

Third Quarterly Report
2006/07



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)

* For Identification Purpose Only



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



HIGHLIGHTS

- The Group has recorded a total turnover of approximately HK\$57,993,000 for the nine months ended 31 December 2006 as compared to a total turnover of approximately HK\$24,381,000 recorded in the corresponding period in 2005, representing an increase of approximately 138%.
- The Group has recorded a net profit attributable to equity holders for the nine months ended 31 December 2006 of approximately HK\$9,089,000 as compared to a net profit attributable to equity holders of approximately HK\$945,000 recorded in the corresponding period in 2005.
- The basic and diluted earnings per share of the Company for the nine months ended 31 December 2006 were approximately HK1.62 cents and HK1.27 cents respectively (2005: basic earnings HK0.23 cents (adjusted)).
- The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2006 (2005: Nil).

CONSOLIDATED THIRD QUARTERLY RESULTS (UNAUDITED)

The board (the "Board") of Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 31 December 2006, together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

Unaudited Consolidated Income Statements

For the three months and nine months ended 31 December 2006

	Notes	Three months ended		Nine months ended	
		31 December		31 December	
		2006	2005	2006	2005
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
TURNOVER	3	18,305	8,803	57,993	24,381
Cost of sales		(7,862)	(3,045)	(26,568)	(9,700)
Gross profit		10,443	5,758	31,425	14,681
Other income		91	46	394	1,007
Selling and distribution costs		(187)	(467)	(619)	(1,524)
Administrative expenses		(7,251)	(4,705)	(20,125)	(12,920)
PROFIT FROM OPERATIONS		3,096	632	11,075	1,244
Finance costs		(230)	(97)	(593)	(136)
PROFIT BEFORE TAXATION		2,866	535	10,482	1,108
Taxation	4	(527)	(116)	(1,010)	(236)
PROFIT FOR THE PERIOD		2,339	419	9,472	872
Attributable to:					
Equity holders of the Company		1,803	445	9,089	945
Minority interests		536	(26)	383	(73)
		2,339	419	9,472	872
DIVIDENDS	6	-	-	-	-
EARNINGS PER SHARE	5				
- Basic (cents)		0.29 cents	0.10 cents	1.62 cents	0.23 cents
- Diluted (cents)		0.23 cents	N/A	1.27 cents	N/A

Unaudited Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2006

	Share capital	Share premium	Special reserve	Translation reserve	Share-based payment reserve	Convertible notes reserves	Statutory expansion fund	Statutory reserve	Warrants reserve	Accumulated losses	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note (a))				(Note (c))	(Note (b))					
2005													
At 1 April 2005	13,904	56,022	2,935	355	-	-	-	-	-	(54,220)	18,996	133	19,129
Net profit for the period	-	-	-	-	-	-	-	-	-	945	945	(73)	872
Issue of shares	3,030	4,708	-	-	-	-	-	-	-	-	7,738	-	7,738
Issuing expenses	-	(152)	-	-	-	-	-	-	-	-	(152)	-	(152)
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	(308)	-	-	-	-	-	-	(308)	-	(308)
At 31 December 2005	16,934	60,578	2,935	47	-	-	-	-	-	(53,275)	27,219	60	27,279
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	-	-	-	-	-	-	-	-	-	9,089	9,089	383	9,472
Issue of shares	17,580	-	-	-	-	-	-	-	-	-	17,580	-	17,580
Premium arising on issue of shares	-	80,818	-	-	-	-	-	-	-	-	80,818	-	80,818
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 31 December 2006	35,069	140,734	2,935	453	-	499	37	37	1,836	(42,014)	139,586	419	140,005



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.



NOTES TO THE UNAUDITED CONSOLIDATED INCOME STATEMENT

For the nine months ended 31 December 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 31 December 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.

	Three months ended		Nine months ended	
	31 December		31 December	
	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	4,275	4,351	16,992	17,035
– Sales of melamine and its related products	5,971	2,240	16,942	5,134
– Provision of healthcare and hospital management services	8,059	2,212	24,059	2,212
	<u>18,305</u>	<u>8,803</u>	<u>57,993</u>	<u>24,381</u>

4. Taxation

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

Provision for corporate income tax of approximately 5% in average has been made for income derived from the provisions of hospital management and environmental protection consultancy services in the PRC.

5. Earnings Per Share

The calculation of basic earnings per share for the three months ended 31 December 2006 was based on the net profit of approximately HK\$1,803,000 (2005: approximately HK\$445,000) and on the weighted average number of 630,355,034 shares (2005: 456,808,548 (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 nine months ended 31 December 2006 was based on the net profit of approximately HK\$9,089,000 (2005: approximately HK\$945,000) and on the weighted average number of 562,201,990 shares (2005: 419,295,110 (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 nine months ended 31 December 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 31 December 2006 HK\$'000 (unaudited)	Nine months ended 31 December 2006 HK\$'000 (unaudited)
Profit attributable to equity holders of the Company	1,803	9,089
Interest expense on unlisted convertible notes (net of tax)	68	368
Profit used to determine diluted earnings per share	1,871	9,457



	2006	2006
Weighted average number of ordinary shares in issue	630,355,034	562,201,990
Adjustments for assumed conversion of unlisted convertible notes	33,816,436	33,816,436
Adjustments for assumed conversion of non-listed warrants	103,414,000	103,414,000
Adjustments for assumed exercise of share options	<u>42,500,000</u>	<u>42,500,000</u>
Weighted average number of ordinary shares of diluted earnings per share	<u>810,085,470</u>	<u>741,932,426</u>
	2006	2006
Diluted earnings per share	<u>HK0.23 cents</u>	<u>HK1.27 cents</u>

No diluted earnings per share had been presented for the three months and nine months ended 31 December 2005 as share options outstanding during the three months and nine months ended 31 December 2005 had an anti-dilutive effect on basic earnings per share.

6. Dividends

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2006 (2005: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Results of the Group for the nine months ended 31 December 2006 have shown substantial improvement in turnover compared with the corresponding period ended 31 December 2005. Turnover of the Group for the nine months ended 31 December 2006 was approximately HK\$57,993,000 in comparison with a turnover of approximately HK\$24,381,000 in 2005, representing an increase of approximately 138%. Net profit attributable to equity holders for the nine months ended 31 December 2006 was approximately HK\$9,089,000 in comparison with a net profit of approximately HK\$945,000 in 2005, representing an increase of approximately 862%.

The improvement in revenue for the nine months ended 31 December 2006 was mainly driven by the increased contribution in turnover by the 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. The turnover of these new lines of products and services represented approximately HK\$41,001,000 equivalent to approximately 71% of the Group's turnover for the nine months ended 31 December 2006.

Administrative expenses for the nine months ended 31 December 2006 recorded an increase of approximately 56% as compared with the corresponding period ended 31 December 2005. The increase was mainly constituted from the increase of professional fees in relation to the rights issue, acquisition of the hospital management company, and increase in the marketing and promotional expenses.

Business Review and Outlook

Waste water treatment businesses

The Group's waste water treatment businesses for government and commercial projects are mainly carried out through Youngdong Environmental Engineering Co., Ltd. ("Youngdong") in Korea. Youngdong's turnover for the nine months ended 31 December 2006 totalled approximately HK\$16,385,000 (2005: approximately HK\$10,396,000).



The Group also provides cleansing and ancillary services to both public and private housing in Hong Kong for cleansing of fresh and flush roof tanks, sump tanks and water tanks since December 2004. The turnover for this division of business for the nine months ended 31 December 2006 recorded approximately HK\$470,000 (2005: approximately HK\$1,532,000).

Energy saving products and enzyme treatments

The Group's energy saving and enzyme treatment divisions recorded a total turnover of approximately HK\$137,000 for the nine months ended 31 December 2006 (2005: approximately HK\$5,107,000). The significant decrease in turnover was due to intense market competition and fall in demand for the products.

Manufacture and sales of melamine and its related products

The Group manufactures and sells the melamine materials through its wholly-owned subsidiary, Prime Source (Fujian) Chemical Co. Ltd., in the Fujian Province, the PRC. Melamine materials are raw materials used in the manufacture of household products which are widely used in environmental conscious countries and are durable, non-toxic and easy to be processed. The Group also trades the household products made from the environmental friendly melamine materials which are widely used in environmental conscious countries. The total turnover recorded in the sales of melamine materials and environmental friendly household products for the nine months ended 31 December 2006 was approximately HK\$16,942,000 (2005: approximately HK\$5,134,000).

Environmental protection consultancy and management services for hospitals

Since October 2005, the Group has entered into the service agreements with hospitals in the PRC to provide professional consulting services in the areas of environmental protection such as energy saving, waste water treatments, and improvement on the hospitals' air and water quality. The turnover recorded in these services for the nine months ended 31 December 2006 was approximately HK\$1,849,000 (2005: HK\$972,000).

In addition to rendering environmental protection services for hospitals, the Group subcontracts its services to a hospital management company in the PRC to provide hospital management services. The turnover recorded in these services for the nine months ended 31 December 2006 was approximately HK\$18,796,000 (2005: HK\$1,240,000).



On 24 November 2006, the Group has completed the acquisition of Day View Group Limited. Day View Group Limited and its subsidiaries, including Shanghai Humanity Hospital Management Company Limited, are principally engaged in the business of healthcare management and training and consultancy for hospitals in the PRC, which include advising on management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support. The turnover contributed by the Day View Group Limited and its subsidiaries in these services for the nine months ended 31 December 2006 was approximately HK\$3,414,000 (2005: Nil).

Future Prospects

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

The Directors intend to explore more business opportunities in the promising healthcare sector in the PRC including but not limited to possible future investments in or cooperations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the Directors believe will have growth potentials) and to consider undertaking those businesses which are complimentary to the existing business as a further step to the acquisition in order to benefit from the growth in the healthcare sector and enhance shareholders' returns in the long-run. In this regard, on 12 July 2006, the Company announced that Grand Brilliant entered into a non-legally binding letter of intent with the Vendor in relation to the proposed acquisition of the whole or part of equity interests to be indirectly held by the Vendor in Shanghai Humanity Hospital. Under the letter of intent, both Grand Brilliant and the Vendor will proceed to the negotiation for a legally binding formal agreement on or before 31 March 2007. For further details, please refer to the Company's announcement dated 12 July 2006, 28 September 2006 and 2 January 2007 respectively.



On 18 October 2006, the Company has entered into a non-legally binding letter of intent with Town Health International Holdings Company Limited (“Town Health International”) with an objective to leveraging the resources and expertise of Town Health International and the Company in the cooperative development in the medical and healthcare related business in the PRC, particularly in the areas of dental services and beauty services including cosmetic dermatology and plastic surgery. In addition, both companies agreed to cooperate in the areas of hospital management, training of medical service personnel, education and scientific research. For further details, please refer to the Company’s announcement dated 19 October 2006.

On 24 November 2006, the Company entered into a non-legally binding letter of intent with Mr. Lin Guo Xiong (the “Vendor”) and Fuzhou Taijiang Hospital (福州台江醫院) in relation to the proposed acquisition of 60% equity interests in Fuzhou Taijiang Hospital (福州台江醫院). Fuzhou Taijiang Hospital (福州台江醫院) is a privately-run hospital established in the PRC which provides general hospital services including surgery, obstetrics and gynecology, orthopedics, urology and lavement. For further details, please refer to the Company’s announcement dated 24 November 2006.

On 14 December 2006, 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. 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. For further details, please refer to the Company’s announcement dated 14 December 2006, the Company’s circular dated 8 January 2007 and the Company’s prospectus and announcement dated 24 January 2007.



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

Capital Structure

- (a) 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.
- (b) 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.
- (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 extraordinary general meeting held on 9 May 2006. For further details, please refer to the Company's circular dated 20 April 2006.
- (d) On 18 May 2006, the Company entered into a conditional warrant placing agreements with Triumph Sky Finance Limited and Happy Woodstock Limited (the "Subscribers") in relation to a private placing of 51,707,000 warrants to each of the Subscribers, making up an aggregate of 103,414,000 warrants collectively, at an issue price of HK\$0.02 per warrant. The warrant placing was completed on 5 June 2006 and 103,414,000 warrants had been issued. The net proceeds from the warrant placing of approximately HK\$1,500,000 will be applied as general working capital of the Group. The warrants entitle the Subscribers to subscribe for new shares at an initial subscription price of HK\$0.62 per new share for a period of 18 months commencing from the date of issue of the 103,414,000 warrants. A total fund of approximately HK\$64,100,000 will be raised upon full exercise of the subscription rights attaching to the warrants by the holders of warrants. For further details, please refer to the Company's announcements dated 22 May 2006 and 5 June 2006 respectively.



- (e) 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, 20 July and 16 October 2006 respectively, a total of HK\$11,000,000 unlisted convertible notes had been converted into a total of 53,140,085 shares. As at 31 December 2006, there were a total of 33,816,436 shares equivalent to HK\$7,000,000 unlisted convertible notes outstanding for conversion.

- (f) Pursuant to the acquisition of Day View Group Limited become unconditional on 21 November 2006, the Company allotted and issued 126,000,000 consideration shares to Mr. Wu Wendong, the ultimate controlling shareholder of Day View Group Limited. For further details, please refer to the Company's announcement dated 24 November 2006.

DISCLOSURE OF INTERESTS

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

As at 31 December 2006, the interests and short position of the Directors and chief executive of the Company in the shares, underlying shares, equity derivatives and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by Directors of the Company as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

Long positions in shares:

Name of Director	Capacity	Number of shares held	Approximate percentage of the total issued share capital
Yung Kwok Leong ^{Note 1}	Interest in controlled corporation ^{Note 1}	122,804,000	17.51%
	Beneficial owner	6,575,000	0.94%
Shum Ngai Pan ^{Note 2}	Beneficial owner	6,400,000	0.91%
Weng Jiaxing ^{Note 2}	Beneficial owner	6,450,000	0.92%
Chen Jin Shan ^{Note 2}	Beneficial owner	5,200,000	0.74%
Jiang Tao ^{Note 2}	Beneficial owner	5,200,000	0.74%

Notes:

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

Save as disclosed above, as at 31 December 2006, none of the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.


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

As at 31 December 2006, other than the interests of a Director or chief executive of the Company as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures" above, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in shares:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of the total issued share capital
Easeglory Holdings Limited (Note 1)	Beneficial owner	122,804,000	17.51%
Yung Muk Ying (Note 1)	Interest of spouse	129,379,000	18.45%
Top Rainbow Ltd. (Note 2)	Beneficial owner	67,351,887	9.60%
Yang Pei Gen (Note 2)	Interest in controlled corporation	67,351,887	9.60%
Lu Jin Ming (Note 2)	Interest of spouse	67,351,887	9.60%
Wu Wendong (Note 3)	Beneficial owner	126,000,000	17.96%

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



Save as disclosed above, as at 31 December 2006, the Directors of the Company were not aware of any other person (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

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

SHARE OPTION SCHEMES

(i) Pre-IPO Scheme

As at 31 December 2006, there were 1,034,400 outstanding share options pursuant to the Pre-IPO Scheme adopted on 20 April 2002. A breakdown setting out the number of outstanding share options and their respective exercise price, both of which have been adjusted as a result of the share consolidation and the rights issue, and their respective exercise period under the Pre-IPO Scheme is as follows:

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

(ii) Post-IPO Scheme

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

Directors	Exercise period	Exercise price	Number of share options granted
Yung Kwok Leong	13 July 2006 to 12 July 2016	HK\$0.83	2,450,000
Shum Ngai Pan	13 July 2006 to 12 July 2016	HK\$0.83	2,800,000
Weng Jiaying	13 July 2006 to 12 July 2016	HK\$0.83	2,700,000
Chen Jin Shan	13 July 2006 to 12 July 2016	HK\$0.83	5,200,000
Jiang Tao	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			<u>42,500,000</u>



DIRECTORS' SERVICE CONTRACTS

Mr. Yung Kwok Leong, the executive Director and chairman of the Company has signed a letter of appointment with the Company for a period of one year commencing 1 February 2007 which will continue thereafter until terminated by either party giving to the other party giving not less than one month's notice in writing. Ms. Shum Ngai Pan, Mr. Chen Jin Shan and Mr. Weng Jiaying have been appointed as executive Directors by way of letters of appointment with the Company for a period of one year commencing 25 April 2006 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing. Mr. Jiang Tao has been appointed as executive Director by way of 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 above, none of the Directors has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

During the nine months ended 31 December 2006, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.



COMPETING INTERESTS

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the period ended 31 December 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the period ended 31 December 2006 except that no nomination committee of the Board is established.

PRE-EMPTIVE RIGHTS

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



AUDIT COMMITTEE

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

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

The audit committee has reviewed the Group's unaudited results for the nine months ended 31 December 2006.

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

Hong Kong, 9 February 2007

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