923)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(53)	(288)
Proceeds from issue of shares		7,228	8,342
Issue costs of shares		(627)	(67)
Proceeds from exercise of share options		1,148	–
Borrowing from finance lease		408	–
Proceeds from issue of convertible notes		18,000	–
Issue costs of convertible notes		(827)	–
Repayment of finance leases		(7)	(9)
Borrowings raised from directors		–	280
Repayment to directors		(9)	–
Short-term bank loans repaid		–	(999)
Repayment of trust receipt loans		–	(1,091)
Net cash generated from financing activities		25,261	6,168
Net increase/(decrease) in cash and cash equivalents		5,856	(5,513)
Cash and cash equivalents at the beginning of the year		3,136	8,649
Cash and cash equivalents at the end of the year		8,992	3,136
Analysis of balances of cash and cash equivalents			
Cash and bank balances		8,992	3,136

NOTES TO FINANCIAL STATEMENTS
31 March 2006

1. Corporate information

The Company was incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability. The shares of the Company are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT George Town, Grand Cayman, British West Indies. The principal place of business of the Company in Hong Kong is located at Room 1902, 19/F., Sing Pao Building, No.101 King's Road, North Point, Hong Kong.

The Company acts as an investment holding company while its subsidiaries are engaged in the manufacture and sales of environmental protection products as well as provision of related services and manufacture and sale of melamine and its related products.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the GEM Listing Rules of the Stock Exchange.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the financial statements.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("collectively referred to as the "new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005. The Group adopted these new and revised standards and interpretations of HKFRSs in its financial statements for the year ended 31 March 2006, which are relevant to its operations. The financial statements for the year ended 31 March 2005 have been restated in accordance with the relevant requirements. A summary of the effect on initial adoption of these new and revised HKFRSs is as follows:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKAS-Int 15	Operating leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets

The adoption of new and revised HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 23, 27, 33, 37, 38 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. The impact of adopting the other HKFRSs is summarised as follows:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

– The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Under HKAS 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible notes reserve until the notes are either converted (in which case it is transferred to share premium) or redeemed (in which case it is released directly to retained earnings).

In prior years, convertible notes were stated at face value. The finance cost was accrued using effective interest rate method. The issuance costs incurred for the arrangement of convertible note were charged to the income statement in the year of issue. Retrospective application is required for adoption of HKAS 32. As the Group had no convertible notes at 31 March 2005, no prior year adjustment is required.

– The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1 April 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in share-based payment reserve. The share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. In prior years, no amount was recognised when options were granted. If the option holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable. As a transitional provision, the cost of share option granted after 7 November 2002 and had not yet vested on 1 April 2005 were expensed retrospectively in the income statement of the respective periods.

The outstanding share options at 31 March 2005 are all granted before 7 November 2002 and vested before 1 April 2005, no prior year adjustment is required.

– The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required. Until 31 March 2005, positive goodwill was capitalised and amortised on a straight-line basis over its useful economic life of 5 years and was subject to impairment testing when there were indications of impairment.

In accordance with the provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 April 2005 and the accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ended 31 March 2006 onwards, goodwill is tested annually for impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

– The adoption of HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale. As Group had no investment properties at 31 March 2005 and 2006, no adjustments are required.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations; and

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investment in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 April 2005.

– HKFRS 3 – prospectively after 1 April 2005.

(i) Effect on the consolidated balance sheet as at 1 April 2005

	HKAS 32 Financial instruments	**HKFRS 3 Business combination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Other investments	(131)	–	(131)
Available-for-sale financial assets	131	–	131
Accumulated amortisation	(3,796)	–	(3,796)
Goodwill	3,796	–	3,796
	–	–	–

(ii) Effect on the consolidated income statement for the year ended 31 March 2006

	HKAS 39 Financial instruments	**HKFRS 2 Share-based payment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Increase in administrative expenses	–	449	449
Increase in provision of impairment loss of trade receivables	964	–	–
Decrease in allowances for bad and doubtful debts	(964)	–	–
	–	449	449
Decrease in basic earnings per share	–	HK0.10 cents	HK0.10 cents
Decrease in diluted earnings per share	–	HK0.09 cents	HK0.09 cents

(iii) Effect on the consolidated balance sheet as at 31 March 2006

	HKAS 39 Financial instruments	**HKFRS 2 Share-based payment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Increase in convertible notes reserve	499	–	499
Increase in share-based payment reserve	–	113	113
	499	113	612

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transaction
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosure
HK (IFRIC) – Int 4	Determining whether an Arrangement contain a Lease
HK (IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK (IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK (IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK (IFRIC) – Int 8	Scope of HKFRS 2
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives

HKAS 1 (Amendment) – Presentation of Financial Statements – Capital Disclosures introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKAS 1 from annual periods beginning 1 January 2007.

HKAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit and loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as at 31 March 2005 and 2006.

HKAS 39 (Amendment) – The Fair Value Option changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will comply this amendment from accounting periods beginning on or after 1 January 2006.

HKAS 39 and HKFRS 4 (Amendment) – Financial Guarantee requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.

HKFRS 7 – Financial Instruments: Disclosures introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32 – Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

A summary of significant accounting policies followed by the Group and the Company in the preparation of the financial statements is set out below:

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost convention and modified the revaluation of available-for-sale financial assets, which are carried at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 March 2006. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investment in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Revenue from provision of environmental analyses, measurement and environmental protection services is recognised when the services are provided.

Revenue from installation of wastewater treatment system is recognised using the percentage of completion method, measured principally by the percentage of costs incurred to the total estimated cost to complete the contract.

Interest income is recognised on a time-proportion basis using effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Leased assets

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets to the Group. Assets held under finance leases are capitalised at their fair value at the date of inception of the leases. Any outstanding principal portion of the leasing commitments is shown as an obligation of the Group. The finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight line basis over the period of the respective leases.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Plant and machinery	20%
Furniture, fixtures and equipment	20% to $33^1/_3$%
Motor vehicles	20%
Office equipment	20%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Intangible assets

Operation rights and intellectual property

Acquired operation rights and intellectual property are stated at cost less amortization and any identified impairment loss. Amortisation is calculated on a straight line basis over their estimated useful economic lives.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are at least tested annually for impairment and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Investments

Before adoption of the new HKFRSs, the Group classified the investment in unlisted debt securities into other investments.

Investment in debts

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the income statement. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the income statement as an expense immediately.

From 1 April 2005 onward, the Group classifies its investment in the following categories depends on the purpose of such investment were acquired. Management determines the classification of its investments at initial recognition and re-evaluate this designation at every reporting date.

i. Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months from the balance sheet date. The Group did not hold any investments in this category as at the balance sheet date.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loan and receivables included loan receivables, convertible notes receivables and trade receivables.

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group did not hold any investments in this category as at the balance sheet date.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date. The Group did not hold any investments in this category as at the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risk and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period that arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial assets is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component.

The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest rate method. The equity component is recognised in the convertible notes reserve until either the notes are converted or redeemed.

If the notes are converted, the convertible notes reserve, together with the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the convertible notes reserve is released directly to accumulated losses.

Foreign currencies

i. Functional and presentation currency

Items included in the financial statements of each of the companies now comprising the Group are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The combined financial statements are presented in Hong Kong dollars, which is the functional and presentation currency of the Company and the Group.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined income statements.

Translation differences on non-monetary financial assets and liabilities are reported as part of their fair value gain or loss.

iii. Group companies

The results and financial positions of all the companies now comprising the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities are translated at the closing rate;

(b) Income and expenses are translated at average exchange rates; and

(c) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to owners' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

Employee benefits

i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii. Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's overseas entities are recognised as an expense in the income statement as incurred.

iii. Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

iv. *Share-based payment expenses*

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognised the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the income statement in the period in which the costs are incurred.

Segments reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financial expenses, and corporate revenue.

3. Financial risk management

Financial risk factors

The Group's activities expense it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risks

(i) Foreign exchange risk

The Group operates mainly in Hong Kong, the PRC and Korea and majority of transactions are dominated in Hong Kong dollars, Renminbi and Korea Won. Therefore, the Group is exposed to foreign exchange risk arising from these currency exposures. Hong Kong dollars and Renminbi are pegged to United States dollars and the foreign exchange exposure between them are considered limited.

(ii) Price risk

The Group is not exposed to commodity price risk.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products, provision of services and installation of wastewater treatment system are made to customers with an appropriate credit history. The exposures to these credit risks are monitored on an ongoing basis.

(c) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

(d) Cash flow and fair value interest rate risk

Long term borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk.

The Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used form long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of intangible assets and goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also perform annual reviews on whether the assumptions made on useful lives continue to be valid.

(d) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgment from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

(e) Income taxes and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(f) Measurement of convertible notes

On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible notes reserve, net of transaction costs. The splitting of the liability and equity components requires an estimation of the market interest rate.

(g) Measurement of fair value of equity-settled transactions

The Company operates share option schemes under which employees (including directors) of the Group receive remuneration in the form of share-based payment transactions. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, using assumptions including expected volatility and risk free interest rate. Such cost is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

5. Geographical and business segments

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Geographical segments

The Group's operations are located in Hong Kong, Mainland China (the "PRC") and Korea, representing the basis on which the Group reports its primary segment information. The following table provides on analysis of the Group's geographical segment information.

	Turnover		**Results**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	12,614	9,375	5,812	5,194
PRC	12,919	362	8,211	83
Korea	15,555	24,493	8,299	11,397
	41,088	34,230	22,322	16,674
Unallocated other revenue			40	79
Unallocated corporate expenses			(18,408)	(22,909)
Profit/(loss) from operations			3,954	(6,156)
Finance costs			(299)	(288)
Loss on disposal of a subsidiary			–	(222)
Profit/(loss) before taxation			3,655	(6,666)
Taxation			(561)	(440)
Profit/(loss) for the year			3,094	(7,106)

Balance sheet

	Segment assets		Segment liabilities	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	27,079	18,619	3,976	3,955
PRC	18,102	813	3,686	2,400
Singapore	–	–	200	200
Korea	3,003	6,559	3,112	2,964
	48,184	25,991	10,974	9,519
Unallocated	10,978	2,664	17,170	7
	59,162	28,655	28,144	9,526

Other information

	Capital additions		Depreciation and amortisation	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	990	–	571	889
PRC	12,216	–	496	295
Korea	479	314	560	254
	13,685	314	1,627	1,438

	Loss on disposal of property, plant and equipment		Provision for impairment loss on trade and other receivables	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		(Restated)
Hong Kong	13	–	207	2,363
PRC	–	264	–	873
Korea	–	–	757	479
	13	264	964	3,715

Business segments

The Group is engaged in: (1) environmental and environmental-related businesses including (i) installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services, (ii) the manufacture and sales of environmental protection products; (2) manufacture and sales of melamine and its related products.

	Manufacture and sales of environmental protection products		Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services		Manufacture and sale of melamine and its related products		Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	8,682	9,737	25,164	24,493	7,242	–	–	–	41,088	34,230
Segment assets	2,604	11,704	20,819	6,559	19,286	–	16,453	10,392	59,162	28,655
Capital additions	501	–	479	314	12,216	–	489	–	13,685	314

6. Property, plant and equipment

The Group

	Furniture and fixtures *HK$'000*	Leasehold improvements *HK$'000*	Machinery and equipment *HK$'000*	Motor vehicles *HK$'000*	Office equipment *HK$'000*	Total *HK$'000*
Cost						
At 1 April 2004	332	3,495	1,260	538	1,699	7,324
Additions	63	–	–	13	238	314
Acquisition of a subsidiary	162	–	–	177	118	457
Exchange difference	43	–	–	11	19	73
Disposal of a subsidiary	(9)	–	(28)	–	(18)	(55)
Transferred to inventories	–	–	(76)	–	–	(76)
Disposals	(323)	(2,794)	–	(306)	(14)	(3,437)
At 31 March 2005 and at 1 April 2005	268	701	1,156	433	2,042	4,600
Additions	137	455	12,205	596	292	13,685
Exchange difference	320	–	–	181	402	903
Disposals	–	–	–	–	(46)	(46)
At 31 March 2006	725	1,156	13,361	1,210	2,690	19,142
Depreciation and improvement						
At 1 April 2004	326	2,827	328	224	731	4,436
Provided for the year	96	210	254	106	346	1,012
Disposal of a subsidiary	(2)	–	(9)	–	(2)	(13)
Transferred to inventories	–	–	(19)	–	–	(19)
Written back on disposals	(323)	(2,794)	–	(41)	–	(3,158)
At 31 March 2005 and at 1 April 2005	97	243	554	289	1,075	2,258
Provided for the year	267	217	524	142	477	1,627
Written back on disposals	–	–	–	–	(33)	(33)
Exchange difference	146	–	–	174	385	705
At 31 March 2006	510	460	1,078	605	1,904	4,557
Net book values						
At 31 March 2006	**215**	**696**	**12,283**	**605**	**786**	**14,585**
At 31 March 2005	171	458	602	144	967	2,342

At the balance sheet date, the net book value of property, plant and equipment held under finance leases was approximately HK$449,000 (2005: HK$17,000).

At 31 March 2005, certain of the Group's machinery and equipment with an aggregate cost and accumulated depreciation of approximately HK$984,000 and HK$443,000 respectively were held for use under operating leases.

7. Available-for-sale investments

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Unlisted debt securities, at fair value	138	131

8. Intangible assets

The Group

	Operation rights	Intellectual property	Organisation costs	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 April 2004	10,000	770	–	10,770
Arising from acquisition of a subsidiary	–	–	1	1
At 31 March 2005 and at 31 March 2006	10,000	770	1	10,771
Amortisation and impairment				
At 1 April 2004	10,000	770	–	10,770
Amortised for the year	–	–	1	1
At 31 March 2005 and at 31 March 2006	10,000	770	1	10,771
Carrying values				
At 31 March 2006	–	–	–	–
At 31 March 2005	–	–	–	–

The operation rights of HK$10,000,000 represents the sole exclusive rights acquired for the remaining term of 20 years commencing November 2000 for the sale, installation, operations of food waste management business including the right of modification and manufacturing of the relevant machinery in Hong Kong and certain cities in the PRC.

The intellectual property represents the exclusive worldwide rights acquired to the use and ownership of the expertise and intellectual property developed by a professor in Mainland China. The estimated useful life of the intellectual property upon acquisition is 20 years.

During the year ended 31 March 2004, the directors conducted a review on the Group's intangible assets and determined that they were impaired as there were insufficient economic benefits generating from these intangible assets that will flow to the Group in the foreseeable future. Accordingly, an impairment in value of HK$10,007,048 was recognised in the income statement for the year ended 31 March 2004.

Organisation costs for Youngdong Environmental Engineering Co., Ltd. are amortised on a straight line basis over its estimated useful life of 5 years.

9. Goodwill

The Group

	HK$'000 (Restated)
Cost	
At 1 April 2004	3,371
Arising from acquisition of a subsidiary during the year *(Note 30)*	2,318
At 31 March 2005, as previously reported	5,689
Elimination of accumulated amortisation upon adoption of HKFRS 3	(3,796)
At 1 April 2005, as restated and 31 March 2006	1,893
Amortisation and impairment	
At 1 April 2004	3,371
Amortised during the year	425
At 31 March 2005, as previously reported	3,796
Elimination of accumulated amortisation upon adoption of HKFRS 3	(3,796)
At 1 April 2005, as restated and 31 March 2006	–
Carrying value	
At 31 March 2006	1,893
At 31 March 2005	1,893

In prior years, goodwill was amortised on a straight line basis over its estimated useful economic life of 5 years. Following the adoption of HKFRS 3 with effect from 1 April 2005, the Group no longer amortised goodwill. In accordance to the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 April 2005 has been eliminated against the cost of goodwill as at that date.

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to the location of operation and business segment as follows:–

	2006	**2005**
	HK$'000	*HK$'000*
Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services in Korea	1,893	1,893

The recoverable amount of CGU is determined based on the value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flow beyond five-year period is extrapolated using the estimated rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

Gross margin	62% to 65%
Growth rate	6% to 22%
Discount rate	5%

Management determined the budget gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are calculated in accordance with the total amounts and terms of signed contracts. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

10. Interests in subsidiaries

	The Company	
	2006	**2005**
	HK$'000	*HK$'000*
Unlisted shares, at costs	1,527	1,527
Less: Impairment in value	(1,527)	(1,527)
	–	–
Advance to a subsidiary	13,000	13,000
Less: Provision for advance to a subsidiary	(13,000)	(13,000)
	–	–

The advance to a subsidiary is unsecured, interest free and has no fixed terms of repayment.

Details of the Company's principal subsidiaries at 31 March 2006 are set out in note 39.

11. Inventories

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Raw materials	896	95
Work in progress	410	3
Finished goods	1,944	2,275
	3,250	2,373

12. Trade and other receivables

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Trade receivables	15,538	10,725
Deposits made to suppliers	267	306
Deposits paid under a non-legally binding memorandum of understanding *(Note 38)*	10,000	–
Deposits paid	1,409	7,187
Prepayments	1,554	367
Other receivables	1,443	195
	30,211	18,780

Payment terms with customers are mainly on credit together with deposits and receivable by instalments basis. Invoices are normally payable from 30 to 90 days of issuance, except for certain well established customers and receivables by instalment basis where it is normally payable from 1 to 2 years of issuance. The following is an aged analysis of trade receivables at the balance sheet date:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Age		
0 to 90 days	11,403	3,804
91 to 180 days	427	3,328
181 to 365 days	1,287	1,735
Over 365 days	5,987	4,668
	19,104	13,535
Less: Provision for impairment losses of trade receivables *(Notes (b))*	(3,566)	(2,810)
	15,538	10,725

Notes:

(a) The carrying amounts of trade receivables approximate to their fair values.

(b) The movements in provision for impairment losses of trade receivables were as follows:

	The Group 2006 HK$'000	2005 HK$'000
At 1 April 2005/2004	2,810	1,982
Release upon disposal of subsidiary	–	(103)
Provision for impairment losses for the year	756	931
At 31 March 2006/2005	3,566	2,810

13. Share capital

	Number of ordinary share	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
– at 1 April 2004 and at 31 March 2005	1,500,000,000	15,000
– share consolidation *(Note (a))*	(1,200,000,000)	–
Ordinary shares of HK$0.05 each		
– increase in authorised share capital *(Note (b))*	300,000,000	15,000
	600,000,000	30,000
Issued and fully paid		
Ordinary shares of HK$0.01 each		
– at 1 April 2004	1,158,671,667	11,587
– issue of new shares on subscription *(Note (c))*	231,730,000	2,317
– at 31 March 2005	1,390,401,667	13,904
– share consolidation *(Note (a))*	(1,112,321,334)	–
Ordinary shares of HK$0.05 each		
– issue of new share on subscription *(Note (d))*	55,600,000	2,780
– exercise of share options *(Note 19)*	11,250,000	563
– at 31 March 2006	344,930,333	17,247

Notes:

(a) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 11 May 2005, every five shares of HK$0.01 each in the issued and un-issued ordinary share capital of the Company are consolidated into one consolidated share HK$0.05 each (the "Share Consolidation"). The Share Consolidation became effective on 12 May 2005.

(b) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 8 November 2005, the authorised share capital of the Company has been increased from HK$15,000,000 divided into 300,000,000 shares of HK$0.05 each to HK$30,000,000 divided into 600,000,000 shares of HK$0.05 each by the creation of an additional 300,000,000 un-issued shares of HK$0.05 each.

(c) The Company issued and allotted 231,730,000 new ordinary shares of HK$0.01 each to a third party, Easeglory Holdings Limited, on 3 February 2005, at HK$0.036 per share, representing a discount of approximately 74% to the closing price of HK$0.14 per share as quoted on the Stock Exchange on the date of the subscription agreement. The net proceeds from the placing which amounted to approximately HK$8.30 million were used to finance investments in environmental related projects in the PRC.

(d) On 12 October 2005 and 11 November 2005, the Company issued and allotted 16,000,000, 23,600,000 and 16,000,000 new ordinary shares of HK$0.05 each to three independent third parties, Mr. Chan Fung, Mr. Lau Kam Chee and Fruitful Profits Limited at a subscription price of HK$0.13 per share respectively. The subscription price represented a discount of approximately 19.25% to the closing price of HK$0.161 per share as quoted on the Stock Exchange on the date of the subscription agreement. The net proceeds from the placing which amounted to approximately HK$7.00 million were used to finance the Group's future investment in environmental related projects in the PRC, other potential investments and the general working capital of the Group.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

Please refer to Note 38 for rights issue effective after the balance sheet date.

14. Reserves

The Company

	Share premium *HK$'000*	Share-based payment reserve *HK$'000*	Contributed surplus *HK$'000*	Convertible notes reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2004	50,064	–	1,452	–	(50,490)	1,026
Premium arising on issue of shares	6,025	–	–	–	–	6,025
Issuing expenses	(67)	–	–	–	–	(67)
Net loss for the year	–	–	–	–	(21,297)	(21,297)
At 31 March 2005	56,022	–	1,452	–	(71,787)	(14,313)
Premium arising on issue of shares	4,448	–	–	–	–	4,448
Issuing expenses	(627)	–	–	–	–	(627)
Share-based payment expenses	–	449	–	–	–	449
Exercise of share options	336	(336)	–	–	–	–
Premium arising on exercise of share options	585	–	–	–	–	585
Equity component of convertible notes	–	–	–	499	–	499
Net loss for the year	–	–	–	–	(25,535)	(25,535)
At 31 March 2006	60,764	113	1,452	499	(97,322)	(34,494)

The contributed surplus of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the group reorganization in 2001 and the nominal amount of the Company's shares issued for the acquisition.

15. Trade and other payables

	The Group 2006 *HK$'000*	2005 *HK$'000*
Trade payables	4,757	3,926
Value-added tax payables	432	191
Other payables	4,402	4,353
	9,591	8,470

The following is an aged analysis of trade payables at the balance sheet date:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Age		
0 to 90 days	4,333	1,665
91 to 180 days	68	338
181 to 365 days	5	1
Over 365 days	351	1,922
	4,757	3,926

Note: The carrying amounts of trade payables approximate to their fair values.

16. Obligations under finance leases

	The Group			
	Minimum lease payments		**Present value of minimum lease payments**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable under finance leases:				
Within one year	142	9	111	7
In the second to fifth years	380	–	297	–
	522	9	408	7
Less: Future finance charges	(114)	(2)		
Present value of lease obligations	408	7		
Less: Amount due within one year shown under current liabilities	(111)	(7)		
Amount due after one year	297	–		

Notes: The carrying amounts of obligations under finance lease approximate to their fair values.

17. Amount due to directors/minority shareholder of a subsidiary

Amount due to directors/minority shareholder of a subsidiary are unsecured, interest free and have no fixed terms of repayment.

18. Convertible notes

On 25 November 2005, the Company entered into a placing agreement with an independent placing agent, Hantec Capital Limited (the "Placing Agent"), to place on a best endeavours basis of certain unsecured convertible notes in the aggregate principal amount of more than HK$15,000,000 and up to HK$20,000,000 to placees (the "Placing Agreement").

On 11 January 2006, completion of the Placing Agreement took place. An aggregate principal amount of HK$18,000,000 (the "Convertible Notes") have been placed through the Placing Agent and issued by the Company to 13 independent placees (the "Notes Holder"). The Convertible Notes mature at the third anniversary of the issue date.

The Convertible Notes, if fully subscribed for and issued, are convertible into a total of approximately 67,164,179 new ordinary shares of the Company at the initial conversion price of HK$0.268 per ordinary share (subject to adjustments).

On 11 April 2006, the Company completed the issue of 172,465,166 rights shares. Pursuant to the terms of the Convertible Notes, the conversion prices of the Convertible Notes were shares after the rights issue adjusted accordingly. The new conversion price per share and the number of conversion subject to the Convertible Notes was 86,956,521 shares exercisable at HK$0.207 each. Please refer to Notes 38 for rights issue effective after the balance sheet date.

The fair values of the liability component and the equity conversion component were determined at issuance of the Convertible Notes.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity in other reserves.

The Convertible Notes recognised in the balance sheet was calculated as follows:

	The Group and the Company	
	2006	**2005**
	HK$'000	*HK$'000*
Face value of Convertible Notes issued on 11 January 2006	18,000	–
Equity component	(499)	–
Liability component on initial recognition at 11 January 2006	17,501	–
Transaction costs	(827)	–
Amortised cost on initial recognition at 11 January 2006	16,674	–
Interest expense	246	–
Interest payable	(158)	–
Amortised cost at 31 March 2006	16,762	–

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 6.73% to the liability component.

19. Share option scheme

(a) Pre-listing share options

Pursuant to the pre-listing share option scheme adopted by the Company on 20 April 2002, the Company may grant options at HK$1 per offer to any directors, employees, consultants, and advisors of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. All of these options have duration of 10 years from and including 10 May 2002 subject to the terms of the scheme.

Details of the movements in the number of share options during the year under the Company's pre-listing share options scheme which are exercisable in three equal trenches from 10 November 2002, 10 May 2003 and 10 May 2004, respectively, to 9 May 2012 at an exercise price of HK$0.014 per share are as follows:

	Number of share options			
Type of participants	**Outstanding at 31 March 2005**	**Lapsed during the year**	**Outstanding at 31 March 2006**	**Date of grant**
Advisor	2,400,000	(1,920,000)	480,000	26 April 2002
Former employees	1,600,000	(1,280,000)	320,000	26 April 2002
Total	4,000,000	(3,200,000)	800,000	

As at 31 March 2006, 800,000 share options are exercisable

(b) Post-listing share options

Pursuant to the post-listing share option scheme also adopted by the Company on 20 April 2002, the Company may grant options at HK$1 per offer to any directors, employees, any supplier of goods or services, any customers, any person or entity that provides research, development or other technical support or any shareholder of the Group or any investee or any holder of any securities issued by any member of the Group or any investee, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the post-listing share option scheme shall not exceed 10% of the issued share capital of the Company form time to time. No participant shall be granted an option, if exercised in full, would result in the total number of shares already issued under all the options granted to him or her that are for the time being subsisting and unexercised in any 12-month period would exceed 1% of the total number of shares in issue. The exercise price of the share will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares. The share options are exercisable for a period not later than 10 years from the date of grant.

Details of the movements in the number of share options during the year are as follows:

Type of Participants	Number of share options: Outstanding at 31 March 2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 March 2006	Date of grant	Exercise price per share	Exercise period
Directors								
Mr. Yung Kwok Leong	–	2,750,000	(2,750,000)	–	–	7 July 2005	HK$0.102	7 July 2005 to 6 July 2015
Mr. Chan Hon Chiu	–	1,250,000	–	–	1,250,000	7 July 2005	HK$0.102	7 July 2005 to 6 July 2015
Mr. Yeung Kam Yan	–	1,250,000	–	–	1,250,000	7 July 2005	HK$0.102	7 July 2005 to 6 July 2015
	–	5,250,000	(2,750,000)	–	2,500,000			
Advisor *(Note (ii))*	7,145,000	–	–	(7,145,000)	–	8 July 2002	HK$0.18	*Note (i)*
Employee	–	9,750,000	(8,500,000)	–	1,250,000	7 July 2005	HK$0.102	7 July 2005 to 6 July 2015
	7,145,000	15,000,000	(11,250,000)	(7,145,000)	3,750,000			

Notes:

(i) The share options are exercisable in two equal trenches from 9 May 2003 and 9 May 2004, respectively, to 9 May 2005.

(ii) The Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in employee share-based payment reserve. The employee share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. As a transitional provision, the cost of share option granted after 7 November 2002 and had not yet vested on 1 January 2005 were expensed retrospectively in the income statement of the respective periods.

(iii) Share options granted under the pre-listing share options scheme are not expensed as the options were all granted and vested before 7 November 2002 and not subject to requirements of HKFRS 2.

(iv) The estimated fair value of each option granted on 7 July 2005 is approximately HK$0.0299.

The fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2006
Stock asset price	HK$0.102
Exercise price	HK$0.102
Expected volatility	10.23%
Expected life	10 years
Risk-free rate	3.13%
Expected dividend yield	0%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily prices over the one year immediately preceding the grant date. The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares set out as above.

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

(v) As at 31 March 2006, 3,750,000 share options are exercisable.

(vi) On 11 April 2006, the Company completed the issue of 172,465,166 rights shares. Pursuant to the terms of the pre-listing and post-listing share options schemes, the exercise prices of the share options were adjusted accordingly. The new exercise price per share and the number of shares subject to the outstanding share options after the rights issue under the pre-listing and post-listing share option schemes are 1,034,400 shares exercisable at HK$0.541 each and 4,848,750 shares exercisable at HK$0.079 each respectively. Please refer to Note 38 for rights issue effective after the balance sheet date.

20. Turnover and revenue

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with the installation of environmental analyses and measurement services, the sale of environmental protection products and provision of related services and manufacture of melamine and its related products. An analysis of the Group's turnover and other revenue is as follows:–

	2006	**2005**
	HK$'000	*HK$'000*
Turnover:		
Manufacture and sales of environmental protection products	8,682	9,737
Manufacture and sales of melamine and its related products	7,242	–
Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analyses and measurement services	25,164	24,493
	41,088	34,230
Other revenue:		
Interest income	35	73
Sundry income	5	6
	40	79
	41,128	34,309

21. Profit/(loss) from operations

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Profit/(loss) from operations has been arrived at after charging:		
Directors' remuneration *(Note 22)*	337	151
Other staff's retirement benefits scheme contributions	910	1,125
Other staff costs	9,695	10,200
	10,942	11,476
Amortisation of goodwill included in administrative expenses	–	425
Amortisation of intangible assets included in administrative expenses	–	1
Auditors' remuneration		
– current year	341	293
– under provision in prior years	–	105
Provision for impairment losses of trade and other receivables	964	3,542
Provision for obsolete inventories	–	1,282
Bad debt written off	–	173
Cost of goods sold	11,542	1,996
Depreciation of property, plant and equipment		
– owned by the Group	1,586	1,006
– held under finance leases	41	6
Loss on disposal of property, plant and equipment	13	264
Operating lease rentals in respect of land and buildings	925	1,368
Development costs	1,108	–
and after crediting:		
Other income:		
Bad debt recovered	916	–
Reversal of provision of obsolete inventories	254	–
Reversal of trade payables	2,285	–
Net exchange gain	10	–
	3,465	–
Rental income from hire of machinery and equipment	–	50

22. Directors' remuneration

The remuneration of every director for the year ended 31 March 2006 and 2005 are set out below:

	Fees		Salaries and other benefits		Performance related incentive payments		Retirement benefits scheme contributions		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors										
Yung Kwok Leong	–	–	83	–	–	–	–	–	83	–
Chan Hon Chiu (resigned on 1 April 2006)	–	–	37	–	–	–	–	–	37	–
Yeung Kam Yan (resigned on 25 April 2006)	–	–	37	–	–	–	–	–	37	–
	–	–	157	–	–	–	–	–	157	–
Independent Non-Executive Directors										
Chan Ping Kuen, Francis	60	31	–	–	–	–	–	–	60	31
Hsu Shiu Foo, William	60	60	–	–	–	–	–	–	60	60
Yu Chai Mei	60	60	–	–	–	–	–	–	60	60
	180	151	–	–	–	–	–	–	180	151
	180	151	157	–	–	–	–	–	337	151

For the year ended 31 March 2006, basic salaries and allowances and bonus paid to each of the two executive directors, Mr. Chan Hon Chiu and Mr. Yeung Kam Yan were HK$12.

For the year ended 31 March 2005, basic salaries and allowances and bonus paid to the three executive directors, Mr. Chan Hon Chiu. Mr. Yeung Kam Yan and Mr. Tsui Tai Hoi were HK$12, HK$12 and HK$4 respectively.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

The other benefits represented the equity-settled Share-based payment expenses for share options granted to the directors amounted to approximately HK$157,000 (2005: HK$ Nil).

23. Employees' emoluments

No executive director of the Company included in the aggregate emoluments of the five highest paid individuals (2005: Nil). The aggregate emoluments of the five (2005: five) highest paid individuals are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Basic salaries and allowances	1,644	1,444
Retirement benefits scheme contributions	201	82
Equity-settled share-based payment	–	–
	1,845	1,526

No share options granted to the above five highest paid individuals.

None of the above five highest paid individuals received emoluments in excess of HK$1 million.

24. Finance costs

	2006	**2005**
	HK$'000	*HK$'000*
Interest on		
– bank and other borrowings wholly repayable within five years	40	137
– bank overdraft	–	147
– finance leases	13	4
– convertible notes	246	–
	299	288

25. Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Group incurred a taxation loss for the year. Provision on profits assessable elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005
	HK$'000	*HK$'000*
Current tax		
Provision for the year – PRC	574	–
Provision for the year – overseas	–	289
(Over)/Under provision in previous year – Hong Kong	(13)	151
	561	440

The charge for the year is reconciled to the profit/(loss) before taxation per the consolidated income statement as follows:

For the year ended 31 March 2006

	Hong Kong		PRC		Korea		Total	
	HK$'000		*HK$'000*		*HK$'000*		*HK$'000*	
Profit/(loss) before taxation	(2,172)		7,493		(1,666)		3,655	
Tax at applicable income tax rate	(380)	(17.5%)	2,473	33.0%	(238)	(14.3%)	1,855	50.8%
Tax effect of expenses and income not deductible or taxable for tax purposes	(101)	(4.6%)	(1,899)	(25.3%)	238	14.3%	(1,762)	(48.2%)
Tax effect of tax losses not recognised	481	22.1%	–	–	–	–	481	13.2%
Over provision in previous years	(13)	(0.6%)	–	–	–	–	(13)	(0.4%)
Others	–	–	–	–	–	–	–	–
Tax charge and effective tax rate for the year	(13)	(0.6%)	574	7.7%	–	–	561	15.4%

For the year ended 31 March 2005

	Hong Kong		PRC		Korea		Total	
	HK$'000		*HK$'000*		*HK$'000*		*HK$'000*	
Profit/(loss) before taxation	(6,770)		(1,564)		1,668		(6,666)	
Tax at applicable income tax rate	(1,185)	(17.5%)	(516)	(33.0%)	342	20.5%	(1,359)	(20.4%)
Tax effect of expenses and income not deductible or taxable for tax purposes	302	4.4%	516	33.0%	(53)	(3.2%)	765	11.4%
Tax effect of tax losses not recognised	959	14.2%	–	–	–	–	959	14.4%
Under provision in previous years	151	2.2%	–	–	–	–	151	2.3%
Others	(76)	(1.1%)	–	–	–	–	(76)	(1.1%)
Tax charge and effective tax rate for the year	151	2.2%	–	–	289	17.3%	440	6.6%

26. Loss attributable to equity holders of the company

For the year ended 31 March 2006, net loss of approximately HK$25,535,000 (2005: HK$21,297,000) has been dealt with in the financial statements of the Company.

27. Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the net profit for the year of approximately HK$3,191,000 (2005: loss of approximately HK$7,045,000) and the weighted average number of 438,751,909 (2005: 344,119,576 (restated)) shares in issue during the year after adjusting for the effects of the right issues on 11 April 2006. The basic loss per share for 2005 has been adjusted accordingly.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible notes and share options.

The convertible notes are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expenses less the tax effect.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	**2005**
	HK$'000	*HK$'000*
Profit/(loss) attributable to equity holders of the Company	3,191	(7,045)
Interest expense on convertible notes (net of tax)	203	–
Profit/(loss) used to determine diluted earnings per share	3,394	(7,045)

	2006	**2005**
		(Restated)
Weighted average number of ordinary shares in issue	438,751,909	344,119,576
Adjustments for assumed exercise of share options	1,544,406	–
Adjustments for assumed conversion of convertible notes	96,716,418	–
Weighted average number of ordinary shares of diluted earnings per share	537,012,733	344,119,576

	2006	**2005**
Diluted earnings per share	HK0.63 cents	N/A

No diluted loss per share has been presented for the year ended 31 March 2005 as share option outstanding during the year ended 31 March 2005 had an anti-dilutive effect on basic loss per share.

28. Dividends

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2006 (2005: Nil).

29. Pledged assets

As 31 March 2006, certain bank deposits of the Group were pledged as collateral for bank loans and guarantees for checking accounts (2005: Nil). The Company had not pledged any assets at the balance sheet date.

30. Acquisition of a subsidiary

On 30 April 2004, the Group acquired the entire issued share capital of Youngdong Environmental Engineering Co., Ltd. at a consideration of KWR580,000,000 (approximately HK$3,866,000), which was satisfied in cash.

	2006	**2005**
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	–	457
Intangible assets	–	1
Inventories	–	778
Trade and other receivables	–	1,776
Cash and bank balances	–	785
Trade and other payables	–	(2,249)
Net assets	–	1,548
Goodwill arising on acquisition *(Note 9)*	–	2,318
Total purchase price	–	3,866
Satisfied by:		
Cash consideration paid	–	3,866
Outflow of cash and cash equivalents in connection with the purchase of the subsidiary	–	3,081

The subsidiary acquired during the year ended 31 March 2005 contributed approximately HK$24,493,000 to the Group's turnover and profit after tax of approximately HK$1,648,000 to the Group for the year ended 31 March 2005.

31. Disposal of subsidiaries

In August 2004, the Group disposed of its subsidiaries, Beijing Grandy Green Technology Limited, a 65% owned subsidiary and United Consultancy Limited, a 50% owned subsidiary to the minority shareholders of the respective subsidiaries.

	2006	**2005**
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	–	42
Inventories	–	5
Trade and other receivables	–	73
Cash and bank balances	–	485
Trade and other payables	–	(107)
Minority interests	–	(131)
Net assets	–	367
Loss on disposal of subsidiaries	–	(222)
Consideration included in trade and other receivables	–	145
Analysis of outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash and bank balances disposed of	–	(485)

The subsidiaries disposed of during the year ended 31 March 2005 and did not have any significant impact on the Group's cash flows or operating results.

32. Unrecognised deferred taxation

At the balance sheet date, the Group and the Company has unutilized tax losses of approximately HK$40,505,000 (2005: HK$40,024,000) and HK$2,985,000 (2005: HK$1,308,000) respectively available to set off against future assessable profits. No deferred tax asset has been recognized in respect of the unutilised tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

33. Operating lease commitments

While the Company had no outstanding operating lease commitments at the balance sheet date, its subsidiaries were committed to make the following future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	568	287
In the second to fifth year inclusive	366	–
Over five years	58	–
	992	287

34. Other commitments

Pursuant to an exclusive right to distribute and sell and the right to use the enzyme-based materials worldwide except North America, South Korea and Japan, the Group was committed to pay to an independent third party 10% of the net profit after taxation of the relevant business for 30 years expiring October 2028. No payments were made during the year as the relevant business was operating at a loss in which the loss could be carried forward to set off against future profits of the relevant business.

The Company had no other significant commitments at the balance sheet date.

35. Contingent liabilities

At the balance sheet date, the Group and the Company had no significant contingent liabilities.

36. Retirement benefits scheme

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

37. Significant related party and connected transactions

In addition to the transactions and balances detailed elsewhere in the financial statements, during the year, the Group had entered into the following significant transaction with related parties:

(a) Key management personnel

Remuneration for key personnel management, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in Note 22 and 23, is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Short-term employee benefits	180	151
Share-based payment	157	–
	337	151

(b) During the year ended 31 March 2005, the Group's wholly owned subsidiary, Rightime Development Limited, acquired the entire share capital of Youngdong Environmental Engineering Co., Ltd. from Key Engineering Co., Ltd. ("Key Engineering"), a substantial shareholder of the Company, at a consideration of KRW 580 million (approximately HK$3,866,000). The Directors considered that the transaction was determined on normal commercial terms and in the interest of the company. Key Engineering is a connected person of the Company under the GEM Listing Rules. As such, the transaction also constituted connected transaction under the GEM Listing Rules. For further details, please refer to the Company's circular dated 14 April 2004.

38. Subsequent events

(a) On 2 March 2006, Company proposed to raise not less than approximately HK$10,350,000 and not more than approximately HK$10,370,000 (before expenses) by way of a rights issue of not less than 172,465,166 rights shares and not more than 172,865,166 rights shares at a subscription price of HK$0.06 each on the basis of one rights share for every two existing shares held on the record date. The rights issue was completed on 11 April 2006 and 172,465,166 rights shares were issued. The rights shares rank pari passu with the existing shares in issue in all respects. The net proceeds from the right issue were approximately HK$9,350,000. The Directors intend to use approximately HK$0.50 million towards general working capital of the Group and the balance towards projects of investments in the healthcare sector. For further details, please refer to the Company's announcements dated 15 March 2006, 27 March 2006 and 19 April 2006 respectively.

(b) On 30 March 2006, a wholly-owned subsidiary of the Company, Grand Brilliant Corporation Limited ("Grand Brilliant"), entered into a non-legally binding memorandum of understanding (the "MOU") with two independent third parties, Mr. Wu Wendong (the "Vendor") and Shanghai Humanity Hospital Management Company Limited (the "Hospital Management Company"). Under the MOU, it is proposed that Grand Brilliant will acquire the whole or part of the equity interests held by the Vendor in the registered capital of Hospital Management Company. Both Grand Brilliant and the Vendor will proceed to negotiate for a legally-binding formal agreement on or before 30 June 2006 (or such later date to be agreed by the relevant parties). It was also agreed that the Vendor will not, prior to 30 June 2006 (or such other date to be agreed by the parties), negotiate with any third party for the disposal of such equity interest in Hospital Management Company. A refundable deposit of HK$10,000,000 has been paid by Grand Brilliant to Hospital Management Company as earnest money.

On 12 June 2006, 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 (the "Target") and all 76% of all obligations, liabilities and debts owing or incurred by the Target 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; and

(iii) HK$10,000,000 by cash

For further details, please refer to the Company's announcements dated 31 March 2006 and 16 June 2006 respectively.

(c) 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 special general meeting held on 9 May 2006.

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

(d) On 8 May 2006, banking facility in aggregate of HK$10,000,000 was granted to two wholly owned subsidiaries of the Company, Grandy Trading and Services (H.K) Limited and Grand Motion Investments Limited by a bank in Hong Kong. The amount was secured by an unlimited amount corporate guarantee executed by the Company and all monies charge over accounts receivables of Grandy Trading and Services (H.K.) Limited. No facilities were drawn down as at the date of approval of these financial statements.

(e) 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$1.50 million 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$64.10 million 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.

(f) On 15 June 2006, the Board announces that a special resolution will be proposed at an extraordinary general meeting, which will be held on 12 July 2006, to approve the change of the Company's name from "Grandy Corporation" to "Hua Xia Healthcare Holdings Limited".

For further details, please refer to the Company's announcements dated 16 June 2006 and 19 June 2006 respectively.

39. Principal subsidiaries

Details of the Company's principal subsidiaries, all of which are wholly-owned limited liability companies, at 31 March 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Principal activities
Grandy Environmental (H.K.) Limited**	Hong Kong	HK$3,010,000	Manufacture and sales of environmental protection products and provision of related services
Grandy Trading and Services (H.K.) Limited (formerly know as Grandy Enviro-Tech Company Limited)**	Hong Kong	HK$10,000	Sales of environmental protection products
珠海市紫雲星環保科技有限公司 (Zhuhai Grandy Star Environmental Technology Corporation) #***	The PRC	RMB5,000,000	Provision of environmental protection services for a term of 30 years commencing 14 November 2002
Youngdong Environmental Engineering Co., Ltd.*	Korea	KWR200,000,000	Installation, engineering and management of wastewater treatment systems and environmental facilities, provision of environmental analysis and measurement services

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Principal activities
Grand Brilliant Corporation Limited	British Virgin Islands	HK$1	Provision of environmental management and consultancy services
柏源(福建)化工有限公司** (Prime Source (Fujian) Company Limited)	The PRC	HK$15,000,000	Manufacture and sales of melamine and its related products

This is a wholly foreign-owned enterprise established in the PRC and had been applied for voluntary winding up and pending for authorisation document from government authorities.

* *Audited by member firm of HLB International.*

** *Audited by another Hong Kong Certified Public Accountants*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

40. Non-cash transactions

During the year ended 31 March 2006, the Group settled the purchase consideration of a motor vehicles of approximately HK$490,000 by finance lease.

41. Approval of financial statements

The financial statements were approved and authorised for issue by the board of directors on 27 June 2006.

3. INTERIM FINANCIAL STATEMENTS

Set out below are the unaudited financial statements of the Group for the six months ended 30 September 2006 as extracted from the Company's interim report 2006:

For the three months and six months ended 30 September 2006

		Three months ended 30 September		Six months ended 30 September	
		2006	**2005**	**2006**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
TURNOVER	*3&4*	20,724	9,642	39,688	15,578
Cost of sales		(11,050)	(4,178)	(18,706)	(6,655)
Gross profit		9,674	5,464	20,982	8,923
Other income		91	956	303	961
Selling and distribution costs		(207)	(771)	(432)	(1,057)
Administrative expenses		(7,298)	(4,147)	(12,874)	(8,215)
PROFIT FROM OPERATIONS	*5*	2,260	1,502	7,979	612
Finance costs	*6*	(134)	(22)	(363)	(39)
PROFIT BEFORE TAXATION		2,126	1,480	7,616	573
Taxation	*7*	(172)	(192)	(483)	(120)
PROFIT FOR THE PERIOD		1,954	1,288	7,133	453
Attributable to:					
Equity holders of the Company		2,084	1,312	7,286	500
Minority interests		(130)	(24)	(153)	(47)
		1,954	1,288	7,133	453
DIVIDENDS	*13*	–	–	–	–
EARNINGS PER SHARE	*8*				
– Basic (cents)		0.37	0.38	1.35	0.15
– Diluted (cents)		0.29	N/A	1.05	N/A

UNAUDITED CONSOLIDATED BALANCE SHEET

As at 30 September 2006

	Note	30 September 2006 HK$'000 (Unaudited)	31 March 2006 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		14,232	14,585
Available-for-sale investments		138	138
Goodwill		1,893	1,893
		16,263	16,616
Current assets			
Inventories		4,756	3,250
Trade and other receivables	*9*	46,803	30,211
Pledged bank deposits	*11*	5,061	93
Cash and bank balances		14,556	8,992
		71,176	42,546
Total assets		87,439	59,162
Equity:			
Capital and reserves attributable to the Company's equity holders			
Share capital	*12*	28,407	17,247
Reserves		31,072	13,735
		59,479	30,982
Minority interests		(117)	36
Total equity		59,362	31,018

	Note	30 September 2006 HK$'000 (Unaudited)	31 March 2006 HK$'000 (Audited)
LIABILITIES			
Current liabilities			
Trade and other payables	10	12,085	9,591
Obligations under finance lease-due within one year		55	111
Amounts due to directors		–	655
Amount due to minority shareholder of a subsidiary		160	160
Secured short-term bank loan		8,000	–
Tax payable		217	568
		20,517	11,085
Long-term liabilities			
Convertible notes		7,263	16,762
Obligations under finance lease-due after one year		297	297
		7,560	17,059
Total liabilities		28,077	28,144
Total equity and liabilities		87,439	59,162
Net current assets		50,659	31,461
Total assets less current liabilities		66,922	48,077

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

	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
2005													
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	–	–	–	(294)	–	–	–	–	–	–	(294)	–	(294)
Net profit for the period	–	–	–	–	–	–	–	–	–	500	500	(48)	452
At 30 September 2005	13,904	56,022	2,935	61	–	–	–	–	–	(53,720)	19,202	85	19,287
2006													
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	–	–	–	–	–	–	–	–	–	7,286	7,286	(153)	7,133
Issue of shares	10,918	–	–	–	–	–	–	–	–	–	10,918	–	10,918
Premium arising on issue of shares	–	9,176	–	–	–	–	–	–	–	–	9,176	–	9,176
Issuing expenses	–	(1,103)	–	–	–	–	–	–	–	–	(1,103)	–	(1,103)
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	–	–	–	–	–	–	–	–	1,836	–	1,836	–	1,836
At 30 September 2006	28,407	69,092	2,935	453	–	499	37	37	1,836	(43,817)	59,479	(117)	59,362

Note:

(a) 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.

(b) As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall set aside 10% of the 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.

(c) As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall appropriate 5% to 10% of the 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.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2006

	Six months ended 30 September	
	2006	**2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash inflow from operating activities	4,012	7,683
Net cash outflow from investing activities	(17,665)	(7,366)
Net cash inflow/(outflow) from financing activities	19,217	(756)
Net increase in cash and cash equivalents	5,564	(439)
Cash and cash equivalents at 1 April	8,992	3,136
Cash and cash equivalents at 30 September	14,556	2,697

NOTES TO THE UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 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 manufacture and sales of environmental protection products as well as provision of related services, manufacture and sales of melamine and its related products, and the provision of healthcare and hospital management services in the PRC.

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.

The accounting policies adopted in preparing the unaudited consolidated results for the period ended 30 September 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, sales of melamine and its related products, and provision of healthcare and hospital management services.

4. Segment Information

Business segments

An analysis of the Group's business segments information is as follows:

	Three months ended 30 September		Six months ended 30 September	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover				
– Sales of environmental protection products and provision of related services	8,509	6,748	12,717	12,684
– Sales of melamine and its related products	5,475	2,894	10,971	2,894
– Provision of healthcare and hospital management services	6,740	–	16,000	–
	20,724	9,642	39,688	15,578
Results				
– Sales of environmental protection products and provision of related services	3,213	5,119	5,450	8,579
– Sales of melamine and its related products	460	345	1,182	345
– Provision of healthcare and hospital management services	6,001	–	14,350	–
	9,674	5,464	20,982	8,924
Unallocated other income	91	956	303	961
Unallocated corporate expenses	(7,505)	(4,918)	(13,306)	(9,273)

	Three months ended 30 September		Six months ended 30 September	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit from operations	2,260	1,502	7,979	612
Finance costs	(134)	(22)	(363)	(39)
Profit before taxation	2,126	1,480	7,616	573
Taxation	(172)	(192)	(483)	(120)
Profit for the period	1,954	1,288	7,133	453
Attributable to:				
Equity holders of the Company	2,084	1,312	7,286	500
Minority interests	(130)	(24)	(153)	(47)
	1,954	1,288	7,133	453

Geographical segments

During the period under review, the Group's operations are located in Hong Kong, the PRC and Korea. The following table provides an analysis of the Group's geographical segment information:

	Three months ended 30 September		**Six months ended 30 September**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover				
– Hong Kong	599	3,744	2,048	6,225
– PRC	11,714	1,658	25,390	1,658
– Korea	8,411	4,240	12,250	7,695
	20,724	9,642	39,688	15,578
Results				
– Hong Kong	108	1,994	418	3,623
– PRC	6,310	97	15,069	97
– Korea	3,256	3,373	5,495	5,204
	9,674	5,464	20,982	8,924

5. Profit from Operations

	Three months ended 30 September		Six months ended 30 September	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit from operations has been arrived at after charging:				
Cost of inventories recognised as expenses	–	–	39	–
Depreciation of property, plant and equipment	251	213	525	433
Operating lease rentals in respect of buildings	215	202	381	595
Staff costs (including Directors' remuneration)	2,326	2,110	4,601	4,299

6. Finance Costs

	Three months ended 30 September		Six months ended 30 September	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest expenses				
– Convertible notes	117	–	300	–
– Finance lease	8	–	16	–
Bank interest and charges	9	22	47	39
	134	22	363	39

7. 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 has been made for income derived form the provisions of hospital management and environmental protection consultancy services in the PRC (2005: Nil).

8. Earnings Per Share

The calculation of basic earnings per share for the three months ended 30 September 2006 was based on the net profit of approximately HK$2,084,000 (2005: approximately HK$1,312,000) and on the weighted average number of 560,760,308 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 earnings per share for 2005 had been adjusted accordingly.

The calculation of basic earnings per share for the six months ended 30 September 2006 was based on the net profit of approximately HK$7,286,000 (2005: approximately HK$500,000) and on the weighted average number of 538,354,753 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 earnings 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 and six months ended 30 September 2006, the Company had three categories of dilutive potential ordinary shares: unlisted convertible notes, non-listed warrants and share options. 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.

	Three months ended 30 September 2006 *HK$'000* (unaudited)	**Six months ended 30 September 2006** *HK$'000* (unaudited)
Profit attributable to equity holders of the Company	2,084	7,286
Interest expense on unlisted convertible notes (net of tax)	117	300
Profit used to determine diluted earnings per share	2,201	7,586

	2006	**2006**
Weighted average number of ordinary shares in issue	560,760,308	538,354,753
Adjustments for assumed conversion of unlisted convertible notes	41,062,812	41,062,812
Adjustments for assumed conversion of non-listed warrants	103,414,000	103,414,000
Adjustments for assumed exercise of share options	42,500,000	42,500,000
Weighted average number of ordinary shares of diluted earnings per share	747,737,120	725,331,565

	2006	**2006**
Diluted earnings per share	HK0.29 cents	HK1.05 cents

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

9. Trade and Other Receivables

Payment terms with customers are mainly on credit together with deposits and receivable by instalments basis. Invoices are normally payable from 30 to 90 days of issuance, except for certain well established customers and receivables by instalment basis where it is normally payable from 1 to 2 years of issuance. The following is an aged analysis of trade receivables as at the balance sheet date:

	30 September 2006	**31 March 2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	27,199	15,538
Deposits and prepayments	18,183	267
Other receivables	1,421	14,406
	46,803	30,211

	30 September 2006	**31 March 2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables		
Age		
0 to 90 days	10,111	11,403
91 to 180 days	9,717	427
181 to 365 days	5,170	1,287
Over 365 days	2,201	5,987
	27,199	19,104
Less: Allowance for bad and doubtful debts	–	(3,566)
	27,199	15,538

10. Trade and Other Payables

Payment terms with trade creditors are normally ranging from 90 to 120 days. The following is an aged analysis of trade payables as at the balance sheet date:

	30 September 2006	31 March 2006
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	5,988	4,757
Value-added tax payable	217	432
Other payables	6,097	4,402
	12,302	9,591

	30 September 2006	31 March 2006
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables		
Age		
0 to 90 days	2,782	4,333
91 to 180 days	2,043	68
181 to 365 days	1,087	5
Over 365 days	76	351
	5,988	4,757

11. Pledged Bank Deposits

For the six months ended 30 September 2006, certain bank deposits of the Group totalled approximately HK$5,061,000 were pledged as collateral for the short-term bank loan and general banking facilities (31 March 2006: approximately HK$93,000).

12. Share Capital

	Number of Ordinary Shares	Amount *HK$'000*
Authorised:		
Ordinary shares of HK$0.05 each at 30 September 2005	300,000,000	15,000
– Increase in authorised share capital on 8 November 2005 *(Note (a))*	300,000,000	15,000
– Increase in authorised share capital on 9 May 2006 *(Note (b))*	1,400,000,000	70,000
– at 30 September 2006	2,000,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.05 each at 30 September 2005	278,080,333	13,904
– Issue of new shares on subscription on 12 October and 11 November 2005 *(Note (c))*	55,600,000	2,780
– Exercise of share options between October 2005 and April 2006 *(Note (d))*	16,098,750	805
– Issue of new shares by way of rights issue on 19 April 2006 *(Note (e))*	172,465,166	8,623
– Issue of new shares upon exercise of the conversion rights attached to the unlisted convertible notes on 12 July and 20 July 2006 *(Note (f))*	45,893,709	2,295
– at 30 September 2006	568,137,958	28,407

Notes:

(a) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 8 November 2005, the authorised share capital of the Company has been increased from HK$15,000,000 divided into 300,000,000 shares of HK$0.05 each to HK$30,000,000 divided into 600,000,000 shares of HK$0.05 each by the creation of an additional 300,000,000 un-issued shares of HK$0.05 each.

(b) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 9 May 2006, the authorised share capital of the Company has been increased 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 un-issued shares of HK$0.05 each.

(c) On 12 October 2005 and 11 November 2005, the Company issued and allotted 16,000,000, 23,600,000 and 16,000,000 new ordinary shares of HK$0.05 each to three independent third parties, Mr. Chan Fung, Mr. Lau Kam Chee and Fruitful Profits Limited at a subscription price of HK$0.13 per share respectively.

(d) 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. These 16,098,750 share options had all been exercised during the period from October 2005 to April 2006.

(e) On 19 April 2006, the Company completed to issue 172,465,166 new ordinary shares by way of a rights issue on the basis of one rights share for every two existing shares of HK$0.05 each at a subscription price of HK$0.06.

(f) 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. As at 30 September 2006, there were a total of 41,062,812 shares equivalent to HK$8,500,000 unlisted convertible notes outstanding for conversion.

13. Dividends

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

4. INDEBTEDNESS

Borrowings

As at the close of business on 30 November 2006, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$13,194,000, details of which are set out below:

	HK$'000
Secured short-term bank loan	6,123
Convertible Notes (liability portion)	6,737
Obligations under finance lease	334
	13,194

The principal amount of the Convertible Notes outstanding as at 30 November 2006 is HK$7,000,000. The principal amount of the Convertible Notes outstanding as at the Latest Practicable Date is HK$7,000,000.

Securities and guarantees

Certain time deposits of the Group of approximately HK$5,089,000 have been pledged to banks to secure banking facilities and short-term bank loan granted to the Group. Secured short-term bank loan in the amount of approximately HK$6,123,000 was drawn down as at 30 November 2006 and up to the Latest Practicable Date.

As at 30 November 2006, the Group provided unlimited corporate guarantees to a financial institution in respect of short-term bank loan granted to the Group, approximately HK$6,123,000 of which was utilised by the Group.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, at the close of business on 30 November 2006, the Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other material contingent liabilities.

Save as aforesaid, the Directors confirm that there has been no material change to the indebtedness and contingent liabilities of the Group since 30 November 2006 and up to the Latest Practicable Date.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006, the date to which the latest published audited financial statements of the Group were made up.

6. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Group including the internally generated funds, the present bank and other facilities, the Group will have sufficient working capital for at least twelve months from the date of this circular.

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 13 of Appendix 1B and Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of the Open Offer on the net tangible assets of the Group as if the Open Offer had taken place on 30 September 2006.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group as at 30 September 2006 or at any future date.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the unaudited consolidated net tangible assets of the Group as at 30 September 2006 and adjusted to reflect the effect of the Open Offer:

	Unaudited consolidated net tangible assets of the Group as at 30 September 2006	**Estimated net proceeds from the Open Offer**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share**
	HK$'000	*HK$'000*	*HK$'000*	
	(Note a)	*(Note b)*	*(Note e)*	
Before completion of the Open Offer	57,586			HK$0.0821/ Share *(Note c)*
After completion of the Open Offer	57,586	26,055	83,641	HK$0.0795/ Share *(Note d)*

Notes:

(a) The unaudited consolidated net tangible assets of the Group as at 30 September 2006 is calculated based on the unaudited consolidated net assets of the Group as at 30 September 2006 of approximately HK$59,479,000 after deducting goodwill of approximately HK$1,893,000 as at 30 September 2006 as extracted from the unaudited interim report of the Group for the six months ended 30 September 2006.

(b) The estimated net proceeds from the Open Offer are calculated based on 350,692,167 Offer Shares to be issued at the Subscription Price of HK$0.08 per Offer Share after deducting estimated expenses of approximately HK$2 million.

(c) The number of Shares used for the calculation of this amount is 701,384,334 which was the number of Shares in issue as at the Latest Practicable Date.

(d) The number of Shares used for the calculation of this amount is 1,052,076,501 of which will be the total number of Shares expected to be in issue after the completion of the Open Offer representing the existing 701,384,334 Shares in issue as at the Latest Practicable Date and 350,692,167 Offer Shares to be issued pursuant to the Open Offer but has not taken into account the effects of the exercise of any outstanding Share Options, Convertible Notes and the Warrants.

(e) The above unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has not taken into account the effects of the exercise of any outstanding Share Options, Convertible Notes and the Warrants.

2. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, in respect of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as set out in this appendix.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

8 January 2007

The Board of Directors
Hua Xia Healthcare Holdings Limited
Room 1902 19/F Sing Pao Building
101 King's Road
North Point
HONG KONG

Dear Sirs

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Consolidated Net Tangible Assets") of Hua Xia Healthcare Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed open offer of not less than 350,692,167 offer shares and not more than 368,117,579 offer shares at HK$0.08 per offer share on the basis of one offer share for every two shares held on record date payable in full on application (the "Proposed Open Offer") might have affected the financial information presented, for inclusion in Section 1 of Appendix II to the circular dated 8 January 2007 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Consolidated Net Tangible Assets is set out on pages 132 and 133 to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Consolidated Net Tangible Assets in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the GEM Rules, on the Unaudited Pro Forma Consolidated Net Tangible Assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Consolidated Net Tangible Assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Consolidated Net Tangible Assets with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Consolidated Net Tangible Assets has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Consolidated Net Tangible Assets as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

The Unaudited Pro Forma Consolidated Net Tangible Assets is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2006 or any future date.

OPINION

In our opinion:

a. the Unaudited Pro Forma Consolidated Net Tangible Assets has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Consolidated Net Tangible Assets as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

Yours faithfully

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(1) the information contained in this circular 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 circular misleading; and

(3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable and immediately following the Open Offer (assuming the Open Offer becoming unconditional) will be as follows:

Authorised:		*HK$*
2,000,000,000	Shares	100,000,000.00
Issued and fully paid:		
701,384,334	Shares in issue as at the Latest Practicable Date	35,059,216.70
350,692,167	minimum Offer Shares to be issued	17,534,608.35
368,117,579	maximum Offer Shares to be issued	18,405,878.95

All of the Shares in issue rank pari passu in all respects with each other, including in particular as to dividends, voting rights and capital.

There are no arrangements under which future dividends will be waived or agreed to be waived.

The Shares in issue are listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, the Company has 42,500,000 outstanding Post-IPO Share Options, 1,034,400 outstanding Pre-IPO Share Options, 103,414,000 outstanding Warrants and 33,816,425 outstanding Conversion Shares which in aggregate entitling holders thereof to subscribe for 180,764,825 Shares. Save as disclosed above, the Company does not have any other outstanding warrants or securities in issue which are convertible or exchangeable into Shares.

DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares and in respect of equity derivatives, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interests in the Shares

Name of Director	Capacity	Number of Shares held	Position	Approximate percentage of the total issued share capital
Mr. Yung Note 1	Interest in controlled corporation Note 1	122,804,000	long	17.51%
	Beneficial owner	4,125,000	long	0.59%
Ms. Shum Note 2	Beneficial owner	3,600,000	long	0.51%
Mr. Weng Note 2	Beneficial owner	3,750,000	long	0.53%

Notes:

1. These shares are held through Easeglory.

2. Mr. Weng is an executive Director. Ms. Shum is an executive Director and chief executive officer of the Company.

(ii) Interests in Post-IPO Share Options

On 12 July 2006 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 2006 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:

Holders of Post-IPO Share Options	Exercise period	Exercise price	Number of Post-IPO Share Options granted
Mr. Yung	13 July 2006 to 12 July 2016	HK$0.83	2,450,000
Ms. Shum	13 July 2006 to 12 July 2016	HK$0.83	2,800,000
Mr. Weng	13 July 2006 to 12 July 2016	HK$0.83	2,700,000
Mr. Jiang	13 July 2006 to 12 July 2016	HK$0.83	5,200,000
Mr. Chen	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	11,650,000
	24 July 2006 to 23 July 2016	HK$0.82	12,500,000
Total			42,500,000

(iii) Interests in Pre-IPO Share Options

As at the Latest Practicable Date, 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:

Holders of Pre-IPO Share Options	Exercise period	Exercise price	Number of Pre-IPO Share Options outstanding
Former employee and adviser of the Group	26 April 2002 to 9 May 2012	HK$0.541	1,034,400

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, or in respect of equity derivatives, underlying Shares in or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 and 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors of chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(i) Substantial Shareholders

Name of Shareholder	Capacity	Number of Shares held	Position	Approximate percentage of the total issued share capital
Easeglory *(Note 1)*	Beneficial owner	122,804,000	Long	17.51%
Yung Muk Ying *(Note 1)*	Interest of spouse	126,929,000	Long	18.10%
Top Rainbow Ltd. *(Note 2)*	Beneficial owner	67,351,887	Long	9.60%
Yang Pei Gen *(Note 2)*	Interest in controlled corporation	67,351,887	Long	9.60%

Name of Shareholder	Capacity	Number of Shares held	Position	Approximate percentage of the total issued share capital
Lu Jin Ming *(Note 2)*	Interest of spouse	67,351,887	Long	9.60%
Wu Wendong *(Note 3)*	Beneficial owner	126,000,000	Long	17.96%
Quam Securities *(Note 4)*	Beneficial owner	180,978,079	Long	25.80%
PCSL *(Note 5)*	Beneficial owner	70,000,000	Long	9.98%
Hantec *(Note 5)*	Beneficial owner	50,000,000	Long	7.13%

Notes:

1. Ms. Yung Muk Ying is deemed to be interested in 126,929,000 shares by virtue of her being the spouse of Mr. Yung.

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. Mr. Wu Wendong is a substantial Shareholders and is a director of three non-wholly owned subsidiaries of the Company.

4. 180,978,079 Shares represent the maximum number of Offer Shares Quam Securities as one of the underwriters is required to subscribe or procure to subscribe for pursuant to the Underwriting Agreement. As such, Quam Securities is deemed to be interested in 180,978,079 Shares under the SFO.

5. 70,000,000 Shares and 50,000,000 Shares represent the respective number of Offer Shares PCSL and Hantec as underwriters being required to subscribe or procure to subscribe for pursuant to the Underwriting Agreement. As such, PCSL and Hantec are deemed to be interested in 70,000,000 Shares and 50,000,000 Shares respectively under the SFO.

(ii) Other persons who are required to disclose their interests:

Name of Shareholder	Number of Shares	Position	Capacity	Approximate percentage of the total issued Shares
Happy Woodstock Limited *(Note 1)*	51,707,000	Long	Beneficial owner	7.37%
Ng Chung Kit, Francisco *(Note 1)*	51,707,000	Long	Interest in controlled corporation	7.37%
Tsang Po Yee *(Note 1)*	51,707,000	Long	Interest of spouse	7.37%
Triumph Sky Finance Limited *(Note 2)*	51,707,000	Long	Beneficial owner	7.37%
Guo Xu *(Note 2)*	51,707,000	Long	Interest in controlled corporation	7.37%
Zhou Ya Ping *(Note 2)*	51,707,000	Long	Interest of spouse	7.37%

Notes: 1. Happy Woodstock Limited ("Happy Woodstock") is a company incorporated in the British Virgins Islands which is a subscriber of 51,707,000 non-listed warrants under the private placing of non-listed warrants as disclosed in the announcement of the Company dated 22 May 2006 conferring rights to Happy Woodstock to subscribe for 51,707,000 Shares. Happy Woodstock is wholly owned by Mr. Ng Chung Kit, Francisco and he is deemed to be interested in these Shares. By virtue of Ms. Tsang Po Yee being the spouse of Mr. Ng Chung Kit, Francisco, she is deemed to be interested in 51,707,000 Shares as well.

2. Triumph Sky Finance Limited ("Triumph Sky") is a company incorporated in the British Virgins Islands which is a subscriber of 51,707,000 non-listed warrants under the private placing of non-listed warrants as disclosed in the announcement of the Company dated 22 May 2006 conferring rights to Triumph Sky to subscribe for 51,707,000 Shares. Triumph Sky is wholly owned by Mr. Guo Yu and he is deemed to be interested in these Shares. By virtue of Ms. Zhou Ya Ping being the spouse of Mr. Guo Xu, she is deemed to be interested in 51,707,000 Shares as well.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Interest in contract or arrangement

No contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

Interest in assets

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2006, being the date to which the latest published audited accounts of the Company were made up.

Service contracts

There is no service contract entered into between the Company and Mr. Yung. Ms. Shum, Mr. Chen and Mr. Weng 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. Jiang has been appointed as executive Director by way of a letter of appointment with the Company for a period of one year commencing 3 January 2007 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, there is no service contract between any member of the Group and any Director (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensations)).

Competing business or interest

As at the Latest Practicable Date, the Directors were not aware of any business or interest of the Directors or any management shareholder (as defined under the GEM Listing Rules) of the Company and their respective associates that had completed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

EXPERTS AND CONSENTS

The qualification of the experts who have given opinion in this circular is as follows:

Name	Qualification
Veda Capital	a licensed corporation to conduct type 6 (advising on corporate finance) regulated activities registered under the SFO
HLB Hodgson Impey Cheng (“HLB”)	Chartered Accountants Certified Public Accountants

As at the Latest Practicable Date, none of Veda Capital and HLB had any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group and had any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2006, being the date to which the latest published audited accounts of the Company were made up.

Each of Veda Capital and HLB has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter of advice and/or reference to its name included herein in the form and context in which it is included.

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

(a) the subscription agreement dated 18 January 2005 entered into among the Company, Easeglory and Mr. Yung in respect of Easeglory’s subscription for 46,346,000 Shares;

(b) the acquisition agreement dated 26 August 2005 entered into between Fujian Worldshine Development Co., Ltd. and Prime Source (Fujian) Chemical Co., Ltd. (an indirect wholly owned subsidiary of the Company established in the PRC) in relation to the acquisition of a production line;

(c) a lease dated 26 September 2005 entered into between Prime Source (Fujian) Chemical Co., Ltd. and Fujian Worldshine Development Co., Ltd. in relation to the letting by Fujian Worldshine Development Co., Ltd. to Prime Source (Fujian) Chemical Co., Ltd. of approximately 1,600m^2 of part of a factory situated at Xitianwei County, Licheng District, Putian, Fujian Province, the PRC;

(d) the agreement dated 10 October 2005 entered into among the Company, Fruitful Profits Limited and Mr. Lam Hing Lun in respect of Fruitful Profits Limited's subscription of 16,000,000 Shares;

(e) the agreement dated 10 October 2005 entered into between the Company and Mr. Lau Kam Chee in respect of Mr. Lau Kam Chee's subscription of 23,600,000 Shares;

(f) the agreement dated 10 October 2005 entered into between the Company and Mr. Chan Fung in respect of Mr. Chan Fung's subscription of 16,000,000 Shares;

(g) the placing agreement dated 25 November 2005 entered into between the Company and Hantec in relation to the placing of the Convertible Notes in the aggregate principal amount of HK$15 million to HK$20 million;

(h) the underwriting agreement dated 28 February 2006 entered into between the Company and Quam Securities in relation to the underwriting of not less than 147,917,166 rights shares to not more than 148,317,166 rights shares under the rights issue;

(i) the non-legally binding memorandum of understanding dated 30 March 2006 entered into between Grand Brilliant, Mr. Wu Wendong and Shanghai Humanity Hospital Management Company Limited (上海博愛醫院管理股份有限公司) setting out the basic understanding in relation to a proposed acquisition, details of which have been set out in the announcement of the Company dated 30 March 2006;

(j) the warrant placing agreement dated 18 May 2006 entered into between the Company and two 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;

(k) the conditional sale and purchase agreement dated 12 June 2006 entered into between Grand Brilliant and Mr. Wu Wendong relating to the proposed acquisition of the sale shares and the sale loan of Day View Group Limited;

(l) the non-legally binding letter of intent dated 12 July 2006 entered into between Grand Brilliant and Ms. Zhuang Yan Qiu setting out the basic understanding in relation to the proposed acquisition of equity interests in a hospital as disclosed in the announcement of the Company dated 12 July 2006;

(m) the non-legally binding letter of intent dated 18 October 2006 entered into between the Company and Town Health International Holdings Company Limited with an objective to leverage on the resources and expertise of Town Health International Holdings Company Limited and the Company in their cooperative development in the medical and healthcare related business in the PRC as disclosed in the joint announcement of the Company and Town Health International Holdings Company Limited dated 19 October 2006;

(n) the non-legally binding letter of intent dated 24 November 2006 entered into between the Company and Mr. Lin Guo Xiong and Fuzhou Taijiang Hospital setting out the basic understanding in relation to the proposed acquisition of equity interests in a hospital in the PRC as disclosed in the announcement of the Company dated 24 November 2006; and

(o) the Underwriting Agreement.

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principle place of business in Hong Kong	Room 1902 19/F., Sing Pao Building No. 101 King's Road North Point Hong Kong

Authorised representatives	Yung Kwok Leong Room 1902 19/F., Sing Pao Building No. 101 King's Road North Point Hong Kong
	Shum Ngai Pan Room 1902 19/F., Sing Pao Building No. 101 King's Road North Point Hong Kong
Compliance officer	Yung Kwok Leong
Company secretary and qualified accountant	Chan Siu Wing Raymond *CPA, CPA (Australia)*
Financial adviser to the Company in relation to the Open Offer	Partners Capital International Limited Unit 3906, 39th Floor COSCO Tower 183 Queen's Road Central Hong Kong
Independent financial adviser to the Company in relation to the Open Offer	Veda Capital Limited Suite 11-12 13/F, Nan Fung Tower 173 Des Voeux Road Central Hong Kong
Underwriters	Quam Securities Company Limited Room 3208 Gloucester Tower The Landmark 11 Pedder Street Central, Hong Kong
	Partners Capital Securities Limited Room 3905, 39/F, COSCO Tower, 183 Queen's Road Central, Hong Kong
	Hantec Capital Limited 45th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong

Legal advisers to the Company	*As to Hong Kong Law:* Michael Li & Co. 14/F., Printing House 6 Duddell Street Central Hong Kong
Auditors	HLB Hodgson Impey Cheng Chartered Accountants Certified Public Accountants 31/F., Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
Hong Kong branch share registrar	Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong.
Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited Butterfield House, 68 Fort Street P.O. Box 705, George Town Grand Cayman, Cayman Islands British Virgin Indies
Principal bankers	Standard Chartered Bank (Hong Kong) Limited 12/F., Standard Chartered bank Building 4-4A Des Voeux Road Central Hong Kong Industrial and Commercial Bank of China (Asia) Limited 34/F., ICBC Tower 3 Garden Road Central Hong Kong

DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr. Yung Kwok Leong, aged 42, the Chairman of the Group, and a director of Able Developments Limited, Prime Source Trading Limited, Prime Source (Fujian) Chemical Co., Ltd., Grand Brilliant Corporation Limited, Grand Motion Investments Limited, Grandy Trading and Services (H.K.) Limited, Grandy Environmental (HK) Limited, Grandy Kindness Food Waste Management Limited, Grandy Kindness Food Waste Technology Limited, Cortina Developments Limited, Allbright Holdings Limited, Worlday Investments Limited, Rightime Development Limited, Citilink Pacific Group Limited and Green Jade Asia Limited respectively, which are wholly owned subsidiaries of the Company. Mr. Yung is also a director of China Hong Kong Medical Health Management Association Limited, which is a non wholly owned subsidiary of the Company. Mr. Yung, being a registered economist in the Fujian Province in the PRC, has business experience in the manufacture, sale and distribution of environmental-related raw materials and related products, such as melamine materials and household wares as well as other business areas in the PRC for over 20 years.

Ms. Shum Ngai Pan, aged 34, holds a Master's Degree in Business Administration. She has over 7 years of managerial experience in private companies engaged in the healthcare and environmental protection sectors. Ms. Shum has been appointed as an executive director of the Company on 25 April 2006. Ms. Shum is also a director of Prime Source (Fujian) Chemical Co., Ltd.

Mr. Chen Jin Shan, aged 38, holds a bachelor's degree in finance and accounting. Mr. Chen has over 10 years of accounting experience in private companies. He had also been a project manager for more than 6 years in an accounting firm. Mr. Chen has been appointed as an executive director of the Company on 25 April 2006. He is currently an independent non-executive director of Citychamp Dartong Company Limited which is listed on the Shanghai Stock Exchange.

Mr. Weng Jiaxing, aged 31, holds a bachelor's degree in finance. Mr. Weng has over 10 years of managerial experience in private companies engaged in merchandise trading and healthcare sector. Mr. Weng has been appointed as an executive director of the Company on 25 April 2006. Mr. Weng is a director of Prime Source (Fujian) Chemical Co., Ltd and China Hong Kong Medical Health Management Association Limited.

Mr. Jiang Tao, aged 50, holds a degree of Doctor of Audiology from the Arizona School of Health Sciences, Kirksville College of Osteopathic Medicine in the United States and two Masters degrees in Audiology and in Special Education from Lamar University of Texas in the United States. He served as senior management in several enterprises in USA, Canada and the PRC with over 15 years of experience in senior management, consultancy and investment in the PRC, Hong Kong, Canada and the United States, etc. He has also established six enterprises in the PRC with Canadian capital. He is currently the Visiting Professor of the Medical College of Southwest of China, Sichuan University, Sichuan University, Sun Yat-sen Medical University and Sichuan Foreign Language University.

Independent non-executive directors

Mr. Chan Francis Ping Kuen, aged 47, was appointed as an independent non-executive Director in September 2004. Mr. Chan is a member of The Institute of Chartered Accountants in Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan holds a bachelor degree in economics from the University of Sydney. Mr. Chan has over 20 years of experience in auditing, accounting and financial management and previously worked for an international accounting firm and a number of companies listed in Hong Kong and in the United States. Mr. Chan was previously an independent non-executive director of Global Solution Engineering Limited (formerly named as AGL MediaTech Holdings Limited) and Kinetana International Biotech Pharma Limited, both of which are companies listed on GEM. Mr. Chan is currently an independent non-executive director of China Elegance (Holdings) Limited and Earnest Investments Holdings Limited which are both listed on the Main Board. Mr. Chan is also the executive director of FX Creations International Holdings Limited which is listed on GEM.

Mr. Hsu Shiu Foo, William, aged 56, was appointed as an independent non-executive Director on 2 November 2001. Mr. Hsu is an Associate Professor at the School of Business at Brigham Young University, Hawaii. Mr. Hsu has over 15 years' global business experience in tourism and related fields in various international corporations. Mr. Hsu holds a bachelor of arts degree from the Brigham Young University, Hawaii, a master degree from Cornell University, New York, in the United States and a doctoral degree in business administration from the University of Western Sydney in Australia. Mr. Hsu was previously an independent non-executive director of Kinetana International Biotech Pharma Limited and is currently an independent non-executive director of KanHan Technologies Group Limited, both companies are listed on the GEM of the Stock Exchange.

Prof. Yu Chai Mei, aged 50, was appointed as an independent non-executive Director on 2 November 2001. Prof. Yu is a Professor in the Department of Chemistry and the Director of Studies in Environmental Science Programme of The Chinese University of Hong Kong. Prof. Yu possesses extensive knowledge in pollution treatment and environmental monitoring. Prof. Yu obtained his doctoral degree in Chemistry at the University of Idaho, in the United States. Prof. Yu has made contributions by advising the Group on development potentials of the technology in photocatalytic oxidation, an oxidation process that is catalysed under the supply of light source (UV light) ("PCO") and has helped the Group carry out research on the functions of PCO reactors in the early stage of the Group's business development.

Senior management

Mr. Chi Rui Xiong George, aged 40, holds a professional certificate of Chemistry Study. Mr. Chi is the Factory Manager of Prime Source (Fujian) Chemical Co., Ltd. since May 2005. He has more than 15 years of management experience in the manufacturing industry.

Ms. Liu Dan Sophy, aged 29, holds a Bachelor's degree in Economics with major in accounting. Ms. Liu is the Finance Manager of Prime Source (Fujian) Chemical Co., Ltd. since May 2005. She has more than 5 years of accounting and audit experience.

Mr. Chan Siu Wing Raymond, aged 42, is the financial controller and company secretary of the Group. Mr. Chan is responsible for the Group's financial and treasury functions. Mr. Chan is a member of the Certified Practising Accountant in Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has more than 18 years of experience in handling accounting and company secretarial functions and joined the Company in June 2005.

Mr. Kim Hyoung Kyu, aged 42, is the senior Finance Manager of the Korean operations. Mr. Kim is responsible for the financial functions of Youngdong Environmental Engineering Co. Limited. Mr. Kim graduated from Seoul National University and obtained a bachelor's degree in art from the department of international economics. Mr. Kim has over 14 years working experience in the areas of finance and asset management. Prior to joining the Group in June 2004, he worked in Hong Kong and Singapore.

The business addresses of the Directors and the senior management are as follows:

Mr. Yung Kwok Leong Ms. Shum Ngai Pan Mr. Cheng Jin Shan Mr. Weng Jiaxing Mr. Jiang Tao	Room 1902 19/F., Sing Pao Building No. 101 King's Road North Point Hong Kong
Mr. Chan Francis Ping Kuen	Flat D, 3/F, Block 5 Metro City, Phase 2 Tseung Kwan O, New Territories Hong Kong
Mr. Hsu Shiu Foo, William	55-516A Moana Street, Laie Hawaii, 96762 USA
Prof. Yu Chai Mei	Department of Environmental Science The Chinese University of Hong Kong Shatin, New Territories Hong Kong
Mr. Chi Rui Xiong George	Industrial Base of HuiHao Medicine Group & Conic Melamine Company Yusheng Industrial Trading District Min Hou, Fuzhou Fujian, PRC

Ms. Liu Dan Sophy	Industrial Base of HuiHao Medicine Group & Conic Melamine Company Yusheng Industrial Trading District Min Hou, Fuzhou Fujian, PRC
Mr. Chan Siu Wing Raymond	Room 1902 19/F., Sing Pao Building No. 101 King's Road North Point Hong Kong
Mr. Kim Hyoung Kyu	Towoo Bd 1st Floor 185-2 Hoam Dong Chungju City Chungcheong Book Do Korea

GENERAL

The Company has established an audit committee on 2 November 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee of the Company comprises Chan Francis Ping Kuen, Hsu Shiu Foo and Yu Chai Mei who are independent non-executive Directors and the primary duty of which are to review the annual reports and accounts, half-year reports and quarterly reports and give advice and comments thereon to the Directors and to review and supervise the financial reporting process and internal controls.

The Company has established a remuneration committee on 3 June 2005 in compliance with the code on corporate govenance practices. The chairman of the committee is Mr. Chan Francis Ping Kuen, and other members include Mr. Hsu Shiu Foo, William and Prof. Yu Chai Mei, all of them are the independent non-executive Directors. The role and function of the remuneration committee include the determination of the specific remuneration package of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board. The remuneration committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

EXPENSES

The expenses in connected with the Open Offer, including the financial advisory fee, underwriting commission, printing, registration, translation, legal and accounting fees, are estimated to be approximately HK$2 million and will be payable by the Company.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong during normal business hours up to and including 24 January 2007:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the two years ended 31 March 2005 and 31 March 2006 respectively;

(c) the unaudited interim report of the Company for the six months ended 30 September 2006;

(d) the letter from the Independent Board Committee, the text of which is set out on pages 26 to 27 of this circular;

(e) the letter from Veda Capital, the text of which is set out on pages 28 to 45 of this circular;

(f) the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, the text of which is set out in Appendix II to this circular;

(g) the letter from HLB on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, the text of which is set out in Appendix II to this circular;

(h) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(i) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and

(j) a copy of each of the circulars issued pursuant to the requirements set out in Chapters 19 and/or 20 of the GEM Listing Rules which has been issued since 31 March 2006, the date of the latest published audited consolidated financial statements of the Group were made up.

HUA XIA HEALTHCARE HOLDINGS LIMITED
華夏醫療集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Hua Xia Healthcare Holdings Limited (the "**Company**") will be held at Room 1902, 19/F., Sing Pao Building, No 101 King's Road, North Point, Hong Kong on Wednesday, 24 January 2007 at 8:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT** conditional upon: (a) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Offer Shares (as defined below) to be allotted and issued to the shareholders of the Company (the "**Shareholders**") pursuant to the terms and conditions of the Open Offer (as defined below); (b) the registration of all documents relating to the Open Offer required by law to be registered with the Registrar of Companies in Hong Kong on or before 24 January 2007 or such later date as the Company and Quam Securities Company Limited ("**Quam Securities**") on behalf of Quam Securities, Partners Capital Securities Limited ("**PCSL**") and Hantec Capital Limited (together with Quam Securities and PCSL, the "**Underwriters**") may agree; and (c) the obligations of the Underwriters under the underwriting agreement dated 11 December 2006 (the "**Underwriting Agreement**" including, if any, all supplemental agreements relating thereto) between the Company and the Underwriters becoming unconditional and the Underwriting Agreement not being terminated in accordance with the terms thereof prior to 4:00 p.m. on the third business day after the last day for acceptance of Offer Shares (as defined below),

(i) the issue by way of open offer (the "**Open Offer**") of not less than 350,692,167 shares (the "**Shares**") of HK$0.05 each in the share capital of the Company and not more than 368,117,579 Shares (the "**Offer Shares**") to the Shareholders whose names appear on the register of members of the Company on 24 January 2007 (excluding those Shareholders with registered addresses outside Hong Kong) on the basis of one Offer Share for every two Shares then held and otherwise pursuant to and in accordance with the terms and conditions set out in the circular dated on or before 8 January 2007 despatched by the Company to the Shareholders (a copy of which had been produced to the EGM marked "A" and signed by the chairman of the EGM for the purpose of identification) be and is hereby approved and the directors (the "**Directors**") of the Company be and are hereby authorised to allot and issue the Offer Shares pursuant to or in accordance with the Open Offer notwithstanding that the same may

* *for identification purpose only*

be offered, allotted or issued otherwise than pro rata to the existing Shareholders and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements or overseas Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and

(ii) the Directors be and are hereby authorised to do all such acts and things as they consider necessary or expedient in connection with the Open Offer."

By order of the Board
Hua Xia Healthcare Holdings Limited
Yung Kwok Leong
Chairman

Hong Kong, 8 January 2007

Head office and principal place of business in Hong Kong:
Room 1902
19/F., Sing Pao Building
No. 101 King's Road
North Point
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of the Company, vote in his/her/its stead. A proxy need not be a member of the Company but must be present in person to represent the member.

2. A form of proxy for use at the EGM (or at any adjournment thereof) is enclosed with the circular of the Company dated 8 January 2007. In order to be valid, the form of proxy attached to this circular must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the principal place of business of the Company at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong not less than 48 hours before the time for holding the EGM or at any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the above EGM or any adjournment thereof should he/she/it so wish.

3. Where there are joint holders of any share of the Company, any one of such holders may vote at the Meeting either personally or by proxy in respect of such share as if he/she/it were solely entitled thereto, but if more than one of such holders be present at the EGM personally or by proxy, then the one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.