THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any party of the contents of this circular.

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, registered institution in securities, or 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 the transferee or to the licensed securities dealer, registered institution in securities or the bank manager, or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for 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)

MAJOR TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST AND THE SUBSCRIPTION OF NEW SHARES IN A COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES AND CONVERTIBLE NOTES; PROPOSED REFRESHMENT OF GENERAL MANDATE TO ALLOT NEW SHARES; AND RE-ELECTION OF DIRECTORS

Financial adviser to the Company

INCU Corporate Finance Limited

INCU

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 containing its recommendations to the Independent Shareholders in connection with the proposed grant of the New General Mandate are set out on page 45 of this circular.

A letter from Veda Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice in connection with the proposed grant of the New General Mandate is set out on pages 46 to 52 of this circular.

A notice convening the EGM to be held at 11:00 a.m. on Thursday, 3 May 2007 at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong, is set out on pages 244 to 247 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether you are able to attend the EGM or not, please complete and return the enclosed form of proxy 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 possible and in any event not less than 48 hours before the time for holding the EGM. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM of the Company in person if you so wish.

This circular will remain on the GEM Website on the "Latest Company Announcement" page for at least 7 days from the date of its posting and the website of the Company at www.huaxia-healthcare.com.

16 April 2007

* *for identification purpose only*

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 traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded 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

DEFINITIONS

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

"2006 AGM"	the annual general meeting of the Company held on 31 August 2006 at which the Shareholders had approved, among other matters, the Previous General Mandate
"2007 EGM"	the extraordinary general meeting of the Company held on 9 March 2007 at which the Shareholders had approved, among other matters, the Current General Mandate
"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Adjustments"	adjustments in relation to the Pre-IPO Scheme, Post-IPO Scheme, warrants and convertible notes from time to time
"Agreement"	the conditional sale and purchase agreement dated 13 March 2007 entered into among the Purchaser, the Vendor and the Target relating to the sale and purchase of the Sale Shares, the Sale Loan and the subscription of the Subscription Shares
"Announcement"	the announcement made by the Company dated 20 March 2007 in relation to, among other matters, the Proposed Acquisition, the Subscription and the Placing
"Articles of Association"	articles of association of the Company adopted pursuant to the written resolutions of the then Shareholders of the Company passed on 20 April 2002 and as amended from time to time
"associates"	has the meaning ascribed to it under the GEM Listing Rules
"Board"	the board of Directors

"Business Day"	a day (other than Saturdays, Sundays or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"BVI"	the British Virgin Islands
"CCASS"	the Central Clearing and Settlement System established and operated by the Hong Kong Securities Clearing Company Limited
"Company"	Hua Xia Healthcare Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the GEM
"Completion of the Placing"	completion of the Placing pursuant to the Placing Agreement
"Completion of the Proposed Acquisition and the Subscription"	completion of the sale and purchase of the Sale Shares, the Sale Loan and the Subscription in accordance with the terms and conditions of the Agreement
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Consideration Shares"	170,320,000 new Shares to be issued by the Company to the Vendor in an aggregate amount of HK$59,952,640 as part of the Total Consideration
"Convertible Notes"	the convertible notes in the principal amount of HK$33,000,000 to be issued by the Company to the Vendor as part of the Total Consideration
"Conversion Price"	the initial conversion price of HK$0.352 per Conversion Share, subject to adjustments, pursuant to the terms of the Convertible Notes

"Conversion Shares"	93,750,000 new Shares to be issued upon the exercise in full of the conversion rights attaching to the Convertible Notes at the initial Conversion Price
"Current General Mandate"	the Previous General Mandate as refreshed at the 2007 EGM for the Directors to allot and issue Shares of up to 20% of the then issued share capital of the Company i.e 213,313,850 Shares
"Deposit"	HK$11,250,000 which will be paid by the Purchaser to the Vendor within seven Business Days after signing of the Agreement
"Director(s)"	the director(s) of the Company
"Edward Hospital" or "CQHCL"	Chongqing Edward Hospital Company Limited# (重慶愛德華醫院有限公司), a privately-run hospital established in Chongqing, the PRC on 25 May 2005, formerly named as Chongqing Zhongyu Edward Hospital Company Limited# (重慶中嶼愛德華醫院有限公司)
"Enlarged Group"	the Company and its subsidiaries (including the Target Group) after Completion of the Proposed Acquisition and the Subscription
"EGM"	the extraordinary general meeting of the Shareholders to be held at 11:00 a.m. on Thursday, 3 May 2007 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, a notice of which is set out on pages 244 to 247 of this circular
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries before Completion of the Proposed Acquisition and the Subscription

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company, comprising Mr. Chan Francis Ping Kuen, Mr. Hsu William Shiu Foo and Mr. Yu Chai Mei, all of whom are independent non-executive Directors, formed to advise the Independent Shareholders on the proposed grant of the New General Mandate
"Independent Financial Adviser" or "Veda Capital"	Veda Capital Limited, a licensed corporation licensed to carry on business in type 6 regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the proposed grant of the New General Mandate
"Independent Shareholders"	Shareholders other than the Directors (excluding independent non-executive Directors) and chief executive of the Company and their respective associates
"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons as defined in the GEM Listing Rules
"Latest Practicable Date"	12 April 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Committee"	the listing committee appointed by the Stock Exchange for considering applications for listing and the granting of listing of securities on the GEM
"Maidisen"	Fujian Maidisen Enterprise Company Limited# (福建邁迪森實業有限公司), a private company established in the PRC on 27 December 2006

"New General Mandate"	the general mandate proposed to be refreshed at the EGM for the Directors to allot, issue and deal with additional Shares not exceeding 20% of the issued share capital of the Company as at the date of the EGM
"Noteholder(s)"	the holder(s) of the Convertible Notes from time to time
"Placing Agreement"	the placing agreement entered into on 13 March 2007 between the Company and the Placing Agent for the placing of the Placing Shares
"Placing"	the placing of the Placing Shares, on a best effort basis, by the Placing Agent under the Placing Agreement
"Placing Agent"	Sun Hung Kai International Limited, the placing agent specified in the Placing Agreement, a company incorporated in Hong Kong with limited liability and a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
"Placing Shares"	up to 200,000,000 new Shares to be allotted and issued under the Placing Agreement
"Post-IPO Scheme"	the post-listing share option scheme adopted by the Company on 20 April 2002 which came into effect after the initial listing of the Shares on GEM on 10 May 2002
"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 Scheme"	the pre-listing 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
"Previous General Mandate"	the general mandate granted at the 2006 AGM to the Directors to allot and issue Shares of up to 20% of the then issued share capital of the Company i.e. 113,627,591 Shares
"Profit Guarantee"	the profit guarantee provided by the Vendor under the Agreement in respect of the audited consolidated net profits after tax, extraordinary or exceptional items and minority interest of the Target Group for the year ending 31 March 2008 will not be less than HK$12 million
"Promissory Note"	the promissory note to be issued by the Company to the Vendor for the partial settlement of the Total Consideration
"Proposed Acquisition"	the proposed acquisition of the Sale Shares and the Sale Loan on the terms contained in the Agreement
"Purchaser"	Wisdom Rise Group Limited, a company incorporated in BVI and a wholly-owned subsidiary of the Company
"Refundable Payment"	the Deposit and the Subscription Price
"Sale Loan"	all obligations, liabilities and debts owing or incurred by the Target to the Vendor, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion of the Proposed Acquisition and the Subscription
"Sale Shares"	1,163 shares of US$1.00 each, being the entire issued share capital of Target as at the date of the Agreement which are legally and beneficially owned by the Vendor

"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.05 each in the share capital of the Company
"Share Option(s)"	a right/rights granted to subscribe for Shares pursuant to the Pre-IPO Scheme and the Post-IPO Scheme
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription of the Subscription Shares by the Purchaser pursuant to the Agreement
"Subscription Price"	HK$41,000,000, being the subscription price payable for the Subscription Shares pursuant to the Agreement
"Subscription Shares"	the 410 new shares of US$1.00 each in the share capital of the Target to be allotted and issued by the Target to the Purchaser, pursuant to the Agreement
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target"	Hero Vision Enterprises Limited, a company incorporated in BVI which is wholly and beneficially owned by the Vendor before Completion of the Proposed Acquisition and the Subscription
"Target Group"	the Target and its subsidiaries upon Completion of the Target Group Reorganisation

"Target Group Reorganisation"	the reorganisation of the Target Group, including but not limited to (i) the transformation of Maidisen into a wholly foreign owned enterprise; (ii) the acquisition of equity interests in Edward Hospital by Maidisen; and (iii) the acquisition of equity interests in Maidisen by the Vendor directly or indirectly through his controlled companies
"Total Consideration"	the total consideration of HK$157,300,000 payable by the Purchaser to the Vendor for the Sale Shares, the Sale Loan and the Subscription Shares, pursuant to the Agreement
"Vendor"	Mr. Lau Kam Shui, the sole beneficial shareholder of the Target prior to Completion of the Proposed Acquisition and the Subscription and the vendor to the Agreement
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	the lawful currency of the United States of America
"%"	per cent.

The English transliteration of the Chinese names in this circular, where indicated, is included for information only, and should not be regarded as the official English names of such Chinese names.

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

Non-executive Director:
Wong Yu Man, James

Independent non-executive Directors:
Chan Francis Ping Kuen
Hsu William Shiu Foo
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

16 April 2007

To the Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST AND THE SUBSCRIPTION OF NEW SHARES IN A COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES AND CONVERTIBLE NOTES; PROPOSED REFRESHMENT OF GENERAL MANDATE TO ALLOT NEW SHARES; AND RE-ELECTION OF DIRECTORS

A. INTRODUCTION

By an announcement of the Company dated 20 March 2007, the Board announced that the Purchaser entered into the Agreement with the Vendor on 13 March 2007 pursuant to which the Purchaser agreed to (i) acquire from the Vendor the Sale Shares and Sale Loan; and (ii) subscribe for the Subscription Shares, for a total consideration of HK$157,300,000.

By the same announcement, the Company announced for the entering into of the Placing Agreement with the Placing Agent for the Placing of up to 200,000,000 new Shares (being the Placing Shares) on a best effort basis by the Placing Agent to not less than six placees who will be professional, institutional and/or corporate or individual investors and Independent Third Parties at HK$0.352 per Placing Share.

* *for identification purpose only*

The total consideration for the Sale Shares, the Sale Loan and the Subscription Shares of HK$157,300,000 shall be settled by the Purchaser in forms of cash, Consideration Shares, Convertible Notes and Promissory Note.

The Proposed Acquisition and the Subscription, in aggregate, constitute a major transaction for the Company under the GEM Listing Rules and are subject to the approval of the Shareholders at the EGM. The EGM will be convened at which resolutions will be proposed to seek the approval of, among other things, the Proposed Acquisition and the Subscription, by the Shareholders.

The Company further proposes the refreshment of the Current General Mandate subject to the approval of the Independent Shareholders at the EGM before the forthcoming annual general meeting of the Company this year.

The Company also proposes to re-elect the recently appointed Directors, i.e. Mr. Jiang Tao as an executive Director (appointed in January 2007) and Dr. Wong Yu Man, James (appointed in March 2007) as a non-executive Director at the EGM in accordance with the Articles of Association.

The purpose of this circular is to provide you with, among other things, (i) further details of the Proposed Acquisition and the Subscription; (ii) the proposed refreshment of the Current General Mandate; (iii) the proposed re-election of Directors; (iv) the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, on the proposed refreshment of the Current General Mandate; and (v) the notice of EGM.

B. MAJOR TRANSACTION

The Agreement

Date: 13 March 2007

Parties:

(i) Purchaser:

Wisdom Rise Group Limited, a wholly-owned subsidiary of the Company;

(ii) Vendor:

Mr. Lau Kam Shui, who currently owns 100% direct interest in the Target; and

(iii) Issuer:

Hero Vision Enterprises Limited, being the Target.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor including the Target which is wholly-owned by the Vendor are Independent Third Parties.

Assets to be acquired

Pursuant to the Agreement,

(i) the Purchaser agreed to acquire and the Vendor agreed to sell the Sale Shares, being 1,163 shares of US$1.00 each in the share capital of the Target, representing its entire issued share capital as at the date of the Agreement and the Sale Loan; and

(ii) the Purchaser agreed to subscribe and the Target agreed to issue and allot the Subscription Shares, being 410 new shares of US$1.00 each in the share capital of the Target.

As at the Latest Practicable Date, the amount of Sale Loan is nil. There will be no adjustments to be made to the Total Consideration in case the Sale Loan will not be nil in balance at Completion of the Proposed Acquisition and the Subscription and there is no restriction of the Target Group to incur any Sale Loan after the entering into of the Agreement.

Upon completion of the Target Group Reorganisation as further elaborated below, the Target Group will comprise, among other members of the Target Group, two major operating subsidiaries, namely Maidisen and its 55% subsidiary, Edward Hospital. Details about the business activities to be carried out by the Target Group are set out under the sub-heading "Group Structure" and further elaborated under the heading "Information on the Target Group" below.

Consideration

The total consideration for the Sale Shares, the Sale Loan and the Subscription Shares is HK$157,300,000, of which HK$116,300,000 will be payable for the Sale Shares and the Sale Loan and HK$41,000,000 will be payable for the Subscription Shares. The total consideration for the Sale Shares and the Sale Loan shall be payable in the following manner:

(i) as to HK$11,250,000 (being the Deposit), which has been paid by the Purchaser within seven Business Days after signing of the Agreement;

(ii) as to HK$59,952,640 by procuring the Company to allot and issue the Consideration Shares at an issue price of HK$0.352 per Consideration Share upon Completion of the Proposed Acquisition and the Subscription;

(iii) as to HK$33,000,000 by procuring the Company to issue the Convertible Notes upon Completion of the Proposed Acquisition and the Subscription; and

(iv) as to the remaining HK$12,097,360 by procuring the Company to issue the Promissory Note upon Completion of the Proposed Acquisition and the Subscription.

Details of the Consideration Shares, the Convertible Notes and the Promissory Note are further elaborated under the headings "Terms of Consideration Shares", "Terms of Convertible Notes" and "Terms of Promissory Note" below.

The total consideration for the Subscription Shares shall be HK$41,000,000 (being the Subscription Price) which shall be payable by cash within two Business Days from either (i) the date of obtaining of the approval in principle on the Target Group Reorganisation from the relevant authority; or (b) date of Completion of the Placing, whichever is later. Although the approval in principle and the certificate of approval, both dated 6 April 2007, approving the transformation of Maidisen as a wholly foreign owned enterprise has been obtained on 10 April 2007, which is one of the steps to the Target Group Reorganisation and one of the conditions precedent to the Proposed Acquisition and the Subscription, as at the Latest Practicable Date, completion of the Placing has not taken place and the Subscription Price has not been settled by the Purchaser. The obtaining of the approvals on the transformation of Maidisen as a wholly foreign owned enterprise has been announced in the announcement of the Company dated 10 April 2007.

In the event that the Placing cannot be completed or the amount of funds raised from the Placing is not sufficient to cover the Subscription Price, additional promissory notes will be issued on Completion of the Proposed Acquisition and Subscription to cover any shortfall.

The Refundable Payment (i.e. the aggregate of the Deposit and the Subscription Price) will be refunded to the Purchaser by the Vendor if the Agreement is terminated in accordance with its terms, in particular, for non satisfaction of conditions set out under the heading "Conditions Precedent" below. If the termination of the Agreement is due to default of the Vendor, the Refundable Payment shall be refunded with interest of 1% per month to be accrued thereon from the date of receipt of the Refundable Payment until full refund of the Refundable Payment.

Further announcement will be made by the Company in the event that the Placing and/or the Agreement is terminated.

The Total Consideration, including the payment terms, was determined after arm's length negotiation between the Purchaser and the Vendor after having considered: (i) the Profit Guarantee given by the Vendor; (ii) reasons for the Proposed Acquisition and the Subscription as elaborated further under the heading "Reasons for the Proposed Acquisition and the Subscription"; (iii) the future prospect of the business of the Target Group; and (iv) the P/E ratios of a number of local listed companies engaging in business similar to the Target Group ranging from about 10.44 times to 20.49 times. The Total Consideration represents a price earning multiple of approximately 13.11 times of the Guaranteed Profit (as defined below) which is at approximately the mid-point of the range. The Directors consider the Total Consideration and the relevant payment terms to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Group intends to finance the cash portion of the Total Consideration by (i) internal resources of the Group; (ii) net proceeds raised from the open offer which has been completed in February 2007; and (iii) net proceeds from the Placing.

Profit Guarantee

In the Agreement, the Vendor guaranteed and warranted to the Purchaser that the audited consolidated net profit after taxation and extraordinary or exceptional items and minority interests of the Target Group for the year ending 31 March 2008 (the "**Net Profit**") shall not be less than HK$12,000,000 (the "**Guaranteed Profit**"). In the event the Guaranteed Profit is not achieved, the amount of Total Consideration will be adjusted downwards by setting off against the payment obligations of the Company under the Convertible Notes and/or the Promissory Note on a dollar for dollar basis for an amount equivalent to the difference between the Net Profit and the Guaranteed Profit at the option of the Purchaser.

If the Target Group records a net loss in its audited consolidated accounts for the year ending 31 March 2008 ("**Net Loss**"), the compensation amount under the Profit Guarantee will be the aggregation of the amount of Net Loss (expressed in positive figure) and the amount of the Guaranteed Profit.

Further announcement will be made by the Company in the event that the Guaranteed Profit cannot be fulfilled.

Conditions precedent

Completion of the Proposed Acquisition and the Subscription is subject to, among other things, the following conditions having been fulfilled or waived (as the case may be):

(a) all necessary consents and approvals required to be obtained on the part of the Vendor, the Purchaser and the Target in respect of the sale and purchase of the Sale Shares, the Sale Loan and the subscription of the Subscription Shares as well as the matters contemplated thereunder having been obtained;

(b) the warranties in respect of the operation of the Target Group given by the Vendor under the Agreement remaining true and accurate in all respects;

(c) the passing by the Shareholders at the EGM of an ordinary resolution to approve the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares credited as fully paid, the issue of the Convertible Notes and the Promissory Note to the Vendor;

(d) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) in relation to the validity and legality of the incorporation of Maidisen and Edward Hospital and their operations as going concern entities and the transactions contemplated under the Agreement, as well as the transformation of Maidisen into a wholly foreign owned enterprise;

(e) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group;

(f) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares and the Conversion Shares; and

(g) the completion of the Target Group Reorganisation.

Only conditions (b) and (e) are waivable by the Purchaser under the Agreement. As at the Latest Practicable Date, the Purchaser has no current intention to waive any of such conditions. As at the Latest Practicable Date, none of the above conditions have been fulfilled.

The Agreement further provides that should the satisfaction of all of the above conditions, if not waived by the Purchaser, not occur on or before 90 days from the date of Agreement, that is 11 June 2007, or such later date as the Purchaser and the Vendor may agree in writing, the Agreement shall terminate and neither party shall have any liability to the other except for antecedent breaches of the Agreement and the obligation to return the Refundable Payment.

Completion

Completion of the Proposed Acquisition and the Subscription shall take place at 4:00 p.m. within three Business Days after all the conditions of the Agreement having been fulfilled or waived or such later date as may be agreed between the Vendor and the Purchaser.

In the event that Completion of the Proposed Acquisition and the Subscription does not take place, the Vendor shall refund the Refundable Payment to the Purchaser pursuant to the Agreement. If the non-completion is due to default of the Vendor, the Refundable Payment shall be refunded with interest of 1% per month to be accrued thereon from the date of receipt of the Refundable Payment until full refund of the Refundable Payment.

Completion of the Proposed Acquisition and the Subscription is not conditional upon Completion of the Placing.

Terms of Consideration Shares

The Consideration Shares will be issued at an issue price of HK$0.352 per Consideration Share, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to receive all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue.

The Consideration Shares represent:

(i) approximately 15.74% of the existing issued share capital of the Company;

(ii) approximately 13.28% of the total issued share capital of the Company as enlarged by the Placing Shares;

(iii) approximately 11.73% of the total issued share capital of the Company as enlarged by the Placing and the allotment and issue of the Consideration Shares; and

(iv) approximately 11.02% of the total issued share capital of the Company as enlarged by the Placing and the allotment and issue of the Consideration Shares and the Conversion Shares.

The issue price of HK$0.352 per Consideration Share represents:

(i) a discount of approximately 17.18% to the closing price of HK$0.425 per Share as quoted on the Stock Exchange on 13 March 2007, being the date of the Agreement;

(ii) a discount of approximately 20.54% to the average closing price of approximately HK$0.443 per Share for the five consecutive trading days up to and including 13 March 2007, being the date of the Agreement;

(iii) a discount of approximately 13.94% to the average closing price of HK$0.409 per Share for the ten consecutive trading days up to and including 13 March 2007, being the date of the Agreement;

(iv) a discount of approximately 25.11% to the closing price of HK$0.47 per Share as at the Latest Practicable Date; and

(v) a premium of approximately 238.46% over the unaudited net asset value per Share of HK$0.104 based on the unaudited consolidated accounts of the Group as of 30 September 2006.

The issue price per Consideration Share was determined after arm's length negotiation between the Purchaser and the Vendor after having considered: (i) the lock-up period for the Consideration Shares; (ii) the trading prices of the Shares; and (iii) the dilution impact of the Placing on the Consideration Shares. The Directors consider the issue price per Consideration Share to be fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Non-disposal of Consideration Shares

The Vendor undertakes to and covenants with the Purchaser that, it will not, within the period commencing on the date of issue of the Consideration Shares and ending on the date falling six months after the date of issue of the Consideration Shares, transfer or otherwise dispose of or create any encumbrance or other rights in respect of any of the Consideration Shares except with the prior written consent of the Purchaser.

Application for listing

Application has been made by the Company to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

The Board will seek approval from the Shareholders at the EGM for the grant of a specific mandate for the issue and allotment of Consideration Shares.

Dealings in the Shares (including the Consideration Shares) may be settled through CCASS and that investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangement and how such arrangement will affect their rights and interests.

Terms of Convertible Notes

Issuer

The Company

Principal amount

HK$33,000,000

Interest

The Convertible Notes will bear interest of 2% per annum, payable semi-annually in arrears.

Maturity

The second anniversary from the date of issue of the Convertible Notes. Unless previously redeemed, converted or cancelled as provided in the instrument pursuant to which the Convertible Notes are to be issued, the outstanding principal amount of the Convertible Notes on the maturity date shall be repaid.

Conversion

The Noteholder(s) may convert the whole or part (in integral multiples of HK$5,000,000) of the principal amount of the Convertible Notes into new Shares at the Conversion Price during the period commencing from the date of issue of the Convertible Notes up to 4:00 p.m. on the day immediately prior to and exclusive of the maturity date.

Conversion Price

The initial Conversion Price of HK$0.352 per Conversion Share is subject to adjustment based on prescribed formulas as set out in the instrument creating the Convertible Notes for the happening of the following adjustment events:

(i) an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision;

(ii) an issue (other than in lieu of a cash dividend) of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account, contributed surplus account or capital redemption reserve fund);

(iii) a capital distribution in cash or in specie other than out of distributable profits of the Company being made by the Company, whether on a reduction of capital or otherwise, to Shareholders in their capacity as such;

(iv) an offer or grant being made by the Company to the Shareholders by way of rights, or a grant of options or warrants to subscribe for new Shares, at a price per Share which is less than 80% of the average closing price of one Share on the Stock Exchange for the last five Business Days on which dealings in the Shares took place ending on the last such dealing day preceding the day on or as of which the market price of the Shares is to be ascertained;

(v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per new Share is less than 80% of the average closing price of one Share on the Stock Exchange for the last five Business Days on which dealings in the Shares took place ending on the last such dealing day preceding the day on or as of which the market price of the Shares is to be ascertained, or the terms of any such rights of conversion, exchange or subscription attached to any such securities being modified so that the total effective consideration per Share is less than 80% of such average closing price;

(vi) an issue of Shares being made wholly for cash at a price less than 80% of the average closing price of one Share on the Stock Exchange for the last five Business Days on which dealings in the Shares took place ending on the last such dealing day preceding the day on or as of which the market price of the Shares is to be ascertained; and

(vii) an issue being made by the Company of Shares for the acquisition of asset at a total effective consideration per Share less than 80% of the of the average closing price of one Share on the Stock Exchange for the last five Business Days on which dealings in the Shares took place ending on the last such dealing day preceding the day on or as of which the market price of the Shares is to be ascertained.

No adjustment shall however be made in respect of:

(i) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon the exercise of any rights (including any conversion of the Convertible Notes) to acquire Shares;

(ii) an issue of Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or carrying rights to acquire, Shares to officers or employees of the Company or any of its subsidiaries pursuant to any employee or executive share scheme;

(iii) an issue by the Company of Shares or by the Company or any subsidiary of the Company of securities wholly or partly convertible into or carrying rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;

(iv) an issue of fully paid Shares by way of capitalisation of all or part of any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into or carrying rights to acquire Shares; or

(v) an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value (calculation as provided in the instrument creating the Convertible Notes) of such Shares is not more than 120% of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash.

Every adjustment to the Conversion Price shall be certified either (at the option of the Company) by the auditors of the Company or by an approved merchant bank.

The initial Conversion Price of HK$0.352 per Conversion Share, which is equivalent to the issue price of the Consideration Shares, represents:

(i) a discount of approximately 17.18% to the closing price of HK$0.425 per Share as quoted on the Stock Exchange on 13 March 2007, being the date of the Agreement;

(ii) a discount of approximately 20.54% to the average closing price of approximately HK$0.443 per Share for the five consecutive trading days up to and including 13 March 2007, being the date of the Agreement;

(iii) a discount of approximately 13.94% to the average closing price of HK$0.409 per Share for the ten consecutive trading days up to and including 13 March 2007, being the date of the Agreement;

(iv) a discount of approximately 25.11% to the closing price of HK$0.47 per Share as at the Latest Practicable Date; and

(v) a premium of approximately 238.46% over the unaudited net asset value per Share of HK$0.104 based on the unaudited consolidated accounts of the Group as of 30 September 2006.

The initial Conversion Price was determined by the Purchaser and the Vendor on an arm's length basis with reference to (i) the issue price per Consideration Share; (ii) the current market prices of the Shares; and (iii) the duration of the Convertible Notes.

Conversion Shares

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Notes in the aggregate principal amount of HK$33,000,000 at the initial Conversion Price of HK$0.352 per Conversion Share, the Company will issue an aggregate of 93,750,000 Conversion Shares, representing approximately:

(i) 8.66% of the existing issued share capital of the Company;

(ii) 7.31% of the total issued share capital of the Company as enlarged by the Placing Shares;

(iii) 6.45% of the total issued share capital of the Company as enlarged by the Placing Shares and the allotment and issue of the Consideration Shares;

(iv) 6.06% of the total issued share capital of the Company as enlarged by the Placing Shares and the allotment and issue of the Consideration Shares and the Conversion Shares.

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with the Shares then in issue.

Pursuant to the instrument constituting the Convertible Notes, the holder(s) of such Convertible Notes may convert the Convertible Notes into Conversion Shares up to a limit of not more than 20% of the then total issued share capital of the Company (including the Shares already held by such Noteholder(s) if any).

There are no restrictions on the subsequent disposal of the Conversion Shares.

Early redemption

The Company may, at its option, redeem the Convertible Notes in whole or in part of the amount to be redeemed by giving a prior ten (10) Business Days' written notice to the Noteholder(s), at any time commencing from six (6) months after the date of issue of the Convertible Notes and up to the date immediately prior to the maturity date.

Status of the Convertible Notes

The Convertible Notes constitute direct, general, unconditional and unsecured obligations of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

Transferability

The Convertible Notes may be transferred or assigned in whole or in part in integral multiples of HK$5,000,000 and in whole only if the outstanding amount of the Convertible Notes is less than or equal to HK$5,000,000 by the Noteholder(s) to any party other than a connected person of the Company.

Voting Rights

The Convertible Notes do not confer any voting rights at any meetings of the Company.

Application for listing

No application will be made by the Company for the listing of the Convertible Notes.

Application has been made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

The Board will seek approval from the Shareholders at the EGM for the grant of a specific mandate for the issue and allotment of the Conversion Shares.

Dealings in the Shares (including the Conversion Shares) may be settled through CCASS and that investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangement and how such arrangement will affect their rights and interests.

Terms of Promissory Note

Issuer

The Company

Principal amount

HK$12,097,360

Interest

The Promissory Note will carry interest at 2% per annum payable semi-annually in arrears.

Maturity

Two years from the date of issue of the Promissory Note.

Early repayment

The Company may, at its option, repay the Promissory Note in whole or in part in integral multiples of HK$5,000,000 by giving a prior ten Business Days' written notice to the Vendor, commencing on the date three months after the date of issue of the Promissory Note and up to the date immediately prior to the maturity date. There will not be any premium or discount to the payment obligations under the Promissory Note for any early repayment.

Assignment

The Promissory Note may be transferred or assigned in whole or in part in integral multiples of HK$5,000,000 and in whole only if the outstanding amount of the Promissory Note is less than or equal to HK$5,000,000 by the holder of the Promissory Note to any party other than a connected person of the Company.

Changes in Shareholding Structure

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date, immediately after Completion of the Placing but before issue of the Consideration Shares, immediately after issue of the Consideration Shares but before issue of the Placing Shares, immediately after issue of the Placing Shares and the Consideration Shares but before the issue of the Conversion Shares as well as immediately after issue of the Placing Shares, the Consideration Shares and the Conversion Shares (assuming full conversion of the Convertible Notes) at the initial Conversion Price:

	As at the Latest Practicable Date		Immediately after Completion of the Placing but before issue of the Consideration Shares		Immediately after issue of the Consideration Shares but before issue of the Placing Shares		Immediately after 1) Completion of the Placing; and 2) issue of the Consideration Shares but before issue of the Conversion Shares		Immediately after 1) Completion of the Placing; 2) issue of the Consideration Shares; and 3) issue of the Conversion Shares (assuming full conversion of the Convertible Notes at the initial Conversion Price)	
	No. of Shares held	*Approx. share-holding %*	*No. of Shares held*	*Approx. share-holding %*	*No. of Shares held*	*Approx. share-holding %*	*No. of Shares held*	*Approx. share-holding %*	*No. of Shares held*	*Approx. share-holding %*
Easeglory Holdings Limited & Mr. Yung Kwok Leong *(Note 1)*	270,393,500	24.99	270,393,500	21.09	270,393,500	21.59	270,393,500	18.62	270,393,500	17.49
Ms. Shum Ngai Pan *(Note 2)*	5,400,000	0.50	5,400,000	0.42	5,400,000	0.43	5,400,000	0.37	5,400,000	0.35
Mr. Weng Jiaxing *(Note 2)*	5,625,000	0.52	5,625,000	0.44	5,625,000	0.45	5,625,000	0.39	5,625,000	0.36
Mr. Wu Wendong *(Note 3)*	146,000,000	13.49	146,000,000	11.39	146,000,000	11.66	146,000,000	10.05	146,000,000	9.44
The Vendor	–	–	–	–	170,320,000	13.60	170,320,000	11.73	264,070,000	17.08
The Placing Agent/placees	–	–	200,000,000	15.60	–	–	200,000,000	13.77	200,000,000	12.94
Public	654,678,700	60.50	654,678,700	51.06	654,678,700	52.27	654,678,700	45.07	654,678,700	42.34
Total	1,082,097,200	100.00	1,282,097,200	100.00	1,252,417,200	100.00	1,452,417,200	100.00	1,546,167,200	100.00

Note:

1. Mr. Yung Kwok Leong, being an executive Director and the chairman of the Company, is interested in 6,187,500 Shares and Easeglory, a company wholly owned by Mr. Yung Kwok Leong, is interested in 264,206,000 Shares.

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

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

The Vendor will become a new substantial shareholder (as defined under the GEM Listing Rules) of the Company as a result of the issue of Consideration Shares upon Completion of the Proposed Acquisition and the Subscription. Neither the Vendor has any present intention nor does the Agreement confer any right to the Vendor to nominate any representative to the Board as a result of the Proposed Acquisition and Subscription.

As at the Latest Practicable Date, none of the Shareholders together with their respective concert parties holds Shares representing 30% or more of the issued share capital of the Company. Based on the number of Placing Shares, Consideration Shares and Conversion Shares to be issued, there will not be any persons who together with his/her/its concert parties holding Shares representing 30% or more of the issued share capital of the Company upon completion of the issue of the Placing Shares, the Consideration Shares and the Conversion Shares. There will not result in a change of control of the Company.

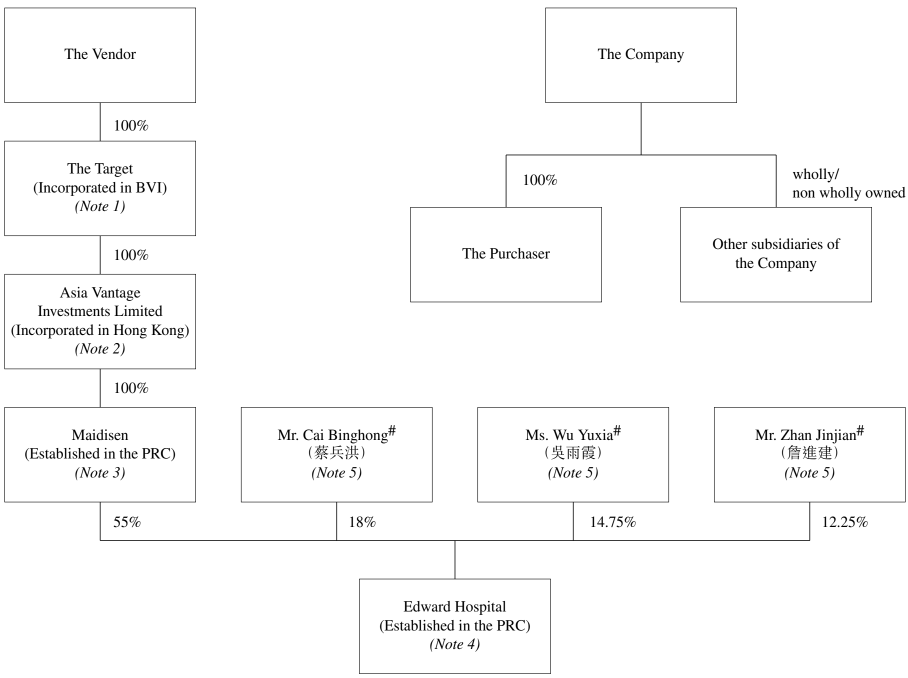
Board representation of the Target Group

Upon Completion of the Proposed Acquisition and the Subscription, representatives will be appointed by the Company to form a majority of each of the board of directors of the members of the Target Group.

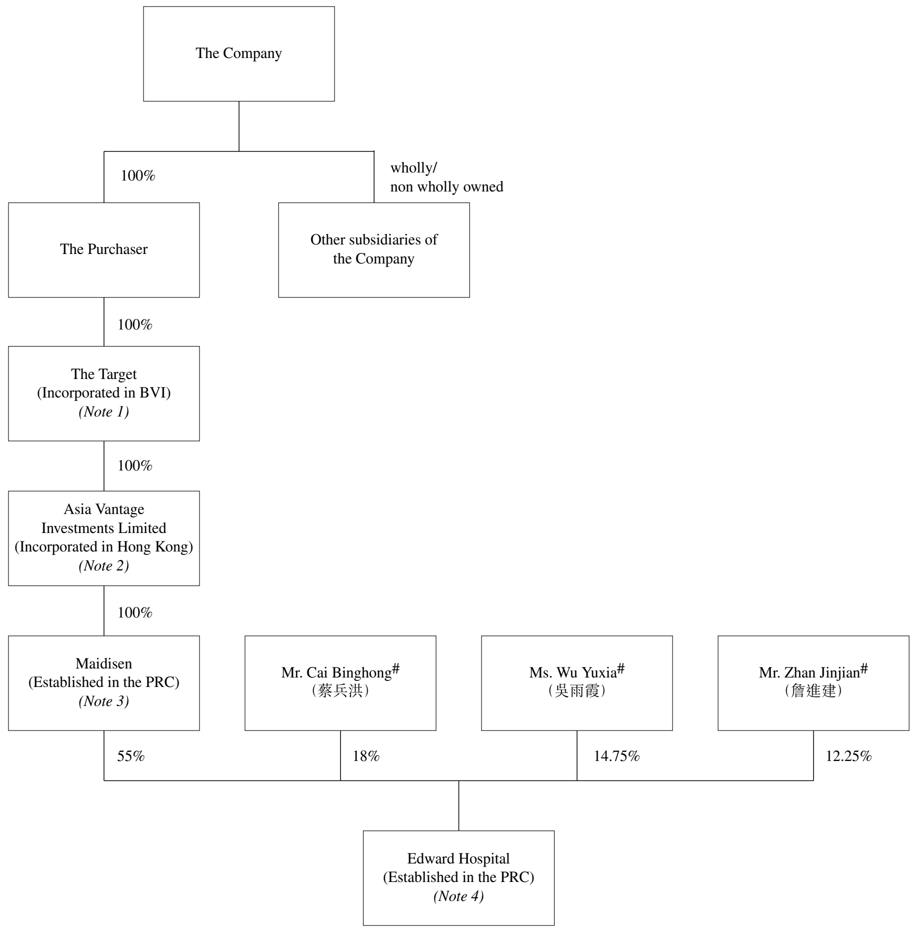
Group structure

The following charts show the group structure of the Group and the Target Group (assuming completion of the Target Group Reorganisation) immediately before and after Completion of the Proposed Acquisition and the Subscription:

Immediately before Completion of the Proposed Acquisition and the Subscription



Immediately after Completion of the Proposed Acquisition and the Subscription



Notes:

1. The Target is an investment holding company established in BVI on 6 December 2006 solely for the purpose of holding 100% equity interest in Asia Vantage Investments Limited and the Vendor is its ultimate beneficial owner.

2. Asia Vantage Investments Limited is a company incorporated in Hong Kong on 27 December 2006 as an investment holding company solely for the purpose of holding 100% equity interest in Maidisen.

3. Maidisen is a private company established in the PRC on 27 December 2006 for the acquisition of equity interest in Edward Hospital through subscription.

4. Edward Hospital is a company established in Chongqing, the PRC on 25 May 2005, and is a privately-run hospital providing general hospital services.

5. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Mr. Cai Binghong#, Ms. Wu Yuxia# and Mr. Zhan Jinjian# is an Independent Third Party.

Information on the Target Group

(a) Background

The Target is an investment holding company. The Target Group, upon completion of the Target Group Reorganisation, will be principally engaged in consultancy, investment, research and development of medical management information systems and the provision of medical services in the PRC. The Target Group will comprise the Target, being the ultimate holding company which holds 100% direct and indirect interests in Asia Vantage Investments Limited and Maidisen respectively with the latter owning 55% equity interests in Edward Hospital upon completion of the Target Group Reorganisation. As at the Latest Practicable Date, the Target, Asia Vantage Investments Limited and Maidisen have not been carrying out operations since their respective dates of incorporation/establishment.

Maidisen was established as a private company on 27 December 2006 in the PRC. On 31 January 2007, Maidisen acquired 55% equity interest in Edward Hospital. Although Maidisen has not had any business as at the Latest Practicable Date, Maidisen will become one of the major operating subsidiaries of the Target Group upon completion of the Target Group Reorganisation and it is intended to engage in consultancy, investment, research and development of medical management information systems. Asia Vantage Investments Limited entered into an agreement to acquire 100% equity interest in Maidisen on 24 February 2007.

Edward Hospital, being another major operating subsidiary of the Target Group, is a privately-run hospital established in Chongqing, the PRC on 25 May 2005, which provides general hospital services including but not limited to medicine ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination.

(b) Financial performance

Set out below is a summary of the key financial data of Maidisen based on the audited consolidated accounts of Maidisen for the period from the date of its incorporation (i.e. 27 December 2006) up to 31 January 2007 as extracted from the Accountants' Report on Maidisen as shown in the Appendix III to this circular.

	For the period ended 31 January 2007 from the date of incorporation *RMB* (audited)
(Loss) before tax for the period	(846)
(Loss) after tax for the period	(846)

	As at 31 January 2007 *RMB* (audited)
Net assets	53,604,324

Set out further below is a summary of the key financial data of Edward Hospital based on its audited accounts for the period ended 31 December 2005, the year ended 31 December 2006 and one month ended 31 January 2007 as provided by the Vendor which has been prepared in accordance with the generally accepted accounting principles in Hong Kong:

	For the period ended 31 December 2005 *RMB*	**For the year ended 31 December 2006** *RMB*	**For one month ended 31 January 2007** *RMB*
Turnover	4,250,000	20,788,824	2,880,064
Gross Profit/(loss)	(2,538,573)	(1,461,362)	789,146
Profit/(Loss) before tax for the period/year	(14,777,291)	(12,183,435)	177,993
Profit/(Loss) after tax for the period/year	(9,900,785)	(8,162,901)	119,255

	As at 31 December 2005 *RMB*	**As at 31 December 2006** *RMB*	**As at 31 January 2007** *RMB*
Net assets	99,215	114,456	30,233,711

As confirmed with the Vendor, after completion of the acquisition of 55% equity interest in Edward Hospital by Maidisen on 31 January 2007, the registered capital of Edward Hospital has been increased from RMB10,000,000 to RMB40,000,000 through additional capital injection from both existing and new shareholders (including Maidisen) of Edward Hospital.

Upon Completion of the Proposed Acquisition and the Subscription, the Directors do not expect there will be any material change to the customer profiles, operation and quality of services provided by Maidisen and Edward Hospital to its customers and the Directors have no current intention to materially change the existing management team thereof except for the changes to the compositions of the board of directors of the Target Group for the Company to obtain board control. The Board considers that with the continuation of services of the existing management team of the Target Group, which has sufficient knowledge and experience in the management and business of the Target Group, coupled with a number of Directors, who also have sufficient knowledge and experience in the healthcare industry, the Group is well equipped to carry on the business of the Target Group.

(c) Management discussion and analysis

Turnover of the Target and Maidisen for the period from their respective dates of incorporation (i.e. 6 December 2006 and 27 December 2006) up to 31 January 2007 was nil since both of them have not commenced any business since their respective dates of incorporation/establishment.

Turnover of Edward Hospital for the period ended 31 December 2005, the year ended 31 December 2006 and the one month ended 31 January 2007 were RMB4,250,000, RMB20,788,824 and RMB2,880,064 (the comparative figure in 2006 was RMB770,092 respectively which represented continuous business growth.

Moreover, Edward Hospital had turned around from gross losses and net losses in the period ended 31 December 2005 and the year ended 31 December 2006 to gross profit and net profit during one month ended 31 January 2007. The gross profit margin and net profit margin (before tax) of Edward Hospital for the one month ended 31 January 2007 were 27.40% and 6.18% respectively.

(d) Capital structure

The Target's capital structure as at 31 January 2007 consisted of shareholder's equity of HK$8 and accumulated loss of HK$19,250.

Maidisen's capital structure as at 31 January 2007 consisted of shareholder's equity of RMB40,000,000 and retained loss of RMB846.

Edward Hospital's capital structure as at 31 December 2005 and 2006 consisted of shareholder's equity of RMB10,000,000 and accumulated losses and reserves of RMB9,900,785 and RMB9,885,544 respectively.

Edward Hospital's capital structure as at 31 January 2007 consisted of shareholder's equity of RMB40,000,000 and accumulated losses and reserves of RMB9,766,289 respectively. On 31 January 2007, the registered capital of Edward Hospital has been increased from RMB10,000,000 to RMB40,000,000 through additional capital injection from both existing and new shareholders (including Maidisen) of Edward Hospital.

(e) Liquidity and financial resources

As at 31 January 2007, there was no cash and bank balances and no outstanding long-term liabilities and no bank borrowings recorded for the Target.

As at 31 January 2007, Maidisen has cash and bank balance and an outstanding amount due to a minority shareholder of RMB28,076,140 and RMB13,467,515. Save as disclosed, there was no other outstanding long-term liabilities and no bank borrowings recorded for Maidisen.

As at 31 December 2005 and 2006, there were cash and bank balances of RMB333,833 and RMB2,912,243 respectively while there were no other outstanding long-term liabilities and no bank borrowings recorded for Edward Hospital.

As at 31 January 2007, there were cash and bank balances of RMB9,956,986 and an outstanding amount due to a minority shareholder of RMB13,467,515 recorded for Edward Hospital respectively. Save as disclosed, there were no other outstanding long-term liabilities and no bank borrowings recorded for Edward Hospital.

(f) Details of material acquisitions of a subsidiary

On 31 January 2007, Maidisen acquired 55% equity interest in Edward Hospital through subscription.

On 24 February 2007, the Target entered into an agreement pursuant to which 100% equity interest in Maidisen was acquired by Asia Vantage Investments Limited, the wholly-owned subsidiary of the Target.

(g) Order book and prospects for new business of the Target Group

As the Target is an investment holding company only and Maidisen has not yet commenced business for the period ended 31 January 2007, there were no turnover and no order book recorded for the period. However, the Target Group is expected to record turnover upon completion of the Target Group Reorganisation.

Upon completion of the Target Group Reorganisation, both Maidisen and Edward Hospital will become two major operating subsidiaries under the Target Group.

For details on the prospects for new business of the Target Group, please refer to the section headed "Financial and trading prospect of the Enlarged Group".

(h) Segmental information

No business or geographical segment analysis of the Target and Maidisen has been presented as no turnover of both companies during the period has been recorded.

No business or geographical segment analysis of Edward Hospital has been presented as all of its operations, assets and liabilities during the three periods/year ended 31 January 2007 were related to the operation of a hospital and over 90% of its assets and customers are located in the PRC.

(i) Significant investments held

The sole investment of the Target is its 100% equity interest in Maidisen, which in turn holds 55% equity interest in Edward Hospital. The performance and future prospects of Maidisen and Edward Hospital has been detailed in the section headed "Financial and trading prospect of the Enlarged Group" below.

No investment was held by Edward Hospital as at 31 December 2005, 31 December 2006 and 31 January 2007 respectively.

(j) Information on employees, remuneration policies, bonus and share option schemes and training schemes

The number of employees of both the Target and Maidisen were nil for the period ended 31 January 2007.

The number of employees of Edward Hospital were 330, 248 and 269 for the period ended 31 December 2005, the year ended 31 December 2006 and the one month ended 31 January 2007 respectively. For details of the employee benefits of Edward Hospital, please refer to page 203 of this circular as shown in the Appendix IV "Accountants' Report on Edward Hospital".

(k) Charge on group assets

During the period ended 31 January 2007, there was no charge on the assets of both the Target and Maidisen.

During the period ended 31 December 2005, the year ended 31 December 2006 and the one month ended 31 January 2007 respectively, there had created no charge on the assets of Edward Hospital.

(l) Future plans for material investments or capital assets and its expected sources of funding in the coming years

According to the Vendor, there is currently no plan for any material investments or acquisition of capital assets by the Target Group.

(m) Gearing ratio and contingent liabilities

As at 31 January 2007, there were no bank borrowing or debt or contingent liabilities recorded for the Target.

As at 31 January 2007, there was an outstanding amount due to a minority shareholder of RMB13,467,515 as recorded on the accounts of Maidisen. Save for disclosed, there was no other bank borrowing or debt or contingent liabilities recorded for Maidisen.

As at 31 December 2005, there had been no bank borrowing or debt or contingent liabilities recorded for Edward Hospital.

As at 31 December 2006, there was contingent liabilities of RMB20,910 recorded for Edward Hospital. Save as disclosed, there had been no other bank borrowing or debt or contingent liabilities recorded for Edward Hospital.

As at 31 January 2007, there was an outstanding amount due to a minority shareholder of RMB13,467,515. Save as disclosed, there had been no other bank borrowing or debt or contingent liabilities recorded for Edward Hospital.

(n) Exposure to fluctuations in exchange rates and any related hedges

Since the functional currencies of the Target Group is Hong Kong Dollars which is different from that of its certain overseas subsidiaries, the Target was exposed to fluctuations in exchange rates. However, no hedging has been implemented.

Reasons for the proposed acquisition and the subscription

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.

As mentioned in the annual report of the Company for the year ended 31 March 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. The Directors believed that potential investments in the healthcare sector in the PRC will provide a stable income source to the Group and will bring synergistic effect and positive and further opportunities in the promising healthcare sector in the PRC. The Directors intended 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. In implementing its business plans, the Group has embarked on various acquisitions and cooperation projects in 2006.

As disclosed in the announcement of the Company dated 15 June 2006, Grand Brilliant Corporation Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement on 12 June 2006 with Mr. Wu Wendong, pursuant to which Grand Brilliant Corporation Limited has agreed to acquire from Mr. Wu Wendong 76% equity interest and shareholder's loans of Day view Group Limited which engages principally in the business of healthcare management and training and consultancy for mainly hospital in the PRC. Completion of such acquisition took place on 24 November 2006.

In addition, as disclosed in the joint announcement of the Company and Town Health International Holdings Company Limited (a company which shares are listed on GEM with stock code of 8138) dated 19 October 2006, the Company jointly announced with Town Health International Holdings Company Limited that the Company entered into the non-legally binding letter of intent with an objective to leveraging the resources and expertise of Town Health International Holdings Company Limited for cooperative development in the medical and healthcare related business in the PRC. A formal agreement between the Company and Town Health International Holdings Company Limited on cooperation of setting up a joint venture company for the provision of dental care services has been entered into on 5 January 2007.

Further, as disclosed in the announcement of the Company dated 24 November 2006, the Company entered into a non-legally binding letter of intent with Mr. Lin Guo Xiong and Fuzhou Taijiang Hospital Company Limited for the proposed acquisition of equity interest in a hospital located in Fuzhou, the PRC, the long-stop date of such letter of intent had been extended to 30 June 2007 by mutual agreement of the parties thereto, as additional time is required for negotiation on the terms of such proposed acquisition, details of which had been disclosed in the announcement of the Company dated 2 April 2007.

By an announcement of the Company dated 12 July 2006, the Company announced the entering into of a non-legally binding letter of intent with Ms. Zhuang Yan Qiu for the proposed acquisition of equity interest in a hospital located in Shanghai, the PRC. Such letter of intent had lapsed on 31 March 2007, as no legally-binding formal agreement had been reached between the parties thereto, details of which had been disclosed in the announcement of the Company dated 2 April 2007.

The Proposed Acquisition and the Subscription are made in furtherance of the business plans of the Group in developing its presence in the healthcare sector in the PRC. As there is a general increase in the health concern of individuals, the Directors consider that there are prospects in the healthcare sector in the PRC given the high density of population in the long run. The Directors consider that the Proposed Acquisition and the Subscription will enhance the Group's overall business performance, strengthen its revenue bases and diversify its business risk through synergistic effect through implementation of cost control measures and marketing and business strategies in the Target Group which, the Directors believe, would make progress of the business of the Target Group. In view of the above and the Profit Guarantee provided by the Vendor as well as the future prospects of the healthcare sector in the PRC, the Directors are of the view that the terms of the Proposed Acquisition and the Subscription are fair and reasonable and the Proposed Acquisition and the Subscription are in the interests of the Company and the Shareholders as a whole.

Upon Completion of the Proposed Acquisition and the Subscription, the Target will become a subsidiary of the Company and its accounts will be consolidated with that of the Group.

Financial and trading prospects of the Enlarged Group

Results of the Group for the year ended 31 March 2006 have shown improvement in turnover compared with that of 31 March 2005. Turnover of the Group for the year ended 31 March 2006 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 an unaudited total turnover of approximately HK$39,688,000 for the six months ended 30 September 2006 as compared to an unaudited total turnover of approximately HK$15,578,000 recorded in the corresponding period in 2005, representing an increase of approximately 155%. The provision of healthcare and hospital management services accounted for approximately 40% of an unaudited turnover for the period ended 30 September 2006. The Group has recorded an unaudited net profit attributable to equity holders for the six months ended 30 September 2006 of approximately HK$7,286,000 as compared to an unaudited net profit attributable to equity holders of approximately HK$500,000 recorded in the corresponding period in 2005 representing an increase of approximately 13.57 times.

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. Unaudited turnover of the Group for the nine months ended 31 December 2006 was approximately HK$57,993,000 in comparison with an unaudited turnover of approximately HK$24,381,000 in 2005, representing an increase of approximately 1.38 times. The provision of healthcare and hospital management services accounted for approximately 41% of the unaudited turnover for the period ended 31 December 2006. Net profit attributable to equity holders for the nine months ended 31 December 2006 was approximately HK$9,089,000 in comparison with an unaudited net profit of approximately HK$945,000 in 2005, representing an increase of approximately 8.62 times.

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 unaudited turnover of these new lines of products and services represented approximately HK$41,001,000 equivalent to approximately 71% of the Group's unaudited turnover for the nine months ended 31 December 2006.

The following table illustrates the per capita total expenditure on health of the top 10 spending countries in 2000 and 2004:

Countries	Total expenditure 2004		Per capita total expenditureon expenditure on health 2000		2004		CAGR of per capita total health from 2000 to 2004
	(US$ in billions)	*(RMB equivalent in billions)*	*US$*	*RMB equivalent*	*US$*	*RMB equivalent*	*%*
United States of America	1,689.2	13,190.5	4,538	35,435.9	5,941	46,391.5	7.0%
Japan	302.6	2,362.9	2,827	22,075.2	2,369	18,498.8	-4.3%
Germany	236.7	1,848.3	2,398	18,725.3	2,864	22,364.1	4.5%
France	151.7	1,184.6	2,061	16,093.7	2,529	19,748.2	5.2%
United Kingdom	132.6	1,035.4	1,784	13,930.7	2,224	17,366.5	5.7%
Italy	107.5	839.4	1,506	11,759.9	1,845	14,407.1	5.2%
China	94.3	736.4	48	374.8	73	570.0	11.1%
Cananda	77.0	601.3	2,064	16,117.2	2,411	18,826.8	4.0%
Spain	50.8	396.7	1,028	8,027.3	1,246	9,729.6	4.9%
Mexico	45.1	352.2	323	2,522.2	433	3,381.2	7.6%

Source: Euromonitor

Notwithstanding its high total healthcare expenditure among the World Health Organisation member nations, China's per capita expenditure on healthcare remained low. According to Euromonitor, China ranked the lowest in terms of per capita expenditure on healthcare among the top 10 spending countries listed above. In terms of growth rate in per capita expenditure on healthcare between 2000 and 2004, China ranked the highest among the top ten spending nations listed. Per capita total expenditure on healthcare in China grew from approximately US$48 (equivalent to approximately RMB374.8) in 2000 to approximately US$73 (equivalent to approximately RMB570.0) in 2004, representing a CAGR of approximately 11.1%.

As compared with other member nations of the World Health Organization, the total healthcare expenditure of the PRC has been high in recent years. Nevertheless, in terms of per capita expenditure on healthcare, the PRC ranked among the lowest. In terms of growth rate in per capita expenditure on healthcare between 2000 and 2004, however, the PRC ranked among the highest. Given the continuous economic growth in the PRC, the PRC government's wholehearted effort to improve the quality of healthcare and increasing health consciousness in the PRC, the Directors believe that the healthcare market in the PRC will continue to grow at a robust rate, and thus, provides the Enlarged Group with abundant business opportunities.

The Target Group, upon completion of the Target Group Reorganisation, will be principally engaged in consultancy, investment, research and development of medical management information systems as well as the provision of general hospital services, including but not limited to medicine ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination, in the PRC.

The Board considers that with the continuation of services of the existing management team of the Target Group, which has sufficient knowledge and experience in the management and business of the Target Group, coupled with a number of the executive Directors, who also have sufficient knowledge and experience in the healthcare industry, the Group is well equipped to carry on the existing businesses of the Target Group as well as to improve the quality of services, cost efficiency and profitability of the existing businesses of the Target Group.

Moreover, upon Completion of the Proposed Acquisition and the Subscription, the Directors do not expect there will be any material change to the customer profiles, operation and quality of services provided by Maidisen and Edward Hospital to its customers. The Board decides to tap into the rich clientele and supplier resources and established business network of the Target Group so as to speed up its business development in the healthcare sector in the PRC and hence will bring synergistic effects to the Group. Upon Completion of the Proposed Acquisition and the Subscription, the Enlarged Group will provide the following healthcare services in addition to its existing principal businesses:

1. healthcare and hospital management services;

2. consultancy, investment, research and development of medical management information systems;

3. general and specialty hospital services; and

4. other complementary and value-added healthcare services.

In view of the aforementioned, the Board is optimistic of the prospects of the Enlarged Group.

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.

As disclosed in the announcement of the Company dated 21 March 2007, the Company has commenced to explore the possibility of new fund raising exercise and acquisition of entities engaging in healthcare and medical businesses, including but not limited to quality hospitals in the PRC; however as at the Latest Practicable Date, as it is still in a very preliminary stage, the amount of funds to be raised and the terms and the methods of fund raising have not yet been determined and no concrete terms in relation to the possible acquisition has been determined. Moreover, no binding agreement in relation to the possible fund raising exercise and possible acquisition has been entered into as at the Latest Practicable Date.

Financial effect of the proposed acquisition and the subscription

Upon Completion of the Proposed Acquisition and the Subscription, the Company shall account for the Target Group in its books as subsidiaries.

(a) Assets

Total assets of the Group and total assets value per Share as at 30 September 2006 were approximately HK$87,439,000 and approximately HK$0.121 respectively based on the unaudited consolidated balance sheet of the Group as at 30 September 2006. Based on the unaudited pro forma consolidated assets and liabilities of the Enlarged Group as set out in Appendix V to this circular, the unaudited pro forma consolidated total assets of the Enlarged Group is approximately HK$234,792,000. Goodwill of approximately HK$77,859,000 will arise from the Proposed Acquisition and the Subscription, which will be recognized in the consolidated balance sheet of the Enlarged Group after Completion of the Proposed Acquisition and the Subscription and will be subject to annual review of impairment in value at each balance sheet date.

Upon Completion of the Proposed Acquisition and the Subscription, the Company will issue Consideration Shares in the amount of HK$59,952,640, Convertible Notes in the amount of HK$33,000,000 and the Promissory Note in the amount of HK$12,097,360 respectively on top of the payment of HK$52,250,000 as full discharge of its payment obligation of the Total Consideration.

(b) Earnings

The Group recorded an audited consolidated net profit attributable to equity holders of the Company of approximately HK$3,191,000 for the year ended 31 March 2006. The Target recorded an audited net loss after tax of HK$19,250 for the period ended 31 January 2007. Given the track record, earnings ability, management skill of the Target Group upon completion of the Target Group Reorganisation and the synergies to be realized by the Group upon Completion of the Proposed Acquisition and the Subscription, the Proposed Acquisition and the Subscription is expected to enhance the revenue and earning base of the Group and the Enlarged Group looks forward to capturing business opportunities in the healthcare sector in the PRC.

Upon Completion of the Proposed Acquisition and the Subscription, the Enlarged Group, on a consolidated basis, will be entitled to account for 55% of the earnings/loss of Edward Hospital through its wholly-owned subsidiaries of the Target.

(c) Liabilities

The unaudited consolidated total liabilities of the Group as at 30 September 2006 were approximately HK$28,077,000 whereas the audited consolidated total liabilities of the Maidisen as at 31 January 2007 were approximately RMB30,370,388. The per Share unaudited consolidated total liabilities of the Group is approximately HK$0.039. Given the pro forma adjustments, the unaudited pro forma consolidated total liabilities of the Enlarged Group will be approximately HK$98,801,000. On a per Share basis, the unaudited pro forma consolidated total liabilities of the Enlarged Group of approximately HK$0.068 representing an increase from the unaudited consolidated total liabilities of the Group as at 30 September 2006.

C. REFRESHMENT OF GENERAL MANDATE TO ALLOT NEW SHARES

Current General Mandate

At the 2006 AGM, Shareholders passed, among other things, an ordinary resolution to grant to the Directors the Previous General Mandate to issue not more than 113,627,591 Shares, being 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the resolution.

At the 2007 EGM, the Previous General Mandate was refreshed and the Directors were granted the Current General Mandate, to issue not more than 213,313,850 Shares.

As at the Latest Practicable Date, the Current General Mandate has not been utilised. However, as disclosed in the Announcement, the Company is expected to issue 200,000,000 Placing Shares under the Current General Mandate which completion is expected to take place on or before 16 April 2007.

Proposed Grant of New General Mandate

Assuming 200,000,000 Placing Shares are successfully placed, the Current General Mandate will be nearly fully utilized. The Company will be convening the EGM at which an ordinary resolution will be proposed to the Independent Shareholders that the Directors be granted the New General Mandate to allot and issue Shares not exceeding 20% of the share capital of the Company in issue as at the date of passing the relevant ordinary resolution.

The New General Mandate will last until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or

(iii) the date on which the relevant mandate is revoked or varied by an ordinary resolution of the Shareholders at a general meeting.

As at the Latest Practicable Date, the Company had an aggregate of 1,082,097,200 Shares in issue. Assuming all the Placing Shares are successfully placed, upon completion of the Placing which is expected to be 20 April 2007 which is before the date of the EGM, on 3 May 2007, a total of 200,000,000 new Shares will be issued making an aggregate issued Shares of 1,282,097,200. On the basis that no further Shares are issued and/or repurchased by the Company between the completion date of the Placing and the date of the EGM (assuming the Placing has been completed by that time), the Company would be allowed under the New General Mandate to allot and issue up to 256,419,440 Shares representing 20% of the total issued share capital of the Company in issue at the date of EGM.

In case Completion of the Placing does not take place, the Company will still propose a refreshment of the Current General Mandate. As at the Latest Practicable Date, there is 1,082,097,200 Shares in issue. On the basis that no further Shares are issued and/or repurchased by the Company between the Latest Practicable Date and the date of the EGM, the Company would be allowed under the New General Mandate to allot and issue up to 216,419,440 Shares, representing 20% of the total issued share capital of the Company in issue at the EGM.

In view of the increase in the number of issued Shares as mentioned above, the Directors believe that the refreshment of the Current General Mandate will enhance the flexibility for the Group to raise funds by equity financing for further business development and to strengthen the capital base of the Company. Accordingly, the Directors consider that the approval of the New General Mandate is in the best interests of the Company and its Shareholders as a whole.

D. DIRECTORS PROPOSED TO BE RE-ELECTED

In accordance with article 86(3) of the Articles of Association, Mr. Jiang Tao and Dr. Wong Yu Man, James, the executive and non-executive Directors respectively, will hold office until the conclusion of the EGM and, being eligible, will offer themselves for re-election.

Details of the aforesaid Directors are set out in the Appendix VII to this circular.

E. EXTRAORDINARY GENERAL MEETING

The Proposed Acquisition and the Subscription in aggregate, constitute a major acquisition pursuant to Rule 19.06(3) of the GEM Listing Rules which is subject to the approval of the Shareholders at the EGM. As at the Latest Practicable Date, none of the Shareholders are interested in the Proposed Acquisition and the Subscription and the matters contemplated thereby and are required to abstain from voting at the EGM.

Pursuant to Rule 17.42A(1) of the GEM Listing Rules, the New General Mandate requires the approval of the Independent Shareholders at the EGM at which any of 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 shall abstain from voting in favour of the relevant resolution. As at the Latest Practicable Date, there were no controlling Shareholders. Therefore, Mr. Yung Kwok Leong, Ms. Shum Ngai Pan and Mr. Weng Jiaxing as executive Directors and their respective associates, including, Easeglory Holdings Limited a substantial Shareholders, which is wholly-owned by the Yung Kwok Leong, who are in aggregate, interested in 281,418,500 Shares, representing approximately 26.01% of the total issued share capital of the Company as at the Latest Practicable Date, shall abstain from voting in favour of the relevant resolution at the EGM

Pursuant to Rule 17.47(4)(b) of the GEM Listing Rules, any vote of the Independent Shareholders at the EGM will be taken by poll which results will be announced after the EGM.

The notice convening the EGM is set out on pages 244 to 247 of this circular. At the EGM, ordinary resolutions will be proposed to approve (i) the Proposed Acquisition and the Subscription and matters contemplated thereunder; (ii) the refreshment of the Current General Mandate; (iii) the re-election of Dr. Wong Yu Man, James as a non-executive Director; and (iv) the re-election of Mr. Jiang Tao as an executive Director. A form of proxy for use at the EGM has also been enclosed with this circular. To be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed must be completed in accordance with the instructions printed thereon and delivered to the Company's principal place of business in Hong Kong at Room 1902, 19/F., Sing Pao Building No. 101 King's Road, North Point, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. The completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting in person if you so wish.

F. PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

According to Article 66(1) of the Articles of Association, a resolution put to the vote of a 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:

(a) by the chairman of such meeting; or

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized 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

(d) 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 the Shares conferring that right; or

(e) if required by the rules of the Designated Stock Exchange (as defined in the Articles of Association), by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

G. INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprises Mr. Chan Francis Ping Kuen, Mr. Hsu William Shiu Foo and Mr. Yu Chai Mei, all being independent non-executive Directors. The Independent Board Committee has been established to advise the Independent Shareholders on the grant of the New General Mandate.

Veda Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the grant of the New General Mandate.

H. RECOMMENDATIONS

Proposed Acquisition and the Subscription

The Directors consider that the Proposed Acquisition and the Subscription are in the interests of the Company and its Shareholders as a whole and so recommend Shareholders to vote in favour of the ordinary resolutions in relation to the Proposed Acquisition and the Subscription to be proposed at the EGM.

Grant of New General Mandate

The Directors consider the grant of the New General Mandate is in the interest of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM for approving the grant of the New General Mandate.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the grant of the New General Mandate is fair and reasonable so far as the Independent Shareholders are concerned and accordingly recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM for approving the grant of the New General Mandate.

Your attention is drawn to the letter of advice from the Independent Financial Adviser set out on pages 46 to 52 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in connection with the grant of the New General Mandate and the letter from the Independent Board Committee set out on page 45 of this circular which contains its recommendation to the Independent Shareholders in relation to the grant of the New General Mandate.

Re-election of Directors

The Directors consider that the proposed re-election of Directors as aforesaid is in the interests of the Company and the Shareholders as a whole and therefore recommend all Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

I. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out 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)

16 April 2007

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED REFRESHMENT OF GENERAL MANDATE TO ALLOT NEW SHARES

We have been appointed by the Board as members of the Independent Board Committee to advise you in connection with the proposed grant of the New General Mandate, details of which are set out in the Letter from the Board contained in the circular dated 16 April 2007 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the proposed grant of the New General Mandate as set out on pages 46 to 52 of the Circular.

Having considered the advice of the Independent Financial Adviser, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in relation to the proposed grant of the New General Mandate.

Yours faithfully,
Mr. Chan Francis Ping Kuen **Mr. Hsu William Shiu Foo** **Mr. Yu Chai Mei**
Members of the Independent Board Committee

* *for identification purpose only*

The following is the full text of the letter from Veda Capital setting out the advice to the Independent Board Committee and the Independent Shareholders for inclusion in this 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

16 April 2007

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

Dear Sirs,

PROPOSED REFRESHMENT OF GENERAL MANDATE TO ALLOT AND ISSUE SHARES

INTRODUCTION

We refer to the circular dated 16 April 2007 issued by the Company to the Shareholders of which this letter forms part (the "Circular") and our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed grant of the New General Mandate, details of which are set out in the letter from the Board contained in the Circular (the "Board Letter"). Capitalised terms used in this letter, unless the context otherwise requires, shall have the same meaning ascribed to them in the Circular.

Pursuant to the GEM Listing Rules, the grant of the New General Mandate is subject to the approval of the Independent Shareholders by way of poll at the EGM. As at the Latest Practicable Date, since there were no controlling Shareholders, Directors (excluding the independent non-executive Directors) and the chief executive and their respective associates, i.e. Mr. Yung Kwok Leong, Ms. Shum Ngai Pan, Mr. Weng Jiaxing and their respective associates, shall abstain from voting in favour of the relevant resolution to approve the grant of the New General Mandate at the EGM. The Independent Board Committee has been established to advise whether the proposed grant of the New General Mandate is in the interests of the Company and the Independent Shareholders as a whole.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, the Company and its management. We have assumed that all statements, information, facts, opinions and representations made to us or referred to in the Circular were true, accurate and complete at the time when they were made and continued to be true, accurate and complete as at the date of the Circular. We have no reason to doubt the truth, accuracy and completeness of the statements, information, facts, opinions and representations provided to us by the Directors, the Company and its management. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We consider that we have been provided with sufficient information to reach an informed view to provide a reasonable basis for our opinion.

All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have relied on such information and opinions and have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the proposed grant of the New General Mandate, we have taken the following principal factors and reasons into consideration:

Background

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.

At the 2006 AGM, the Directors were granted the Previous General Mandate to allot and issue up to 113,627,591 new Shares, representing 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the resolution. Since the 2006 AGM, the Previous General Mandate had not been utilized. Pursuant to note 5 to rule 17.42A of the GEM Listing Rules, the Company could refresh the Previous General Mandate immediately after the completion of the open offer of the Company as detailed in prospectus of the Company dated 24 January 2007 such that the amount in percentage terms of the unused part of the Current General Mandate (i.e. 20%) is the same as the unused part of the Previous General Mandate by obtaining the approval of the Shareholders. At the 2007 EGM, the Previous General Mandate was refreshed and the Directors were granted the Current General Mandate, i.e. 213,313,850 Shares. As at the Latest Practicable Date, the Current General Mandate has not been utilized. However, as disclosed in the Announcement, the Company is expected to issue 200,000,000 Placing Shares under the Current General Mandate. The completion of the Placing is expected to take place on or before 16 April 2007.

Assuming 200,000,000 Placing Shares are successfully placed, the Current General Mandate will almost be fully utilized. Only 13,313,850 new Shares will remain unutilized under the Current General Mandate.

To maintain the financial flexibility necessary for the Group's future business development, the Directors therefore propose to seek the approval of the Independent Shareholders at the EGM for the grant of the New General Mandate.

The Company had an aggregate of 1,082,097,200 Shares in issue as at the Latest Practicable Date. Assuming all the Placing Shares are successfully placed, upon completion of the Placing which is expected to be on or before 16 April 2007 but before the date of the EGM, a total of 200,000,000 Shares will be issued and an aggregate of 1,282,097,200 Shares will then be in issue. On the basis that no further Shares are issued and/or repurchased by the Company, save for the issue of the 200,000,000 Placing Shares, between the Latest Practicable Date and the date of the EGM, the Company would be allowed under the New General Mandate to allot and issue up to 256,419,440 Shares representing 20% of the share capital of the Company in issue on the date of EGM.

Reasons for the New General Mandate

The Directors consider that equity financing to be an important avenue of resources to the Group since it does not create any interest paying obligations on the Group. While the Board considers that there is no immediate funding need for the Group's current operations and that there is currently no concrete proposal presented by potential investors for investment in Shares, the Board proposes to seek approval of the Independent Shareholders at the EGM of the New General Mandate such that should future funding needs arise or attractive terms for investment in Shares become available from potential investors, the Board will be able to respond to the market and such investment opportunities promptly.

Continued expansion of the Group's businesses and flexibility in financing alternatives

As mentioned in the annual report of the Company for the year ended 31 March 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. The Directors believed that potential investments in the healthcare sector in the PRC will provide a stable income source to the Group and will bring synergistic effect and positive and further opportunities in the promising healthcare sector in the PRC. The Directors intended 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. In implementing its business plans, the Group has embarked on various acquisitions and cooperation projects in 2006.

Given the Current General Mandate has almost been fully utilised, may any investment opportunities arise that would lead to issuance of new Shares and specific mandate may have to be sought in this respect, the Directors are uncertain as to whether the requisite approval from the Independent Shareholders could be obtained in a timely manner. In addition, the New General Mandate offers an opportunity for the Directors to capture a favourable equity market condition to raise funds by issuing new Shares.

Notwithstanding the fact that the Group had no immediate funding need for its current operations and there is currently no concrete proposal presented by potential investors for investment in Shares, the Directors believe that the New General Mandate would offer the Group higher flexibility to capture investment opportunities which may arise at any time and require prompt investment decision by the Group. The Directors also consider that the New General Mandate would provide the Company with the maximum flexibility to raise additional capital for any future development or future investment or as working capital of the Group.

In light of the above, we are of the opinion that the New General Mandate would provide the Company with the necessary flexibility essential for fulfilling any possible funding needs for future business development and/or investment decisions in a timely manner. As such, we are of the view that the grant of the New General Mandate will be in the interest of the Company and the Independent Shareholders as a whole.

Other financing alternatives

The Group will also consider, in appropriate circumstances, other financing methods such as debt financing or internal cash resources to fund its future business development and/or future investment. While sufficient for its present requirements, there is no certainty that such cash resources will be adequate or other financing alternatives will be available for appropriate investment that may be identified by the Company in the future.

In addition, as debt financing may incur interest burden to the Group, the Directors consider that equity financing such as issuance of new Shares for cash or issuance of new Shares for acquiring equity interests in other companies, may be an appropriate mean to fund such investments and/or acquisitions and provide additional working capital for the future development and expansion of the Group, depending on the then Group's financial position, capital structure and cost of funding and the then financial market conditions.

We consider that the grant of the New General Mandate will provide the Company with an additional alternative and it is reasonable for the Company to have the flexibility in deciding the financing methods for its future business development and/ or future investment, including equity issuance. As such, we are of the view that the grant of the New General Mandate will be in the interests of the Company and the Independent Shareholders as a whole.

Potential dilution to shareholdings of the Independent Shareholders

Set out below is a table showing (i) the shareholdings of the Company as at the Latest Practicable Date; (ii) for illustrative purpose, the potential dilution effect upon completion of the Placing and full utilisation of the New General Mandate; (iii) the potential dilution effect upon completion of the Placing and the issue of the Consideration Shares and the Conversion Shares; and (iv) the potential dilution effect upon full utilisation of the New General Mandate, completion of the Placing and the issue of the Consideration Shares and the Conversion Shares, assuming no other Shares are issued or repurchased by the Company.

Shareholders	(i) As at the Latest Practicable Date		(ii) Upon completion of the Placing and full utilisation of the New General Mandate		(iii) Upon completion of the Placing, issue of the Consideration Shares and Conversion Shares		(iv) Upon full utilisation of the New General Mandate, completion of the Placing and the issue of the Consideration Shares and the Conversion Shares	
	Shares	%	Shares	%	Shares	%	Shares	%
Mr. Yung Kwok Leong *(Note 1)* and associates	270,393,500	24.99	270,393,500	17.57	270,393,500	17.49	270,393,500	15.00
Ms. Shum Ngai Pan *(Note 2)*	5,400,000	0.50	5,400,000	0.35	5,400,000	0.35	5,400,000	0.30
Mr. Weng Jiaxing *(Note 2)*	5,625,000	0.52	5,625,000	0.37	5,625,000	0.36	5,625,000	0.31
Mr. Wu Wendong *(Note 3)*	146,000,000	13.49	146,000,000	9.49	146,000,000	9.44	146,000,000	8.10
The Vendor	–	–	–	–	264,070,000	17.08	264,070,000	14.65
The Placing Agent/placees	–	–	200,000,000	13.00	200,000,000	12.94	200,000,000	11.10
Shares issued under New General Mandate	–	–	256,419,440	16.67	–	–	256,419,440	14.23
Public	654,678,700	60.50	654,678,700	42.55	654,678,700	42.34	654,678,700	36.32
Total	1,082,097,200	100	1,538,516,640	100	1,546,167,200	100	1,802,586,640	100

Notes:

1. Mr. Yung Kwok Leong is an executive Director and the chairman of the Company.

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

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

As illustrated in the table above, assuming no other Shares are issued and/or repurchased by the Company, the aggregate shareholding of the Independent Shareholders will decrease from approximately 60.50% as at the Latest Practicable Date to approximately 42.55% upon full completion of the Placing and full utilisation of the New General Mandate. Taking into account the benefits of the New General Mandate as discussed above and the fact that the shareholdings of all Shareholders will be diluted proportionately, we consider such dilution or potential dilution of shareholding to be reasonable.

RECOMMENDATION

Having considered the factors and reasons as stated above, we are of the view that the grant of the New General Mandate is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution in relation to the grant of the New General Mandate to be proposed at the EGM. Independent Shareholders are however advised to take note of the possible dilution effect on their shareholding interests in the Company when and if the New General Mandate is utilised.

Yours faithfully,
For and on behalf of
Veda Capital Limited

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

1. SHARE CAPITAL

(a) Authorized and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon Completion of the Proposed Acquisition and the Subscription as well as completion of the Placing are and will be as follows:

As at the Latest Practicable Date

Authorised:		*HK$*
5,000,000,000	Shares	250,000,000
Issued and fully paid:		
1,082,097,200	Shares	54,104,860

Upon Completion of the Proposed Acquisition and the Subscription

Authorised:		*HK$*
5,000,000,000	Shares	250,000,000
Issued and fully paid:		
1,082,097,200	Shares	54,104,860
200,000,000	Placing Shares	10,000,000
170,320,000	Consideration Shares	8,516,000
1,452,417,200		72,620,860

All the Shares and Placing Shares and Consideration Shares in their fully paid form to be issued and will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

Shares are listed on GEM. No part of the share or loan capital of the Company is listed or dealt in, nor is listing or permission to deal in the share or loan capital of the Company being or proposed to be sought, on any other stock exchange.

(b) Share Options

As at the Latest Practicable Date, there are 43,534,400 outstanding Share Options, which were granted pursuant to the Pre-IPO Scheme and the Post-IPO Scheme:

(i) Pre-IPO Scheme

As at the Latest Practicable Date, there are 1,368,822 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 from time to time, and their respective exercise period under the Pre-IPO Scheme is as follows:

Holders of Share Options	Exercise period	Exercise price	Number of share options outstanding
Former employee and advisor of the Company	25 April 2002 to 24 April 2012	HK$0.409	1,368,822

(ii) Post-IPO Scheme

On 12 July 2006, 24 July 2006 and 21 March 2007 respectively, the Company passed board resolutions pursuant to the Post-IPO Scheme adopted on 20 April 2002 to grant a total of 156,240,250 Share Options to Directors, employees and consultants of the Group. It was resolved that Share Options be offered to the Directors, employees and consultants of the Group at the subscription price of HK$0.627 (after Adjustments) and HK$0.62 (after Adjustments) and HK$0.51 per share respectively with a 10 year exercise period each commencing from 13 July 2006, 24 July 2006 and 21 March 2007 respectively. A breakdown setting out the holders of Share Options, the number of Share Options granted, their respective exercise price and exercise period are as follows:

Holders of Share Options	Exercise period	Exercise price	Number of share options granted
Yung Kwok Leong	13 July 2006 to 12 July 2016	HK$0.627	3,242,085
	21 March 2007 to 20 March 2017	HK$0.51	5,800,000
Shum Ngai Pan	13 July 2006 to 12 July 2016	HK$0.627	3,705,240
	21 March 2007 to 20 March 2017	HK$0.51	7,100,000

Holders of Share Options	Exercise period	Exercise price	Number of share options granted
Weng Jiaxing	13 July 2006 to 12 July 2016	HK$0.627	3,572,910
	21 March 2007 to 20 March 2017	HK$0.51	7,200,000
Chen Jin Shan	13 July 2006 to 12 July 2016	HK$0.627	6,881,160
	21 March 2007 to 20 March 2017	HK$0.51	3,900,000
Jiang Tao	13 July 2006 to 12 July 2016	HK$0.627	6,881,160
	21 March 2007 to 20 March 2017	HK$0.51	3,900,000
Employees and consultants of the Group	13 July 2006 to 12 July 2016	HK$0.627	15,416,445
	24 July 2006 to 23 July 2016	HK$0.620	16,541,250
	21 March 2007 to 20 March 2017	HK$0.51	72,100,000
Total			156,240,250

(c) Convertible notes

The Company issued convertible notes on 11 January 2006. As at the Latest Practicable Date, the Company had an outstanding amount of convertible notes conferring the rights of the noteholders to convert into 15,527,950 new Shares.

(d) Non-listed warrants

As at the Latest Practicable Date, the Company has outstanding 133,298,711 warrants at an exercise price of HK$0.481 per warrant.

Save as disclosed, the Company does not have any other outstanding warrants or securities in issue which are convertible or exchangeable into Shares.

2. 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*
Turnover	41,088	34,230	18,578
Profit/(loss) before taxation	3,655	(6,666)	(39,447)
Taxation	(561)	(440)	–
Profit/(loss) for the year	3,094	(7,106)	(39,447)
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*
Total assets	59,162	28,655	27,126
Total liabilities	(28,144)	(9,526)	(9,402)
Total equity	31,018	19,129	17,724

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited financial statements of the Group for the three years ended 31 March 2006 with accompanying notes as extracted from the 2005/06 annual report of the Company.

CONSOLIDATED INCOME STATEMENT

For the three years ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000	2004 HK$'000
Turnover	20	41,088	34,230	18,578
Cost of sales		(19,281)	(15,539)	(8,916)
Gross profit		21,807	18,691	9,662
Other revenue	20	40	79	76
Other income	21	3,465	–	–
Selling and distribution expenses		(1,986)	(2,017)	(1,864)
Administrative expenses		(18,408)	(17,912)	(21,315)
Provision for impairment on trade and other receivables		(964)	(3,715)	(11,791)
Impairment in value of intangible assets		–	–	(10,007)
Impairment in value of goodwill		–	–	(3,134)
Provision for obsolete inventories		–	(1,282)	–
Loss on disposal of subsidiaries		–	(222)	(972)
Profit/(loss) from operations	21	3,954	(6,378)	(39,345)
Finance costs	24	(299)	(288)	(102)
Profit/(loss) before taxation		3,655	(6,666)	(39,447)
Taxation	25	(561)	(440)	–
Profit/(loss) for the year		3,094	(7,106)	(39,447)
Attributable to:				
Equity holders of the Company		3,191	(7,045)	(34,729)
Minority interests		(97)	(61)	(4,718)
Net Profit/(loss) for the year	26	3,094	(7,106)	(39,447)
Dividends	28	–	–	–
Earnings/(loss) per share	27			
– basic		HK0.73 cents	(HK$2.05 cents)	(HK$0.18 cents)
– diluted		HK0.63 cents	N/A	N/A

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

CONSOLIDATED BALANCE SHEET

		At 31 March		
		2006	**2005**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	*6*	14,585	2,342	2,888
Available-for-sale investments	*7*	138	131	–
Goodwill	*9*	1,893	1,893	–
		16,616	4,366	2,888
Current assets				
Inventories	*11*	3,250	2,373	4,575
Trade and other receivables	*12*	30,211	18,780	11,014
Pledged bank deposit		93	–	–
Cash and bank balances		8,992	3,136	8,649
		42,546	24,289	24,238
Less: **Current liabilities**				
Trade and other payables	*15*	9,591	8,470	6,663
Obligations under finance leases – due within one year	*16*	111	7	9
Amounts due to directors	*17*	655	664	473
Amount due to minority shareholder of a subsidiary	*17*	160	160	160
Secured short-term bank loans		–	–	999
Trust receipt loans		–	–	1,091
Tax payable		568	225	–
		11,085	9,526	9,395
Net current assets		31,461	14,763	14,843
Total assets less current liabilities		48,077	19,129	17,731
Non-current liabilities				
Convertible Notes	*18*	16,762	–	–
Obligations under finance leases – due after one year	*16*	297	–	7
Minority interests		36	133	325
Net assets		30,982	18,996	17,399
Capital and reserve:				
Share capital	*13*	17,247	13,904	11,587
Reserves		13,735	5,092	5,812
Shareholders' funds		30,982	18,996	17,399

BALANCE SHEET

		At 31 March		
		2006	**2005**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Interests in subsidiaries	*10*	–	–	–
Current assets				
Prepayments		53	113	113
Amounts due from subsidiaries		–	–	4,699
Bank balances		38	7	7,950
		91	120	12,762
Less: **Current liabilities**				
Accruals and other payables		576	378	149
Tax payable		–	151	–
		576	529	149
Net current (liabilities)/assets		(485)	(409)	12,613
Net (liabilities)/assets		(485)	(409)	12,613
Capital and reserve:				
Share capital	*13*	17,247	13,904	11,587
Reserves	*14*	(34,494)	(14,313)	1,026
Shareholders' (deficits)/funds		(17,247)	(409)	12,613

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 reported as 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
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 three years ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before taxation		3,655	(6,666)	(39,447)
Adjustments for:				
Interest income		(35)	(73)	(5)
Interest expenses		299	288	102
Amortisation of goodwill		–	425	190
Amortisation of intangible assets		–	1	600
Bad debt written off		–	173	–
Bad debt recovered		(916)	–	–
Depreciation of property, plant and equipment		1,627	1,012	1,836
Exchange difference on translation of financial statements of overseas subsidiaries		(107)	294	–
Loss on disposal of property, plant and equipment		13	264	240
Impairment in value of fixed assets		–	–	1,303
Impairment in value of intangible assets		–	–	10,007
Impairment in value of goodwill		–	–	3,134
Loss on disposal of subsidiaries		–	222	972
Provision for impairment on trade and other receivables		964	3,542	11,791
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 flows before movements in working capital		3,410	764	(9,277)
Increase/(decrease) in inventories		(623)	1,750	(2,143)
Increase in trade and other receivables		(11,479)	(9,633)	(1,274)
Increase/(decrease) in trade and other payables		3,248	(424)	4,204
Net cash used in operations		(5,444)	(7,543)	(8,490)
Overseas tax paid		(67)	(215)	–
Hong Kong profits tax paid		(151)	–	(27)
Net cash used in operating activities		(5,662)	(7,758)	(8,517)

	Note	2006 HK$'000	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		35	73	5
Purchase of property, plant and equipment		(13,685)	(299)	(1,563)
Proceeds from disposal of property, plant and equipment		–	–	351
Purchase of available-for-sale investments		–	(131)	–
Purchase of subsidiaries (net of cash and cash equivalents)	*26*	–	(3,081)	–
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	*27*	–	(485)	(1)
Increase/(decrease) in pledged bank deposits		(93)	–	1,000
Net cash used in investing activities		(13,743)	(3,923)	(208)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid		(53)	(288)	(102)
Proceeds from issue of shares		7,228	8,342	10,046
Issue costs of shares		(627)	(67)	–
Proceeds from exercise at share options		1,148	–	–
Borrowing from finance lease		408	–	–
Proceeds from issue of Convertible notes		18,000	–	–
Issue costs of Convertible notes		(827)	–	–
Capital contributed by minority owner of a subsidiary		–	–	128
Repayment of finance leases		(7)	(9)	(293)
Borrowings raised from directors		–	280	453
Repayment to directors		(9)	–	–
Short-term bank loans (repaid)/raised		–	(999)	999
(Repayment of)/borrowings raised from trust receipt loans		–	(1,091)	1,091
Net cash generated from financing activities		25,261	6,168	12,322
Net increase/(decrease) in cash and cash equivalents		5,856	(5,513)	3,597
Cash and cash equivalents at the beginning of the year		3,136	8,649	5,052
Cash and cash equivalents at the end of the year		8,992	3,136	8,649
Analysis of the balances of cash and cash equivalents				
Cash and bank balances		8,992	3,136	8,649

NOTES TO FINANCIAL STATEMENTS

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	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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	**2005**
	HK$'000	*HK$'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	Share-based payment reserve	Contributed surplus	Convertible notes reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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	**2005**
	HK$'000	*HK$'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 HK$'000	2005 HK$'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:

	Number of share options							
Type of Participants	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 Francis Ping Kuen	60	31	–	–	–	–	–	–	60	31
Hsu William Shiu Foo	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 was 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.

4. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

Set out below is the unaudited consolidated financial statements of the Group for the three months and six months ended 30 September 2006, together with the unaudited comparative figures as extracted from the interim report 2006/07 of the Company:

UNAUDITED CONSOLIDATED INCOME STATEMENT

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$'000* (unaudited)	*HK$'000* (unaudited)	*HK$'000* (unaudited)	*HK$'000* (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)
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	**Six months ended 30 September 2006**
	HK$'000	*HK$'000*
	(unaudited)	(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).

5. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE NINE MONTHS ENDED 31 DECEMBER 2006

Set out below is the unaudited consolidated financial statements of the Group for the three months and nine months ended 31 December 2006, together with the unaudited comparative figures as extracted from the third quarterly report 2006/07 of the Company:

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 31 December 2006

		Three months ended 31 December		Nine months ended 31 December	
		2006	2005	2006	2005
	Notes	*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 HK$'000	Share premium HK$'000 (Note (a))	Special reserve HK$'000	Translation reserve HK$'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
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 31 December		Nine months ended 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
	18,305	8,803	57,993	24,381

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 form 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	42,500,000	42,500,000
Weighted average number of ordinary shares of diluted earnings per share	810,085,470	741,932,426

	2006	2006
Diluted earnings per share	HK0.23 cents	HK1.27 cents

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).

6. INDEBTEDNESS

Borrowings

As at the close of business on 28 February 2007, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group has outstanding borrowings of approximately HK$11,299,000, details of which are set out below:

	HK$'000
Secured short-term bank loan	6,000
Convertible Notes (liability portion)	4,993
Obligations under finance lease	306
	11,299

The principal amount of the Convertible Notes outstanding as at 28 February 2007 was HK$5,000,000.

Securities and guarantees

Certain time deposits of the Enlarged Group of approximately HK$5,019,000 have been pledged to banks to secure banking facilities and short-term bank loan granted to the Enlarged Group. Secured short-term bank loan in the amount of HK$6,000,000 was drawn down as at 28 February 2007.

As at 28 February 2007, the Enlarged Group provided unlimited corporate guarantees to a financial institution in respect of short-term bank loan granted to the Enlarged Group, approximately HK$6,000,000 of which was utilised by the Enlarged Group.

Contingent liabilities

In December 2006, a plaintiff (the "Plaintiff") filed complaints (the "Complaints") to a court in PRC (the "Court") against 重慶中嶼愛德華醫院有限公司 (CQHCL). Under the Complaints, the Plaintiff alleged that CQHCL has used the photo of the Plaintiff in some advertisement materials without the Plaintiff's consent, and claimed for compensation of right infringement for an aggregate amount of RMB1,000,000.

A judgement dated 9th March, 2007 was granted against CQHCL, under which CQHCL shall pay RMB20,910 to the Plaintiff. An accrual of RMB20,910 has been made for the compensation at 31st December, 2006.

On 17th March, 2007, the Plaintiff made an appeal to the Court for the amount of compensation of RMB900,000. The appeal has not been concluded at the date of this Circular.

The directors of CQHCL are of the view that CQHCL has proper and valid defences against the amount of compensation. Accordingly, no further provision has been made in the Financial Information.

Disclaimer

Save as aforesaid and apart form intra-group liabilities, at the close of business on 28 February 2007, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Enlarged 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 Enlarged Group since 28 February 2007 and up to the Latest Practicable Date.

7. 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, being the date to which the latest audited financial statements of the Group were made up.

8. WORKING CAPITAL

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

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Cheung & Siu.

Cheung & Siu **Certified Public Accountants**
張、蕭會計師事務所

16 April 2007

The Board of Directors
Hua Xia Healthcare Holdings Limited
Room 1902, 19/F., Sing Pao Building,
No. 101 King's Road,
North Point, Hong Kong

Dear Sirs,

We set out below our report on the consolidated financial information (the "Financial Information") regarding Hero Vision Enterprises Limited ("Hero Vision") and its subsidiary (hereafter collectively referred to as the "Hero Vision Group") for the period from 6th December, 2006 (date of incorporation) to 31st January, 2007 (the "Relevant Period") for inclusion in the circular of Hua Xia Healthcare Holdings Limited (the "Company") dated 16 April 2007 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Hero Vision by Wisdom Rise Group Limited ("Wisdom Rise"), a wholly-owned subsidiary of the Company and the subscription of new shares in Hero Vision by Wisdom Rise ("the Proposed Acquisition and the Subscription").

Hero Vision was incorporated in the British Virgin Islands on 6th December, 2006 with limited liability. No audited financial statements have been prepared for Hero Vision since the date of incorporation because there are no statutory audit requirements. As at the date of this report, Hero Vision has the following subsidiary:

Name of subsidiary	Place and date of incorporation	Issued and fully paid capital	Attributable equity interest held by Hero Vision	Principal activity
Asia Vantage Investments Limited ("Asia Vantage")	Hong Kong 27th December, 2006	Ordinary HK$1	100%	Business not yet commenced

Asia Vantage adopts 31st March as its financial year end date and the first financial statements will be prepared for the period ending 31st March, 2008. No audited financial statements have been prepared for Asia Vantage for the Relevant Period.

For the purpose of this report, the director of Hero Vision has prepared consolidated financial statements of Hero Vision Group for the Relevant Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The director of Hero Vision is responsible for preparing the Underlying Financial Statements which give a true and fair view. In preparing the Underlying Financial Statements, it is fundamental that appropriate accounting policies are selected and applied consistently. We have performed independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in section A to B below has been prepared based on the Underlying Financial Statements. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The director of Hero Vision is responsible for the Financial Information. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Hero Vision and of Hero Vision Group as at 31st January, 2007 and of the consolidated results of Hero Vision Group for the Relevant Period.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

For the period from 6th December, 2006 (date of incorporation) to 31st January, 2007

	Notes	HK$
TURNOVER	5	–
Administrative expenses		(19,250)
Loss before taxation	6	(19,250)
Taxation	7	–
Loss for the period		(19,250)

BALANCE SHEETS

As at 31st January, 2007

	Notes	**Hero Vision Group** *HK$*	**Hero Vision** *HK$*
NON-CURRENT ASSETS			
Investments in a subsidiary	8	–	1
Total non-current assets		–	1
CURRENT ASSETS			
Due from a shareholder	9	8	7
Total current assets		8	7
CURRENT LIABILITIES			
Accrued liabilities		19,250	8,150
Total current liabilities		19,250	8,150
NET CURRENT LIABILITIES		(19,242)	(8,143)
TOTAL ASSETS LESS CURRENT LIABILITIES		(19,242)	(8,142)
Net liabilities		(19,242)	(8,142)
EQUITY			
Issued capital	10	8	8
Accumulated loss	11	(19,250)	(8,150)
Total equity		(19,242)	(8,142)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 6th December, 2006 (date of incorporation) to 31st January, 2007

	Equity attributable to the equity holders of Hero Vision		
	Issued capital	**Accumulated loss**	**Total**
	HK$	*HK$*	*HK$*
Issue of shares – note 10	8	–	8
Net loss for the period	–	(19,250)	(19,250)
At 31st January, 2007	8	(19,250)	(19,242)

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Hero Vision is a limited liability company incorporated in the British Virgin Islands ("BVI"). The registered office of Hero Vision is located at the registered agent, Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

Hero Vision acted as an investment holding company during the Relevant Period. Its subsidiary has not yet commenced business.

All the administrative expenses were accrued and the issue of share capital was recognised through current account with a shareholder. No cash flow statement has been presented because Hero Vision Group has no cash transactions during the Relevant Period.

The Financial Information has been prepared on a going concern basis because, Wisdom Rise Group Limited (a wholly-owned subsidiary of the Company), who will become the sole shareholder of Hero Vision upon completion of the Proposed Acquisition and the Subscription, will provide adequate funds to enable Hero Vision and its subsidiary to meet the financial obligations as they fall due for the foreseeable future.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Financial Information of Hero Vision has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, has been applied in preparing these financial statements. This is the first set of Hero Vision's financial statements prepared in accordance with HKFRS. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. Hero Vision has adopted all these new HKFRSs in preparing the Financial Information throughout the Relevant Period.

New standards, amendments and interpretations effective beginning on or after 1st January 2006

The Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. The director of Hero Vision anticipates that the application of these standards or interpretations will have no material impact on the financial statements of the Hero Vision Group.

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 4	Determining whether an Arrangement contains 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 Special 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

All of the above HKFRSs are effective for annual periods beginning on or after 1st January 2006 except:

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January 2007.

HKFRS 7 shall be applied for annual periods beginning on or after 1st January 2007.

HK(IFRIC) – Int 6 shall be applied for annual periods beginning on or after 1st December 2005.

HK(IFRIC) – Int 7 shall be applied for annual periods beginning on or after 1st March 2006.

HK(IFRIC) – Int 8 shall be applied for annual periods beginning on or after 1st May 2006.

HK(IFRIC) – Int 9 shall be applied for annual periods beginning on or after 1st June 2006.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the financial statements of Hero Vision and its subsidiary for the Relevant Period. A subsidiary is an entity over which Hero Vision has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The results of subsidiary are consolidated from the date of acquisition, being the date on which Hero Vision obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Hero Vision Group are eliminated on consolidation.

In Hero Vision's balance sheet, the investment in subsidiary is stated at cost less provision for impairment losses. The results of subsidiary are accounted by Hero Vision on the basis of distributions received and receivable.

(b) Subsidiary

A subsidiary is an entity whose financial and operating policies the Hero Vision controls, directly or indirectly, so as to obtain benefits from its activities.

The results of a subsidiary are included in the Hero Vision's income statement to the extent of dividends received and receivable. The Hero Vision's investments in a subsidiary are stated at cost less any impairment losses.

(c) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined net of any depreciation, had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

(d) Related parties

A party is considered to be related to Hero Vision if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, Hero Vision; (ii) has an interest in Hero Vision that gives it significant influence over Hero Vision; or (iii) has joint control over the Hero Vision;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of Hero Vision or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of Hero Vision, or of any entity that is a related party of Hero Vision.

(e) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

(f) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilized, except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(g) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is Hero Vision's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS

Judgements

In the process of applying accounting policies, the management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

5. TURNOVER

No turnover was generated during the Relevant Period.

6. LOSS BEFORE TAXATION

During the Relevant Period, no emoluments was paid or payable by Hero Vision to its director for services rendered or as an inducement to join or upon joining or as compensation for loss of office. The director has not waived any emoluments during the Relevant Period.

7. TAX

No provision for Hong Kong or overseas profits tax has been made as the Hero Vision Group did not generate any assessable profits during the Relevant Period.

There are no material unprovided deferred tax assets and liabilities at the balance sheet date.

8. INVESTMENTS IN A SUBSIDIARY

	As at 31st January, 2007
	HK$
Unlisted share, at cost	1

Name of subsidiary	**Place and date of incorporation**	**Issued and fully paid capital**	**Attributable equity interest held by Hero Vision**	**Principal activity**
Asia Vantage Investments Limited ("Asia Vantage")	Hong Kong 27th December, 2006	Ordinary HK$1	100%	Business not yet commenced

9. DUE FROM A SHAREHOLDER

Particulars of the amount due from a shareholder are as follows:

	Hero Vision Group	
	Balance at 31st January, 2007	**Maximum outstanding during the period**
	HK$	*HK$*
Lau Kam Shui	8	8

	Hero Vision Balance at 31st January, 2007 *HK$*	Hero Vision Maximum outstanding during the period *HK$*
Lau Kam Shui	7	7

The amount due from a shareholder is unsecured, interest-free and has no fixed terms of repayment.

10. SHARE CAPITAL

	Hero Vision As at 31st January, 2007 *HK$*
Authorised:	
50,000 ordinary shares of US$1 each	390,000
Issued and fully paid:	
1 ordinary share of US$1 each	8

The following movements in authorised and issued share capital took place during the Relevant Period:

(i) Upon incorporation, 1 ordinary share was issued at par for working capital of Hero Vision.

11. RESERVES

Hero Vision

	Accumulated loss
	HK$
Net loss for the period	(8,150)
At 31st January, 2007	(8,150)

12. COMMITMENTS

During the Relevant Period, neither Hero Vision Group nor Hero Vision had any significant commitments.

13. FINANCIAL RISK AND MANAGEMENT

Hero Vision's overall risk management programme seeks to minimise potential adverse effects on the financial performance of Hero Vision.

(i) Interest rate risk

Hero Vision has no interest-bearing borrowing. Interest income derived from interest-bearing assets was insignificant. Hero Vision's income and cash flows are substantially independent of changes in market interest rates.

(ii) Foreign currency risk

Hero Vision does not have any significant financial instrument or transactions denominated in foreign currency.

(iii) Credit risk

Hero Vision has no significant concentration of credit risk. It has policies in place to ensure that credit periods are given to customers on terms that are appropriate to their credit history.

(iv) Liquidity risk

Hero Vision aims to manage its operating cash flows and the availability of funding to meet its payment and funding needs. As part of its overall liquidity management, Hero Vision maintains sufficient level of cash to meet its working capital requirements.

14. SUBSEQUENT EVENTS

On 24th February, 2007, Asia Vantage entered into a conditional share transfer agreement to acquire the entire issued share capital of 福建邁迪森實業有限公司（"Maidisen"）. Maidisen is a private limited company incorporated in the People's Republic of China (the "PRC") and is wholly owned by individuals and an enterprise in the PRC. Asia Vantage will become the immediate holding company of Maidisen upon completion of the share transfer agreement.

On 12th March, 2007, Hero Vision issued and allotted 1,162 ordinary shares at par to Mr. Lau Kam Shui.

On 13th March, 2007, Hero Vision entered into a conditional sale and purchase agreement with Wisdom Rise Group Limited and Mr. Lau Kam Shui in relation to the Proposed Acquisition and the Subscription.

15. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Hero Vision and Asia Vantage in respect of any period subsequent to 31st January, 2007.

Yours faithfully,
Cheung & Siu
Certified Public Accountants
(Practising)
Hong Kong

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Cheung & Siu.

Cheung & Siu **Certified Public Accountants**
張、蕭會計師事務所

16 April 2007

The Board of Directors
Hua Xia Healthcare Holdings Limited
Room 1902, 19/F., Sing Pao Building,
No. 101 King's Road,
North Point, Hong Kong

Dear Sirs,

We set out below our report on the consolidated financial information (the "Financial Information") regarding 福建邁迪森實業有限公司 ("Maidisen") and its subsidiary (hereafter collectively referred to as the "Maidisen Group") for the period from 27th December, 2006 (date of incorporation) to 31st January, 2007 (the "Relevant Period") for inclusion in the circular of Hua Xia Healthcare Holdings Limited (the "Company") dated 16 April 2007 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Hero Vision Enterprises Limited ("Hero Vision") by Wisdom Rise Group Limited ("Wisdom Rise"), a wholly-owned subsidiary of the Company and the subscription of new shares in Hero Vision by Wisdom Rise ("the Proposed Acquisition and the Subscription").

Hero Vision is the immediate holding company of Asia Vantage Investments Limited ("Asia Vantage") since Hero Vision acquired 1 share, representing the entire issued share capital of Asia Vantage on 19th January, 2007. Asia Vantage will become the immediate holding company of Maidisen upon completion of the agreement dated 24th February, 2007 (the "Share Transfer Agreement") in relation to the acquisition of the entire issued share capital of Maidisen, which is described more fully in the section headed "Letter from the Board" in this circular.

Maidisen was incorporated in the People's Republic of China (the "PRC") on 27th December, 2006 with limited liability. No audited financial statements have been prepared for Maidisen since the date of incorporation to 31st January, 2007 because there are no statutory audit requirements to do so. As at the date of this report, Maidisen has the following subsidiary:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid capital/ registered capital	Attributable equity interest held by Maidisen	Principal activity
重慶中嶼愛德華醫院有限公司 ("CQHCL")	PRC 25th February, 2005	RMB40,000,000	55%	Hospital operation

The statutory financial statements of CQHCL for each of the period ended 31st December, 2005 and year ended 31st December, 2006 were audited by 重慶通冠會計師事務所有限責任公司, certified public accountants registered in the PRC. No statutory audited financial statements have been prepared for CQHCL for one month ended 31st Januray, 2007.

For the purpose of this report, the director of Maidisen has prepared consolidated financial statements of Maidisen Group for the Relevant Period ("Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The director of Maidisen is responsible for preparing the Underlying Financial Statements which give a true and fair view. In preparing these Underlying Financial Statements, it is fundamental that appropriate accounting policies are selected and applied consistently. We have performed independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in section A to B below has been prepared based on the Underlying Financial Statements. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The director of Maidisen is responsible for the Financial Information. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Maidisen and of Maidisen Group as at 31st January, 2007 and of the consolidated results and cash flows of Maidisen Group for the Relevant Period.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

For the period from 27th December, 2006 (date of incorporation) to 31st January, 2007

	Notes	*RMB*
TURNOVER	*5*	–
Administrative expenses		(846)
Loss before taxation	*6*	(846)
Taxation	*7*	–
Loss for the period		(846)

CONSOLIDATED BALANCE SHEET

As at 31st January, 2007

	Notes	*RMB*
NON-CURRENT ASSETS		
Property, plant and equipment	*8*	39,751,209
Goodwill	*9*	5,371,459
Deferred tax assets	*10*	8,838,302
Total non-current assets		53,960,970
CURRENT ASSETS		
Inventories	*12*	1,183,383
Accounts receivable	*13*	194,028
Prepayments, deposits and other receivables		560,190
Cash and bank balances		28,076,141
Total current assets		30,013,742
CURRENT LIABILITIES		
Accounts payable	*14*	13,132,548
Accrued liabilities, receipts in advance and other payables		3,770,325
Tax payable		–
Total current liabilities		16,902,873
NET CURRENT ASSETS		13,110,869
TOTAL ASSETS LESS CURRENT LIABILITIES		67,071,839
NON-CURRENT LIABILITIES		
Due to a minority shareholder	*15*	13,467,515
Total non-current liabilities		13,467,515
Net assets		53,604,324
EQUITY		
Issued capital	*16*	40,000,000
Reserves		(846)
		39,999,154
Minority interest		13,605,170
Total equity		53,604,324

BALANCE SHEET

As at 31st January, 2007

	Notes	*RMB*
NON-CURRENT ASSETS		
Investments in a subsidiary	*11*	22,000,000
Total non-current assets		22,000,000
CURRENT ASSETS		
Cash and bank balances		18,119,154
Total current assets		18,119,154
CURRENT LIABILITIES		
Other payables		120,000
Total current liabilities		120,000
NET CURRENT ASSETS		17,999,154
TOTAL ASSETS LESS CURRENT LIABILITIES		39,999,154
Net assets		39,999,154
EQUITY		
Issued capital	*16*	40,000,000
Reserves	*17*	(846)
Total equity		39,999,154

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 27th December, 2006 (date of incorporation) to 31st January 2007

	Equity attributable to the equity holders of Maidisen				
	Issued capital *RMB*	**Accumulated loss** *RMB*	**Total** *RMB*	**Minority interest** *RMB*	**Total equity** *RMB*
Issue of shares – note 16	40,000,000	–	40,000,000	–	40,000,000
Net loss for the period	–	(846)	(846)	–	(846)
Capital contribution	–	–	–	13,605,170	13,605,170
At 31st January, 2007	40,000,000	(846)	39,999,154	13,605,170	53,604,324

CONSOLIDATED CASH FLOW STATEMENT

For the period from 27th December, 2006 (date of incorporation) to 31st January, 2007

	RMB
OPERATING ACTIVITIES	
Loss before tax	(846)
Operating cash flows before movements in working capital	(846)
Increase in other payables	120,000
Cash generated from operations	119,154
Overseas taxes paid	–
NET CASH FROM OPERATING ACTIVITIES	119,154
INVESTING ACTIVITIES	
Acquisition of a subsidiary – note 18	(12,043,013)
NET CASH USED IN INVESTING ACTIVITIES	(12,043,013)
FINANCING ACTIVITIES	
Proceeds from issue of shares	40,000,000
NET CASH FROM FINANCING ACTIVITIES	40,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,076,141
Cash and cash equivalents at beginning of period	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	28,076,141
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	28,076,141

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Maidisen is a limited liability company incorporated in the People's Republic of China ("PRC"). The registered office of Maidisen is located at 福州市鼓樓區東街街道五一北路106號新僑聯廣場1號樓2302室.

Maidisen acted as an investment holding company during the Relevant Period. Its subsidiary is principally engaged in the operation of a hospital in the PRC.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Financial Information of Maidisen has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, has been applied in preparing these financial statements. This is the first set of Maidisen's financial statements prepared in accordance with HKFRS. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. Maidisen has adopted all these new HKFRSs in preparing the Financial Information throughout the Relevant Period.

New standards, amendments and interpretations effective beginning on or after 1st January 2006

The Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. The directors of Maidisen anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Maidisen Group.

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 4	Determining whether an Arrangement contains 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 Special 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

All of the above HKFRSs are effective for annual periods beginning on or after 1st January 2006 except:

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January 2007.

HKFRS 7 shall be applied for annual periods beginning on or after 1st January 2007.

HK(IFRIC) – Int 6 shall be applied for annual periods beginning on or after 1st December 2005.

HK(IFRIC) – Int 7 shall be applied for annual periods beginning on or after 1st March 2006.

HK(IFRIC) – Int 8 shall be applied for annual periods beginning on or after 1st May 2006.

HK(IFRIC) – Int 9 shall be applied for annual periods beginning on or after 1st June 2006.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the financial statements of Maidisen and its subsdiary for the Relevant Period. A subsidiary is an entity over which Maidisen has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The results of subsidiary are consolidated from the date of acquisition, being the date on which Maidisen obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Maidisen Group are eliminated on consolidation.

In Maidisen's balance sheet, the investment in subsidiary is stated at cost less provision for impairment losses. The results of subsidiary are accounted by Maidisen on the basis of distributions received and receivable.

(b) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the business combination over the Maidisen Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Maidisen Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Maidisen Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Maidisen Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Maidisen Group's primary or the Maidisen Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

(c) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined net of any depreciation, had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

(d) Subsidiary

A subsidiary is an entity whose financial and operating policies the Maidisen controls, directly or indirectly, so as to obtain benefits from its activities.

The results of a subsidiary are included in the Maidisen's income statement to the extent of dividends received and receivable. The Maidisen's investments in a subsidiary are stated at cost less any impairment losses.

(e) Related parties

A party is considered to be related to Maidisen if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, Maidisen; (ii) has an interest in Maidisen that gives it significant influence over Maidisen; or (iii) has joint control over the Maidisen;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of Maidisen or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of Maidisen, or of any entity that is a related party of Maidisen.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of 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 an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realized in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	Over the lease terms
Leasehold improvement	12.5%
Furniture and fixtures	20.0%
Office equipment	20.0%
Motor vehicles	20.0%
Medical equipment	20.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

(g) Accounts receivable

Accounts receivable is initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Appropriate allowance for estimated irrecoverable amounts is recognised in the income statement when there is objective evidence that the asset is impaired.

(h) Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments are treated as prepayment for operating leases are initially stated at cost and subsequently recognised on the straight-line method.

(i) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis, and in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(k) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Maidisen's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(l) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

(m) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilized, except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(n) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when Maidisen becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, as appropriate, on initial recognition.

Financial liabilities and equity

Financial liabilities and equity instruments issued by Maidisen are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liabilities and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Maidisen after deducting all of its liabilities.

Financial liabilities

Financial liabilities including the other payables and the loan from a minority shareholder are subsequently measured at amortised cost, using the effective interest method.

(o) Foreign currencies

These financial statements are presented in Reminbi, which is Maidisen's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS

Judgements

In the process of applying accounting policies, the management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

5. TURNOVER

No turnover was generated during the Relevant Period.

6. LOSS BEFORE TAXATION

During the Relevant Period, no emoluments was paid or payable by Maidisen to its director for services rendered or as an inducement to join or upon joining or as compensation for loss of office. The director has not waived any emoluments during the Relevant Period.

7. TAX

No provision for PRC income tax has been made as Maidisen Group did not generate any assessable income in accordance with the relevant income tax rules and regulations of the PRC for the Relevant Period.

There are no material unprovided deferred tax assets and liabilities at the balance sheet date.

8. PROPERTY, PLANT AND EQUIPMENT

Maidisen Group

	Land and buildings *RMB*	Leasehold improvement *RMB*	Furniture and fixtures *RMB*	Office equipment *RMB*	Motor vehicles *RMB*	Medical equipment *RMB*	Total *RMB*
Cost or valuation:							
Acquisition of a Subsidiary	33,000,000	4,275,049	282,086	373,720	232,800	3,475,735	41,639,390
At 31st January, 2007	33,000,000	4,275,049	282,086	373,720	232,800	3,475,735	41,639,390
Accumulated depreciation:							
Acquisition of a Subsidiary	60,443	692,146	81,291	118,136	69,634	866,531	1,888,181
At 31st January, 2007	60,443	692,146	81,291	118,136	69,634	866,531	1,888,181
Net book value:							
At 31st January, 2007	32,939,557	3,582,903	200,795	255,584	163,166	2,609,204	39,751,209
Analysis of cost or valuation:							
At cost	–	4,275,049	282,086	373,720	232,800	3,475,735	8,639,390
At valuation	33,000,000	–	–	–	–	–	33,000,000
	33,000,000	4,275,049	282,086	373,720	232,800	3,475,735	41,639,390

The medium-leasehold land and buildings are situated in the PRC and were revalued at RMB33,000,000 by Greater China Appraisal Limited, a registered professional surveyor in Hong Kong, on 16 April 2007, on an open market value basis based on their then existing use.

9. GOODWILL

The amount of goodwill arising from the acquisition of a subsidiary was analysed as follows:

	As at 31st January, 2007
	RMB
Cash consideration	22,000,000
Net assets acquired	(16,628,541)
	5,371,459

10. DEFERRED TAX

CQHCL has deferred tax assets arising from losses in the PRC that are available for offsetting against future taxable profits of CQHCL under certain conditions.

11. INVESTMENTS IN A SUBSIDIARY

	As at 31st January, 2007
	RMB
Unlisted shares, at cost	22,000,000

Name of subsidiary	**Place and date of incorporation/ establishment**	**Issued and fully paid capital/ registered capital**	**Attributable equity interest held by Maidisen**	**Principal activity**
重慶中嶼愛德華醫院有限公司 ("CQHCL")	PRC 25th February, 2005	RMB40,000,000	55%	Hospital operation

The following table illustrates the summarised financial information of CQHCL for each of the period ended 31st December, 2005, year ended 31st December, 2006 and for the one month ended 31st January, 2007:

	As at 31st January, 2007	As at 31st December, 2006	As at 31st December, 2005
	RMB	*RMB*	*RMB*
CQHCL's assets and liabilities:			
Non-current assets	48,589,511	48,822,572	12,007,416
Current assets	11,894,588	4,077,734	1,880,135
Current liabilities	(16,782,873)	(52,785,850)	(13,788,336)
Non-current liabilities	(13,467,515)	–	–
Net assets	30,233,711	114,456	99,215

	Note	One month ended 31st January, 2007	Year ended 31st December, 2006	Period ended 31st December, 2005
		RMB	*RMB*	*RMB*
CQHCL's results:				
Turnover		2,880,064	20,788,824	4,250,000
Sales tax	*i*	–	–	–
		2,880,064	20,788,824	4,250,000
Cost of sales		(2,090,918)	(22,250,186)	(6,788,573)
Gross profit		789,146	(1,461,362)	(2,538,573)
Other revenue		–	10,201	329
Administrative expenses		(588,707)	(10,732,274)	(12,239,047)
Finance costs		(22,446)	–	–
Profit/(loss) before tax		177,993	(12,183,435)	(14,777,291)
Tax		(58,738)	4,020,534	4,876,506
Profit/(loss) for the period/year		119,255	(8,162,901)	(9,900,785)

(i) In accordance with the relevant tax rules and legislation in the PRC, CQHCL is entitled to enjoy sales tax exemptions and reductions, which include exemption from paying sales tax for three years commencing from the date of commencement of business i.e. 25th February, 2005.

12. INVENTORIES

	As at 31st January, 2007
	RMB
Medicines	1,183,383

13. ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable was as follows:

	As at 31st January, 2007
	RMB
0-60 days	191,537
61-90 days	–
Over 90 days	2,491
Total	194,028

There is no concentration of credit risk with respect to accounts receivable, as the Maidisen Group has a large number of customers.

14. ACCOUNTS PAYABLE

An ageing analysis of the accounts payable was as follows:

	As at 31st January, 2007
	RMB
0-60 days	7,378,675
61-90 days	1,479,105
Over 90 days	4,274,768
Total	13,132,548

15. DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest bearing at 2% per annum and will not be demanded for repayment in the next forthcoming year.

16. SHARE CAPITAL

	As at 31st January, 2007
	RMB
Registered, issued and fully paid:	
40,000,000 shares of RMB1 each	40,000,000

The following movements in the registered and issued share capital of Maidisen took place during the Relevant Period:

(i) Upon incorporation, 8,000,000 shares were issued for cash at par for working capital of Maidisen.

(ii) On 31st January, 2007, 32,000,000 shares were issued for cash at par for additional working capital of Maidisen.

17. RESERVES

	Accumulated loss
	RMB
Net loss for the period	(846)
At 31st January, 2007	(846)

18. ACQUISITION OF A SUBSIDIARY

On 31st January, 2007, Maidisen acquired 55% equity interest in CQHCL. This transaction has been accounted for by the purchase method.

The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Fair value recognised on acquisition
	RMB
Property, plant and equipment	21,863,165
Deferred tax assets	4,861,066
Inventories	650,861
Accounts receivable	106,715
Prepayments, deposits and other receivables	308,104
Cash and bank balances	5,476,343
Accounts payable	(7,222,901)
Accrued liabilities, receipts in advance and other payables	(2,007,679)
Due to a shareholder	(7,407,133)
Net assets acquired	16,628,541
Goodwill on acquisition	5,371,459
Satisfied by cash	22,000,000

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB
Cash consideration	(22,000,000)
Cash and bank balances acquired	9,956,987
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(12,043,013)

19. OPERATING LEASE COMMITMENTS

Maidisen Group leases an office premise under operating lease arrangements, with leases negotiated for terms of twelve years.

At the balance sheet date, Maidisen Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31st January, 2007 *RMB*
Within one year	1,508,798
In the second to fifth years, inclusive	6,210,418
After five years	9,097,090
	16,816,306

20. LITIGATION

In December 2006, a plaintiff (the "Plaintiff") filed complaints (the "Complaints") to a court in PRC (the "Court") against CQHCL. Under the Complaints, the Plaintiff alleged that CQHCL has used the photo of the Plaintiff in some advertisement materials without the Plaintiff's consent, and claimed for compensation of right infringement for an aggregate amount of RMB1,000,000.

A judgement dated 9th March, 2007 was granted against CQHCL, under which CQHCL shall pay RMB20,910 to the Plaintiff. An accrual of RMB20,910 has been made for the compensation at 31st December, 2006.

On 17th March, 2007, the Plaintiff made an appeal to the Court for the amount of compensation of RMB900,000. The appeal has not been concluded at the date of this report.

The directors of CQHCL are of the view that CQHCL has proper and valid defences against the amount of compensation. Accordingly, no further provision has been made in the Financial Information.

21. FINANCIAL RISK AND MANAGEMENT

Maidisen's overall risk management programme seeks to minimise potential adverse effects on the financial performance of Maidisen.

(i) Interest rate risk

The Maidisen Group has insignificant interest-bearing borrowing. Interest income derived from interest-bearing assets was insignificant. Maidisen Group does not have a hedging policy in respect of its interest rate risk. However, the management monitors the interest rate risk closely and will consider hedging the exposure should the need arise.

(ii) Foreign currency risk

The Maidisen Group does not have any significant financial instrument or transactions denominated in foreign currency.

(iii) Credit risk

The Maidisen Group has no significant concentration of credit risk for its large customer base.

(iv) Liquidity risk

The Maidisen Group aims to manage its operating cash flows and the availability of funding to meet its payment and funding needs. As part of its overall liquidity management, the Maidisen Group maintains sufficient level of cash to meet its working capital requirements.

22. SUBSEQUENT EVENTS

On 24th February, 2007, Asia Vantage entered into a conditional share transfer agreement with the shareholders of Maidisen to acquire the entire issued share capital of Maidisen. Asia Vantage will become the immediate holding company of Maidisen upon completion of the share transfer agreement.

Subsequent to the balance sheet date, the name of CQHCL was changed from 重慶中嶼愛德華醫院有限公司 to 重慶愛德華醫院有限公司 with the approval granted by 重慶市工商行政管理局 on 19th March, 2007.

23. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Maidisen and CQHCL in respect of any period subsequent to 31st January, 2007.

Yours faithfully,
Cheung & Siu
Certified Public Accountants
(Practising)
Hong Kong

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountant, Cheung & Siu.

Cheung & Siu Certified Public Accountants
張、蕭會計師事務所

16 April 2007

The Board of Directors
Hua Xia Healthcare Holdings Limited
Room 1902, 19/F., Sing Pao Building,
No. 101 King's Road,
North Point, Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding 重慶中嶼愛德華醫院有限公司 ("CQHCL") for the period from 25th February, 2005 (date of incorporation) to 31st December, 2005, year ended 31st December, 2006 and for the one month ended 31st January, 2007 (the "Relevant Periods") for inclusion in the circular of Hua Xia Healthcare Holdings Limited (the "Company") dated 16 April 2007 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Hero Vision Enterprises Limited ("Hero Vision") by Wisdom Rise Group Limited ("Wisdom Rise"), a wholly-owned subsidiary of the Company and the subscription of new shares in Hero Vision by Wisdom Rise ("the Proposed Acquisition and the Subscription").

Hero Vision is the immediate holding company of Asia Vantage Investments Limited ("Asia Vantage") since Hero Vision acquired 1 share, representing the entire issued capital of Asia Vantage on 19th January, 2007. Asia Vantage will become the immediate holding company of 福建邁迪森實業有限公司 ("Maidisen") upon completion of the agreement dated 24th February, 2007 (the "Share Transfer Agreement") in relation to the acquisition of the entire issued share capital of Maidisen, which is described more fully in the section headed "Letter from the Board" in this circular.

Maidisen is the immediate holding company of CQHCL since Maidisen acquired 22,000,000 shares, representing an equity interest of 55%, of CQHCL on 31st January, 2007.

The statutory financial statements of CQHCL for the period ended 31st December, 2005 and year ended 31st December, 2006 were audited by 重慶通冠會計師事務所有限責任公司, certified public accountants registered in the People's Republic of China (the "PRC"). No audited financial statements have been prepared for CQHCL for one month ended 31st Januray, 2007.

For the purpose of this report, the directors of CQHCL have prepared financial statements of CQHCL for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of CQHCL are responsible for preparing the Underlying Financial Statements which give a true and fair view. In preparing these Underlying Financial Statements, it is fundamental that appropriate accounting policies are selected and applied consistently. We have performed independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in section A to B below has been prepared based on the Underlying Financial Statements. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The directors of CQHCL are responsible for the Financial Information. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you. However, the evidence available to us was limited because we are unable to carry out necessary procedures to verify the existence of inventories amounting to RMB480,401 as at 31st December, 2005 and RMB565,644 as at 31st December, 2006 because no stocktake was performed by CQHCL and we were not able to attend the stocktake at those dates. Any adjustments to the inventories as at 31st December, 2005 and 31st December, 2006 would affect the results and cash flows of CQHCL for the Relevant Periods.

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning existence of inventories as at 31st December 2005 and 31st December 2006, in our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of CQHCL as at 31st December, 2005, 2006 and 31st January, 2007 and of its results and cash flows for the Relevant Periods.

A. FINANCIAL INFORMATION

INCOME STATEMENT

	Notes	One month ended 31st January, 2007 RMB	2006 RMB	Year ended 31st December, 2006 RMB	Period ended 31st December, 2005 RMB
TURNOVER	6	2,880,064	770,092	20,788,824	4,250,000
Sales tax	7	–	–	–	–
		2,880,064	770,092	20,788,824	4,250,000
Cost of sales		(2,090,918)	(1,493,658)	(22,250,186)	(6,788,573)
Gross profit/(loss)		789,146	(723,566)	(1,461,362)	(2,538,573)
Other revenue	6	–	–	10,201	329
Administrative expenses		(588,707)	(525,238)	(10,732,274)	(12,239,047)
Finance costs	8	(22,446)	–	–	–
PROFIT/(LOSS) BEFORE TAX	9	177,993	(1,248,804)	(12,183,435)	(14,777,291)
Tax	11	(58,738)	412,105	4,020,534	4,876,506
PROFIT/(LOSS) FOR THE PERIOD/YEAR ATTRIBUTABLE TO SHAREHOLDERS		119,255	(836,699)	(8,162,901)	(9,900,785)
DIVIDENDS		–	–	–	–

BALANCE SHEET

	Notes	As at 31st January, 2007 RMB	As at 31st December, 2006 RMB	2005 RMB
NON-CURRENT ASSETS				
Property, plant and equipment	*12*	39,751,209	39,925,532	7,130,910
Deferred tax assets	*13*	8,838,302	8,897,040	4,876,506
Total non-current assets		48,589,511	48,822,572	12,007,416
CURRENT ASSETS				
Inventories	*14*	1,183,383	565,644	480,401
Accounts receivable	*15*	194,028	39,650	1,685
Prepayments, deposits and other receivables		560,190	560,197	1,064,216
Cash and bank balances		9,956,987	2,912,243	333,833
Total current assets		11,894,588	4,077,734	1,880,135
CURRENT LIABILITIES				
Accounts payable	*16*	13,132,548	11,132,545	2,274,318
Accrued liabilities, receipts in advance and other payables		3,650,325	28,185,790	2,152,618
Due to a shareholder	*17*	–	13,467,515	9,361,400
Tax payable		–	–	–
Total current liabilities		16,782,873	52,785,850	13,788,336
NET CURRENT LIABILITIES		(4,888,285)	(48,708,116)	(11,908,201)
TOTAL ASSETS LESS CURRENT LIABILITIES		43,701,226	114,456	99,215
NON-CURRENT LIABILITIES				
Due to a shareholder	*17*	13,467,515	–	–
Total non-current liabilities		13,467,515	–	–
Net assets		30,233,711	114,456	99,215
EQUITY				
Issued capital	*18*	40,000,000	10,000,000	10,000,000
Reserves		(9,766,289)	(9,885,544)	(9,900,785)
Total equity		30,233,711	114,456	99,215

STATEMENT OF CHANGES IN EQUITY

	Issued capital	**Asset revaluation reserve**	**Accumulated loss**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
Issue of shares – note 18	10,000,000	–	–	10,000,000
Net loss for the period	–	–	(9,900,785)	(9,900,785)
Total equity at 31st December, 2005 and at 1st January, 2006	10,000,000	–	(9,900,785)	99,215
Change in fair value of land and buildings	–	8,178,142	–	8,178,142
Net loss for the year	–	–	(8,162,901)	(8,162,901)
Total equity at 31st December, 2006 and at 1st January, 2007	10,000,000	8,178,142	(18,063,686)	114,456
Issue of shares – note 18	30,000,000	–	–	30,000,000
Net profit for the period	–	–	119,255	119,255
At 31st January, 2007	40,000,000	8,178,142	(17,944,431)	30,233,711

CASH FLOW STATEMENT

	One month ended 31st January, 2007	One month ended 31st January, 2006	Year ended 31st December, 2006	Period ended 31st December, 2005
	RMB	*RMB*	*RMB*	*RMB*
OPERATING ACTIVITIES				
Profit/(loss) before tax	177,993	(1,248,804)	(12,183,435)	(14,777,291)
Adjustments for:				
Finance costs	22,446	–	–	–
Bank interest income	–	–	(10,201)	(329)
Depreciation of property, plant and equipment	174,323	98,564	1,609,125	467,390
Operating cash flows before movements in working capital	374,762	(1,150,240)	(10,584,511)	(14,310,230)
Decrease/(increase) in inventories	(617,739)	72,884	(85,243)	(480,401)
Decrease/(increase) in accounts receivable	(154,378)	1,685	(37,965)	(1,685)
Decrease/(increase) in prepayments, deposits and other receivables	7	(171,285)	504,019	(1,064,216)
Increase in accounts payable	2,000,003	301,186	8,858,227	2,274,318
Increase/(decrease) in accrued liabilities, receipts in advance and other payables	(24,535,465)	323,250	26,033,172	2,152,618
Increase in amount due to a shareholder	–	748,351	4,106,115	9,361,400
Cash generated from/(used in) operations	(22,932,810)	125,831	28,793,814	(2,068,196)
Interest paid	(22,446)	–	–	–
Overseas taxes paid	–	–	–	–
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	(22,955,256)	125,831	28,793,814	(2,068,196)
INVESTING ACTIVITIES				
Interest received	–	–	10,201	329
Purchases items of property, plant and equipment	–	(95,630)	(26,225,605)	(7,598,300)

	One month ended 31st January, 2007	2006	Year ended 31st December, 2006	Period ended 31st December, 2005
	RMB	*RMB*	*RMB*	*RMB*
NET CASH USED IN INVESTING ACTIVITIES	–	(95,630)	(26,215,404)	(7,597,971)
FINANCING ACTIVITIES				
Proceeds from issue of shares	30,000,000	–	–	10,000,000
NET CASH FROM FINANCING ACTIVITIES	30,000,000	–	–	10,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,044,744	30,201	2,578,410	333,833
Cash and cash equivalents at beginning of period/year	2,912,243	333,833	333,833	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	9,956,987	364,034	2,912,243	333,833
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	9,956,987	364,034	2,912,243	333,833

B. NOTES TO THE FINANCIAL INFORMATION

1. General information

CQHCL is a limited liability company incorporated in the People's Republic of China (the "PRC"). The registered office of CQHCL is located at 中國重慶市沙坪壩區天陳路27號.

During the Relevant Periods, the Company was involved in the operation of a hospital in the PRC.

2. Adoption of Hong Hong Financial Reporting Standards

The Financial Information of CQHCL has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, has been applied in preparing these financial statements. This is the first set of CQHCL's financial statements prepared in accordance with HKFRS. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. CQHCL has adopted all these new HKFRSs in preparing the Financial Information throughout the Relevant Periods.

New standards, amendments and interpretations effective beginning on or after 1st January 2006

The Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. The directors of CQHCL anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the CQHCL.

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option

HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 4	Determining whether an Arrangement contains 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 Special 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

All of the above HKFRSs are effective for annual periods beginning on or after 1st January 2006 except:

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January 2007.

HKFRS 7 shall be applied for annual periods beginning on or after 1st January 2007.

HK(IFRIC) – Int 6 shall be applied for annual periods beginning on or after 1st December 2005.

HK(IFRIC) – Int 7 shall be applied for annual periods beginning on or after 1st March 2006.

HK(IFRIC) – Int 8 shall be applied for annual periods beginning on or after 1st May 2006.

HK(IFRIC) – Int 9 shall be applied for annual periods beginning on or after 1st June 2006.

3. Basis of presentation

The financial statements have been prepared on a going concern basis notwithstanding CQHCL had net current liabilities as at 31st December, 2005, 2006 and 31st January, 2007 as the shareholders have undertaken to provide continuous financial support to CQHCL, and to maintain it as a going concern.

4. Principal accounting policies

(a) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined net of any depreciation, had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

(b) Related parties

A party is considered to be related to CQHCL if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, CQHCL; (ii) has an interest in CQHCL that gives it significant influence over CQHCL; or (iii) has joint control over the CQHCL;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of CQHCL or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of CQHCL, or of any entity that is a related party of CQHCL.

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of 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 an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realized in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	Over the lease terms
Leasehold improvement	12.5%
Furniture and fixtures	20.0%
Office equipment	20.0%
Motor vehicles	20.0%
Medical equipment	20.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

(d) Accounts receivable

Accounts receivable is initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Appropriate allowance for estimated irrecoverable amounts is recognised in the income statement when there is objective evidence that the asset is impaired.

(e) Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. The rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments are treated as prepayment for operating leases are initially stated at cost and subsequently recognised on the straight-line method.

(f) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis, and in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(h) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of CQHCL's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(i) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

(j) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilized, except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(k) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when CQHCL becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, as appropriate, on initial recognition.

Financial liabilities and equity

Financial liabilities and equity instruments issued by CQHCL are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liabilities and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of CQHCL after deducting all of its liabilities.

Financial liabilities

Financial liabilities including the other payables and the loan from a shareholder are subsequently measured at amortised cost, using the effective interest method.

(l) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to CQHCL and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the CQHCL maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(ii) from the rendering of services, on the percentage of completion basis; and

(iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(m) Employee benefits

Pension scheme

The employees of CQHCL employed in the PRC are required to participate in the central pension scheme operated by the local municipal government. CQHCL is required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(n) Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

(o) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

No business or geographical segment analysis is presented as all operations, assets and liabilities of CQHCL during the Relevant Periods are related to the operation of a hospital, and over 90% of the assets and customers are located in the PRC.

(p) Foreign currencies

These financial statements are presented in Reminbi, which is CQHCL's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

5. Significant accounting judgements

Judgements

In the process of applying accounting policies, the management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

6. Turnover and other revenue

Turnover represents the net invoiced value of services rendered and sales of medicines for the Relevant Periods.

An analysis of CQHCL's turnover and other revenue for the Relevant Periods is as follows:

	One month ended 31st January, 2007	One month ended 31st January, 2006	Year ended 31st December, 2006	Period ended 31st December, 2005
	RMB	*RMB*	*RMB*	*RMB*
Turnover				
Medicial services income	1,823,737	176,837	7,954,422	1,106,036
Medicine income	1,056,327	593,255	12,834,402	3,143,964
	2,880,064	770,092	20,788,824	4,250,000
Other revenue				
Bank interest income	–	–	10,201	329
	2,880,064	770,092	20,799,025	4,250,329

7. Sales tax

In accordance with the relevant tax rules and legislation in the PRC, CQHCL is entitled to enjoy sales tax exemptions and reductions, which include exemption from paying sales tax for three years commencing from the commencement of business i.e. 25th February, 2005.

8. Finance costs

	One month ended 31st January, 2007 *RMB*	2006 *RMB*	Year ended 31st December, 2006 *RMB*	Period ended 31st December, 2005 *RMB*
Interest on other loans	22,446	–	–	–

9. Profit/(loss) before tax

Profit/(loss) before tax is arrived at after charging:

	One month ended 31st January, 2007 *RMB*	2006 *RMB*	Year ended 31st December, 2006 *RMB*	Period ended 31st December, 2005 *RMB*
Cost of medicines sold	843,339	421,567	10,494,578	2,254,526
Cost of services provided	1,247,579	1,072,091	11,755,608	4,534,047
Depreciation of property, plant and equipment	174,323	98,564	1,609,125	467,390
Minimum lease payments under operating leases on land and buildings	133,942	191,163	1,636,786	1,544,663
Auditor's remuneration	–	–	–	–
Employee benefit expense (excluding directors' remuneration – *note 10*)				
Salaries and allowances	329,581	385,181	4,058,421	2,411,211

10. Directors' remuneration

Directors' remuneration is set out below:

	One month ended 31st January, 2007 RMB	2006 RMB	Year ended 31st December, 2006 RMB	Period ended 31st December, 2005 RMB
Fees	–	–	–	–
Other emoluments:				
Salaries and benefits in kind	3,000	3,000	36,000	27,753
Retirement scheme contributions	–	–	–	–
	3,000	3,000	36,000	27,753

11. Tax

No provision for PRC income tax has been made as CQHCL did not generate any assessable income in accordance with the relevant income tax rules and regulations of the PRC for the Relevant Period.

There are no material unprovided deferred tax assets and liabilities at the balance sheet date.

	One month ended 31st January, 2007 RMB	2006 RMB	Year ended 31st December, 2006 RMB	Period ended 31st December, 2005 RMB
Tax – current	–	–	–	–
Deferred tax *(note 13)*	(58,738)	412,105	4,020,534	4,876,506
	(58,738)	412,105	4,020,534	4,876,506

12. Property, plant and equipment

	Land and buildings *RMB*	Leasehold improvement *RMB*	Furniture and fixtures *RMB*	Office equipment *RMB*	Motor vehicles *RMB*	Medical equipment *RMB*	Total *RMB*
Cost or valuation:							
At 25th February, 2005	–	–	–	–	–	–	–
Additions	–	4,275,049	259,662	358,040	232,800	2,472,749	7,598,300
At 31st December, 2005 and 1st January, 2006	–	4,275,049	259,662	358,040	232,800	2,472,749	7,598,300
Additions	25,184,515	–	22,424	15,680	–	1,002,986	26,225,605
Increase in fair value of land and buildings	7,815,485	–	–	–	–	–	7,815,485
At 31st December, 2006 and 1st January, 2007	33,000,000	4,275,049	282,086	373,720	232,800	3,475,735	41,639,390
Additions	–	–	–	–	–	–	–
At 31st January, 2007	33,000,000	4,275,049	282,086	373,720	232,800	3,475,735	41,639,390
Accumulated depreciation:							
At 25th February, 2005	–	–	—	–	–	–	
Depreciation provided during the period	–	130,832	24,024	40,620	20,606	251,308	467,390
At 31st December, 2005 and 1st January, 2006	–	130,832	24,024	40,620	20,606	251,308	467,390
Depreciation provided during the year	362,657	518,136	52,697	71,462	45,257	558,916	1,609,125
Deficit on revaluation	(362,657)	–	–	–	–	–	(362,657)
At 31st December, 2006 and 1st January, 2007	–	648,968	76,721	112,082	65,863	810,224	1,713,858
Depreciation provided during the period	60,443	43,178	4,570	6,054	3,771	56,307	174,323
At 31st January, 2007	60,443	692,146	81,291	118,136	69,634	866,531	1,888,181
Net book value:							
At 31st January, 2007	32,939,557	3,582,903	200,795	255,584	163,166	2,609,204	39,751,209
At 31st December, 2006	33,000,000	3,626,081	205,365	261,638	166,937	2,665,511	39,925,532
At 31st December, 2005	–	4,144,217	235,638	317,420	212,194	2,221,441	7,130,910
Analysis of cost or valuation:							
At cost	–	4,275,049	282,086	373,720	232,800	3,475,735	8,639,390
At valuation	33,000,000	–	–	–	–	–	33,000,000
	33,000,000	4,275,049	282,086	373,720	232,800	3,475,735	41,639,390

The medium-leasehold land and buildings are situated in the PRC and were revalued at RMB33,000,000 by Greater China Appraisal Limited, a registered professional surveyor in Hong Kong, on 16 April 2007, on an open market value basis based on their then existing use.

13. Deferred tax

The movement in deferred tax asset during the Relevant Periods was as follows:

	Losses available for offset against future taxable profit
	RMB
Deferred tax credited to Income statement during the period	(4,876,506)
At 31st December, 2005 and at 1st January, 2006	(4,876,506)
Deferred tax credited to Income statement during the year	(4,020,534)
At 31st December, 2006 and at 1st January, 2007	(8,897,040)
Deferred tax charged to Income statement during the period	58,738
At 31st January, 2007	(8,838,302)

14. Inventories

	As at 31st January,	**As at 31st December,**	
	2007	**2006**	**2005**
	RMB	*RMB*	*RMB*
Medicines	1,183,383	565,644	480,401

15. Accounts receivable

The ageing analysis of accounts receivable was as follows:

	As at 31st January,	**As at 31st December,**	
	2007	**2006**	**2005**
	RMB	*RMB*	*RMB*
0-60 days	191,537	8,515	1,685
61-90 days	–	7,663	–
Over 90 days	2,491	23,472	–
Total	194,028	39,650	1,685

There is no concentration of credit risk with respect to accounts receivable, as the CQHCL has a large number of customers.

16. Accounts payable

An ageing analysis of the accounts payable was as follows:

	As at 31st January, 2007 *RMB*	As at 31st December, 2006 *RMB*	2005 *RMB*
0-60 days	7,378,675	6,008,824	2,220,896
61-90 days	1,479,105	1,703,961	41,920
Over 90 days	4,274,768	3,419,760	11,502
Total	13,132,548	11,132,545	2,274,318

17. Due to a shareholder

The amount due to a shareholder is unsecured, interest-free and repayable on demand for the period ended 31st December, 2005 and year ended 31st December, 2006.

Since 1st January, 2007, the amount due to a shareholder is unsecured, interest bearing at 2% per annum and will not be demanded for repayment in the next forthcoming year.

18. Share Capital

	As at 31st January, 2007 *RMB*	As at 31st December, 2006 *RMB*	2005 *RMB*
Registered, issued and fully paid: 2005 and 2006: (10,000,000 shares of RMB1 each) 2007: (40,000,000 shares of RMB1 each)	40,000,000	10,000,000	10,000,000

The following movements in the registered and issued share capital of CQHCL took place during the Relevant Periods:

(i) Upon incorporation, 10,000,000 shares were issued for cash at par for working capital of CQHCL.

(ii) On 22nd January, 2007, 30,000,000 new shares were issued for cash at par for additional working capital of CQHCL.

19. Operating lease commitments

CQHCL leases an office premise under operating lease arrangements, with leases negotiated for terms of twelve years.

At the balance sheet date, CQHCL had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31st January,	As at 31st December,	
	2007	**2006**	**2005**
	RMB	*RMB*	*RMB*
Within one year	1,508,798	1,508,491	2,296,719
In the second to fifth years, inclusive	6,210,418	6,202,601	9,308,128
After five years	9,097,090	9,230,691	16,593,143
	16,816,306	16,941,783	28,197,990

20. Litigation

In December 2006, a plaintiff (the "Plaintiff") filed complaints (the "Complaints") to a court in PRC (the "Court") against CQHCL. Under the Complaints, the Plaintiff alleged that CQHCL has used the photo of the Plaintiff in some advertisement materials without the Plaintiff's consent, and claimed for compensation of right infringement for an aggregate amount of RMB1,000,000.

A judgement dated 9th March, 2007 was granted against CQHCL, under which CQHCL shall pay RMB20,910 to the Plaintiff. An accrual of RMB20,910 has been made for the compensation at 31st December, 2006.

On 17th March, 2007, the Plaintiff made an appeal to the Court for the amount of compensation of RMB900,000. The appeal has not been concluded at the date of this report.

The directors of CQHCL are of the view that CQHCL has proper and valid defences against the amount of compensation. Accordingly, no further provision has been made in the Financial Information.

21. Financial risk and management

CQHCL's overall risk management programme seeks to minimise potential adverse effects on the financial performance of CQHCL.

(i) Interest rate risk

CQHCL has insignificant interest-bearing borrowing. Interest income derived from interest-bearing assets was insignificant. CQHCL does not have a hedging policy in respect of its interest rate risk. However, the management monitors the interest rate risk closely and will consider hedging the exposure should the need arise.

(ii) Foreign currency risk

CQHCL does not have any significant financial instrument or transactions denominated in foreign currency.

(iii) Credit risk

CQHCL has no significant concentration of credit risk for its large customer base.

(iv) Liquidity risk

CQHCL aims to manage its operating cash flows and the availability of working capital to meet its payment and funding needs. As part of its overall liquidity management, CQHCL maintains sufficient level of cash to meet its working capital requirements.

22. Subsequent events

On 24th February, 2007, Asia Vantage Investments Limited ("Asia Vantage") entered into a conditional share transfer agreement with the shareholders of 福建邁迪森實業有限公司 ("Maidisen") to acquire the entire issued share capital of Maidisen. Asia Vantage will become the immediate holding company of Maidisen upon completion of the share transfer agreement.

Subsequent to the balance sheet date, the name of CQHCL has been changed from 重慶中嶼愛德華醫院有限公司 to 重慶愛德華醫院有限公司with the approval granted by 重慶市工商行政管理局 on 19th March, 2007.

23. Subsequent financial statements

No audited financial statements have been prepared for CQHCL in respect of any period subsequent to 31st January, 2007.

Yours faithfully,
Cheung & Siu
Certified Public Accountants
(Practising)
Hong Kong

The following is the text of a letter, prepared for the sole purpose of inclusion in this circular, received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants.

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

31st Floor, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

16 April 2007

The Directors
Hua Xia Healthcare Holdings Limited
Room 1902, 19th Floor
Sing Pao Building
101 King's Road
North Point
Hong Kong

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the "Pro Forma Financial Information") of Hua Xia Healthcare Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Hero Vision Enterprises Limited (the "Target") and its subsidiaries (the "Target Group") (together with the Group hereinafter referred to as the "Enlarged Group") which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the proposed acquisition of 100% issued share capital of the Target and the sale loan (the "Proposed Acquisition") and the subscription of new shares in the Target (the "Subscription"), might have affected the financial information presented for inclusion as Appendix V of the circular of the Company dated 16 April 2007 (the "Circular"). The basis of preparation for the Pro Forma Financial Information is set out on page 217 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 Pro Forma Financial Information 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 Listing 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 Listing Rules, on the Pro Forma Financial Information 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 Pro Forma Financial Information beyond that owned 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 Engagement ("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 the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company. The 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 Pro Forma Financial Information 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 Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgments 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 Enlarged Group as at 30 September 2006 or any future date.

OPINION

In our opinion:

- the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to Rule 7.31(1) of the GEM Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the unaudited pro forma financial information of the Enlarged Group as if the Proposed Acquisition and the Subscription has been completed on 30 September 2006 for the pro forma statement of assets and liabilities. The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Proposed Acquisition and the Subscription at a consideration of HK$157,300,000 which shall be satisfied by cash, convertible notes, consideration shares and promissory note to be issued by the Company.

The accompanying unaudited pro forma financial information of the Enlarged group is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying unaudited pro forma financial information of the Enlarged Group, it may not give a true picture of the actual financial position or results of the Enlarged Group's operations that would have been attained had the Proposed Acquisition and the Subscription actually occurred on the dates indicated herein. Further, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the Accountant's Reports on the Target and Maidisen as set out in Appendix II and Appendix III respectively, the historical financial information on the Group as set out in Appendix I and other financial information included elsewhere in this Circular.

	The Group	Maidisen	Hero Vision Group	Pro-forma adjustments		Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
ASSETS						
Non-current assets						
Property, plant and equipment	14,232	38,222	–			52,454
Available-for-sale investments	138	–	–			138
Goodwill	1,893	5,166	–	77,858	2	84,917
Deferred tax assets	–	8,498	–			8,498
	16,263	51,886	–			146,007
Current assets						
Inventories	4,756	1,138	–			5,894
Trade and other receivables	46,803	725	–			47,528
Pledged bank deposits	5,061	–	–			5,061
Cash and bank balances	14,556	26,996	–	(11,250)	7	30,302
	71,176	28,859	–			88,785
Total assets	87,439	80,745	–			234,792
Equity:						
Capital and reserves attributable to the Company's equity holders						
Share capital	28,407	38,462	–	(29,946)	3	36,923
Reserves	31,072	(1)	(19)	55,051	4	86,103
	59,479	38,461	(19)			123,026
Minority interests	(117)	13,082	–			12,965
Total equity	59,362	51,543	(19)			135,991

	The Group	Maidisen	Hero Vision Group	Pro-forma adjustments		Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
LIABILITIES						
Current liabilities						
Trade and other payables	12,085	16,252	19			28,356
Obligations under finance leases due within one year	55	–	–			55
Amount due to minority shareholder of a subsidiary	160	–	–			160
Secured short-term bank loan	8,000	–	–			8,000
Tax payable	217	–	–			217
	20,517	16,252	19			36,788
Long-term liabilities						
Amounts due to a minority shareholders	–	12,950	–			12,950
Convertible notes	7,263	–	–	29,406	5	36,669
Obligations under finance leases due after one year	297	–	–			297
Promissory note payable	–	–	–	12,097	6	12,097
	7,560	12,950	–			62,013
Total liabilities	28,077	29,202	19			98,801
Total equity and liabilities	87,439	80,745	–			234,792
Net current assets	50,659	12,607	(19)			51,997
Total assets less current liabilities	66,922	64,493	(19)			198,004

Notes:

1. The total consideration for the Sale Shares, the Sale Loan and the Subscription is approximately HK$157,300,000 which is to be satisfied in the following manner:

    (a) HK$11,250,000 as deposit which has already been paid by the Purchaser on 16 March 2007;

    (b) HK$59,952,640 by procuring the Company to allot and issue the Consideration Shares at an issue price of HK$0.352 per Consideration Share. On completion, the share capital and share premium of the Company will increase by approximately HK$8,516,000 and HK$51,437,000 respectively. For the purpose of preparing the Pro Forma Financial Information of the Enlarged Group, the issue price of HK$0.352 per consideration share is taken to be its fair value;

    (c) HK$33,000,000 by procuring the Company to issue the Convertible Notes upon completion; and

    (d) HK$12,097,360 by procuring the Company to issue the Promissory Note upon completion.

    (e) Pursuant to the Agreement, the Purchaser agreed to subscribe 410 shares of US$1.00 each in the share capital of the Target. The total consideration shall be HK$41,000,000 payable by cash. The share capital and share premium of the Target will increase by approximately HK$3,000 and HK$40,997,000 respectively.

2. Goodwill of approximately HK$77,858,000 arising from the acquisition of the Maidisen and Hero Vision Group, which is derived from the consideration of HK$157,300,000 minus the net assets of Maidisen and Hero Vision Group of approximately HK$38,461,000 and HK$40,981,000 respectively. The net asset of Hero Vision Group of approximately HK$40,981,000 represented the results of increase of approximately HK$41,000,000 in net asset of Hero Vision Group after the issue of shares as described in Note 1(e) above and the net liabilities of Hero Vision Group of approximately HK$19,000. For the purpose of preparing the Pro Forma Financial Information of the Enlarged Group, the carrying value of the net assets of the Target Group and of the Sale Loan as per the Accountant's Report as set out in Appendix II and Appendix III of the Circular is taken to be their fair values. No impairment of goodwill is required.

3. The pro-forma adjustment of share capital represented results of the increase of approximately HK$8,516,000 as described in Note 1(b) above, increase of approximately HK$3,000 in share capital of Hero Vision Group as described in Note 1(e) above and the elimination of share capital of Maidisen and Hero Vision Group on consolidation.

4. The pro-forma adjustment of reserves represented the results of the increase of approximately HK$51,437,000 in share premium as described in Note 1(b) above, increase of approximately HK$3,594,000 in convertible notes reserve as described in Note 5 below, increase of approximately HK$40,997,000 in share premium as described in Note 1(e) above and the elimination of the pre-acquisition reserves of Maidisen and Hero Vision Group on consolidation.

5. The Convertible Notes were issued for the purpose of the Proposed Acquisition as described in Note 1(c) above. Following the adoption of Hong Kong Accounting Standards 39, Financial Instruments: Recognition and Measurement, the Convertible Notes are split into the equity component and liability component. The value of these components were determined based on the present value of the estimated future cash flows discounted at the prevailing market rate approximately 8% for an equivalent non-convertible loan at the balance sheet date, representing the fair value of the contractual obligation to deliver cash to the Convertible Notes holders.

6. The pro-forma adjustment of promissory note payable which carry interest at 2% per annum represented results of the increase of approximately HK$12,097,000 as described in Note 1(d) above.

7. The pro-forma adjustment of cash and bank balances represented HK$11,250,000 deposit paid as described in Note 1(a) above, the Subscription Price of HK$41,000,000 paid by the Purchaser and the Subscription Price of HK$41,000,000 received by the Target as described in Note 1(e) above.

8. The exchange rate on translating the financial information of Maidisen from RMB into HK$ is approximately HK$1 equals to RMB1.04.

9. Under HKFRS 3 Business Combinations ("HKFRS 3"), the Group will apply the purchase method to account for the acquisition of the Target Group. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the Target Group will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. Any goodwill or discount arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the Target Group at the date of completion. Negative goodwill resulting from the business combinations should be recognised immediately in the consolidated income statement.

Greater China Appraisal Limited
漢華評值有限公司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

16 April 2007

The Directors
Hua Xia Healthcare Holdings Limited
Room 1902, 19th Floor
Sing Pao Building
101 King's Road
North Point
Hong Kong

Dear Sirs,

In accordance with the instructions from Hua Xia Healthcare Holdings Limited ("the Company") for us to value the property interests of the target group of companies upon completion of reorganisation ("the Target Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquires and obtained such further information as we consider necessary for the purpose of providing the capital values of such interests as at 31 January 2007 (referred to as the "valuation date"). Upon completion of reorganisation, the Target Group will comprise two major operating subsidiaries, Fujian Maidisen Enterprise Company Limited and Chongqing Edward Hospital Company Limited.

It is our understanding that this valuation is for acquisition purposes.

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, titleship of properties and the limiting conditions.

BASIS OF VALUATION

The valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

VALUATION METHODOLOGY

All properties are valued by the comparison method where comparison based on prices realized or market prices of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the property interests on the open market in their existing states without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the properties.

In respect of the property which is held under long term land use rights, we have assumed that the owner of the property has free and uninterrupted rights to use or transfer the property for the whole of the unexpired term of the land use rights. In our valuation, we have assumed that the properties can be freely disposed of and transferred to third parties on the open market without any additional payment to the relevant government authorities. Unless stated as otherwise, vacant possession is assumed for the properties concerned.

We have assumed that all consents, approvals and licenses from relevant government authorities for the buildings and structures erected thereon have been granted. Also, we have assumed that all buildings and structures fall within the site are held by the owner or permitted to be occupied by the owner.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the appraisal report. Moreover, it is assumed that the utilization of the land and improvements is within the boundaries of the site held by the owner or permitted to be occupied by the owner. In addition, we assumed that no encroachment or trespass exists, unless noted in the report.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licences, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

Other special assumptions of each property, if any, have been stated out in the footnotes of the valuation certificate for the respective properties.

TITLESHIP INVESTIGATION

For the properties held by the Target Group in the PRC, we have been provided with copies of title documents. However, due to the current registration system of the PRC, no investigations have been made for the legal title or any liabilities attached to the property.

As far as the properties in the PRC are concerned, we have relied upon the legal opinions given by Fujian Miniang Law Firm（福建閩江律師事務所）(the "PRC Lawyer") in relation to the legal title to the properties located in the PRC under valuation.

All legal documents disclosed in this report, if any, are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the properties set out in this report.

LIMITING CONDITIONS

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the relevant properties but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made and we are therefore unable to report as to whether the properties is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No site investigations have been carried out to determine the suitability of the ground conditions or the services for any property development. No soil analysis or geological studies were ordered or made in conjunction with this report, nor were any water, oil, gas or other subsurface mineral use rights or conditions investigated.

We do not investigate any safety, environmental and health related regulations in association with any particular business of the Target Group. It is assumed that all necessary licenses, procedures and measures were implemented in accordance with government legislation and guidance.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided and have accepted advice given to us by the Company on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, construction costs, rentals, site and floor areas and in the identification of those properties in which the Target Group has valid interests. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that all the properties are free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

OPINION OF VALUE

Valuation figures of the properties held by the Target Group are shown in the attached summary of valuation and their respective valuation certificates.

For property that is rented by the Target Group from independent third party under tenancy agreement, it has no commercial value due to inclusion of non-alienation clause or otherwise due to lack of substantial profit rent.

REMARKS

Our valuation has been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements of the rules governing the listing of securities of The Stock Exchange of Hong Kong Limited. In valuing the properties, we have complied with the requirements contained in the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1 January 2005.

All amounts are denominated in Chinese Renminbi.

We enclose herewith the summary of valuation and the valuation certificates.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED

K. K. Ip
BLE, LLD
Chartered Valuation Surveyor
Registered Professional Surveyor
Managing Director

Note: Mr. K. K. Ip, who is a Chartered Valuation Surveyor and a Registered Professional Surveyor, has substantial experience in valuation of properties in the PRC since 1992.

SUMMARY OF VALUATION

No.	Property	Market Value as at 31 January 2007 *(RMB)*
	Group I – Property Interests held by the Target Group	
1.	Basement Level 1, Level 1 & Level 4 No. 27 Tianchen Road Shapingba District Chongqing The PRC	33,000,000
	Group II – Property Interests rented by the Target Group	
2.	Level 2 & Level 3 No. 27 Tianchen Road Shapingba District Chongqing The PRC	No commercial value
	Total:	RMB33,000,000

VALUATION CERTIFICATE

Group I – Property Interests held by the Target Group

No.	Property	Description	Particulars of Occupancy	Market value as at 31 January 2007 *(RMB)*
1.	Basement Level 1, Level 1 & Level 4 No. 27 Tianchen Road Shapingba District Chongqing The PRC	The property comprises 3 commercial levels within a 31-storey building erected upon a 3-level basement. The building was completed in 2003. The total gross floor area of the property is approximately 4,719.43 square metres. The property is held under 3 sets of Real Estate Ownership Certificate with land use rights term expiring on 26 October 2038 for commercial use.	The property is currently occupied by the Target Group as hospital with administration office on basement level 1.	33,000,000

Notes:

(i) According to 3 sets of Real Estate Ownership Certificate dated 17 April 2006 issued by Chongqing Municipal Buildings and Land Resources Administration Bureau, the property is held by Chongqing Zhongyu Edward Hospital Company Limited ("Edward Hospital" which subsequently changed its name to Chongqing Edward Hospital Company Limited) with land use right granted for a term expiring on 26 October 2038 for commercial use. Detailed breakdowns are shown as follows:

Document No.	Level	Gross Floor Area (square metres)
104 Fang Di Zeng 2006 Zi Di 008013	Basement 1	2,192.51
104 Fang Di Zeng 2006 Zi Di 008030	1	1,324.21
104 Fang Di Zeng 2006 Zi Di 007968	4	1,202.71
		4,719.43

(ii) Opinions of the PRC Lawyer are summarized as follows:

(a) Edward Hospital has obtained 3 sets of Real Estate Ownership Certificate (namely 104 Fang Di Zeng 2006 Zi Di 008013, 104 Fang Di Zeng 2006 Zi Di 008030 and 104 Fang Di Zeng 2006 Zi Di 007968) issued by Chongqing Municipal Land Resources and Buildings Administration Bureau.

(b) The Real Estate Ownership Certificates obtained are legally binding and valid.

(c) The property is not subject to any mortgages.

VALUATION CERTIFICATE

Group II – Property Interests rented by the Target Group

No.	Property	Description	Market value as at 31 January 2007 *(RMB)*
2.	Level 2 & Level 3 No. 27 Tianchen Road Shapingba District Chongqing The PRC	The property comprises 2 commercial levels within a 31-storey building erected upon a 3-level basement completed in 2003. The total gross floor area of the property is approximately 4,392.40 square metres. The property is held under a tenancy agreement dated 10 October 2004 by 上海中嶼投資(集團)有限公司 (Shanghai Zhongyu Investment (Group) Company Limited) as lessee for a term of 12 years from 1 May 2005 to 30 April 2017. The monthly rent of the property is RMB25.00 per square metre, with 6% increase every 2 years starting from 20 April 2010. The monthly rent is exclusive of sewage, security and management fees. The property is currently occupied by the Target Group as hospital.	No commercial value

Notes:

(i) Opinions of the PRC Lawyer are summarized as follows:

(a) According to a tenancy agreement ("Tenancy Agreement") dated 10 October 2004 entered into between 重慶瑞宇物業發展有限公司 (Chongqing Ruiyu Property Development Company Limited) ("Chongqing Ruiyu") as lessor and Shanghai Zhongyu Investment (Group) Company Limited ("Shanghai Zhongyu") as lessee, the property was leased to the lessee.

(b) According to a written declaration dated 23 June 2005, Shanghai Zhongyu agreed to let Edward Hospital use the property without consideration. Shanghai Zhongyu is an independent company to Edward Hospital.

(c) Edward Hospital has the right to use the leased property in accordance with the relevant PRC laws.

(d) Subsequent to the Tenancy Agreement, a portion of Level 2 of the property with gross floor area of 937.45 square metres was acquired by 張泳藝 (Zhang Yongyi) on 10 November 2005. Despite the change of ownership, Edward Hospital has the right to use the said portion of Level 2.

(e) Subsequent to the Tenancy Agreement, Level 3 of the property with gross floor area of 2,254.55 square metres was transferred to 盧思偉 (Lu Siwei) and inter alios on 7 February 2007 by court. Lu Siwei and inter alios have confirmed with Edward Hospital on 14 March 2007 that Edward Hospital is the lessee of the property and the lease terms and conditions remain the same as contained in the Tenancy Agreement.

(f) The Tenancy Agreement has not been registered to the local building management authority. However, the Tenancy Agreement is still valid.

Set out below are details of the Directors who are proposed to be re-elected at the EGM:

1. Mr. Jiang Tao ("Mr. Jiang")

Mr. Jiang, 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, Sun Yat-sen Medical University and Sichuan Foreign Language University.

Save as disclosed herein, Mr. Jiang does not hold any other positions in the Group and did not hold any directorship and other major appointments in any other listed public companies in the last three years before his appointment as an executive director of the Company.

As at the Latest Practicable Date, Mr. Jiang does not have any relationships with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company (within the meaning of the GEM Listing Rules).

As at the Latest Practicable Date, Mr. Jiang does not have any other interests in the shares of the Company within the meaning of Part XV of the SFO, except that Mr. Jiang was granted Share Options on 13 July 2006 and 21 March 2007 to subscribe for 6,881,160 Shares and 3,900,000 Shares at a subscription price of HK$0.627 per Share and HK$0.51 per Share respectively.

Mr. Jiang was appointed by way of a letter of appointment with the Company for a term of one year from 3 January 2007, which will continue thereafter until terminated by either party giving not less than one month's notice in writing. Mr. Jiang is entitled to a monthly salary of HK$10,000 which is determined by arm's length negotiation between Mr. Jiang and the Company with reference to the prevailing market condition. He is also entitled to a year-end discretionary bonus to be determined by the Board from time to time. Mr. Jiang will be subject to retirement by rotation and re-election at the next annual general meeting of the Company in accordance with the memorandum and articles of association of the Company.

2. Dr. Wong Yu Man, James ("Dr. Wong")

Dr. Wong, aged 53, holds degrees of Bachelor of Medicine and Bachelor of Surgery from the University of Hong Kong and the Doctorate of Medicine from Freiburg University in Germany. He has over 26 years of experience in medical and healthcare services in Hong Kong.

Apart from being a director of China Hong Kong Medical and Health Management Association Limited, which is a non-wholly owned subsidiary of the Company, Dr. Wong does not hold any other positions in the Group and did not hold any directorship and other major appointments in any other listed public companies in the last three years before his appointment as a non-executive Director.

As at the Latest Practicable Date, Dr. Wong does not have any relationships with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company (within the meaning of the GEM Listing Rules).

As at the Latest Practicable Date, Dr. Wong also does not have any other interests in the shares of the Company within the meaning of Part XV of the SFO.

Dr. Wong was appointed by way of a letter of appointment with the Company for a term of one year from 20 March 2007, which will continue thereafter until terminated by either party giving not less than one month's notice in writing. Dr. Wong is entitled to a monthly salary of HK$10,000 which is determined by arm's length negotiation between Dr. Wong and the Company with reference to the prevailing market condition. He is also entitled to a year-end discretionary bonus to be determined by the Board from time to time. Dr. Wong will be subject to retirement by rotation and re-election at the next annual general meeting of the Company in accordance with the memorandum and articles of association of the Company.

Save as disclosed herein, the Board is not aware of any other matters which need to be brought to the attention of the Shareholders and there is no other information which is discloseable pursuant to any of the requirements set out in Rule 17.50(2) (h) to (v) of the GEM Listing Rules in relation to the proposed re-election of Mr. Jiang Tao as an executive Director and Dr. Wong Yu Man, James as non-executive Director at the EGM.

1. 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 Group. 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.

2. DISCLOSURE OF INTERESTS

(a) Interests or short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Directors and chief executive of the Company had or were deemed to have interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) 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 (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors and chief executive of the Company to be notified to the Company and the Stock Exchange, were as below:

(i) Interests in Shares:

Name of Director	Capacity	Number of Shares	Position	Approximate percentage of the total issued share capital of the Company as at the Latest Practicable Date
Mr. Yung Kwok Leong	Interest in controlled corporation Note 1	264,206,000	Long	24.42
	Beneficial owner	6,187,500	Long	0.57
Ms. Shum Ngai Pan Note2	Beneficial owner	5,400,000	Long	0.50
Mr. Weng Jiaxing Note2	Beneficial owner	5,625,000	Long	0.52

Notes:

1. These Shares are held through Easeglory Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Mr. Yung Kwok Leong.

2. Ms. Shum Ngai Pan and Mr. Weng Jiaxing are executive Directors.

(ii) Interests in Share Options under Post-IPO Scheme:

Holders of Share Options	Exercise period	Exercise price	Number of share options granted
Yung Kwok Leong	13 July 2006 to 12 July 2016	HK$0.627	3,242,085
	21 March 2007 to 20 March 2017	HK$0.51	5,800,000
Shum Ngai Pan	13 July 2006 to 12 July 2016	HK$0.627	3,705,240
	21 March 2007 to 20 March 2017	HK$0.51	7,100,000
Weng Jiaxing	13 July 2006 to 12 July 2016	HK$0.627	3,572,910
	21 March 2007 to 20 March 2017	HK$0.51	7,200,000
Chen Jin Shan	13 July 2006 to 12 July 2016	HK$0.627	6,881,160
	21 March 2007 to 20 March 2017	HK$0.51	3,900,000
Jiang Tao	13 July 2006 to 12 July 2016	HK$0.627	6,881,160
	21 March 2007 to 20 March 2017	HK$0.51	3,900,000

Holders of Share Options	Exercise period	Exercise price	Number of share options granted
Employees and consultants of the Group	13 July 2006 to 12 July 2016	HK$0.627	15,416,445
	24 July 2006 to 23 July 2016	HK$0.620	16,541,250
	21 March 2007 to 20 March 2017	HK$0.51	72,100,000
Total			156,240,250

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) 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 (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors 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:

Substantial Shareholders:

Name of Shareholder	Number of Shares	Position	Capacity	Approximate percentage to the total issued share capital of the Company as at the Latest Practicable Date
Easeglory Holdings Limited *(Note 1)*	264,206,000	Long	Beneficial owner	24.42
Yung Muk Ying *(Note 1)*	279,435,585	Long	Interest of spouse	25.66
Wu Wendong *(Note 2)*	146,000,000	Long	Beneficial owner	13.49
The Vendor *(Note 3)*	264,070,000	Long	Beneficial owner	24.40
Lau Yuk Lan *(Note 3)*	264,070,000	Long	Interest of spouse	24.40

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 264,206,000 Shares held by Easeglory Holdings Limited and 15,229,585 Shares and underlying Shares beneficially held by Mr. Yung Kwok Leong in personal capacity by virtue of her being the spouse of Mr. Yung Kwok Leong.

2. Wu Wendong is a director of three non-wholly owned subsidiaries of the Company.

3. The Vendor is interested in 264,070,000 Shares, being the aggregate of the Consideration Shares and the Conversion Shares under the SFO. Ms. Lau Yuk Lan is deemed to be interested in 264,070,000 Shares by virtue of her being the spouse of the Vendor.

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.

3. DIRECTOR'S 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 from 1 February 2007 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Ms. Shum Ngai Pan, Mr. Chen Jin Shan and Mr. Weng Jiaxing have been appointed as executive Directors by way of letters of appointment with the Company for a period of one year commencing from 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 the executive Director by way of letter of appointment with the Company for a period of one year commencing from 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.

Dr. Wong Yu Man, James, has been appointed as the non-executive Director by way of a letter of appointment with the Company for a period of one year commencing from 20 March 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 William Shiu Foo and Mr. Yu Chai Mei, have entered into non-executive Directors' contracts with the Company for a term of one year commencing from 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 herein, none of the Directors has entered into any service contracts or proposed to enter into service contracts (excluding contracts expiring or terminating by the employer within one year without payment of any compensation other than statutory compensation).

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the management Shareholders (as defined in the GEM Listing Rules) or their respective associates has any interest in a business which competes or may compete with the business of the Group.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

6. MATERIAL CONTRACTS

The following contracts were entered into by the Group (not being contracts entered into in the ordinary course of business) during the period of two years immediately preceding the date of this circular and are or may be material:

(a) 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;

(b) 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;

(c) 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 of the Company;

(d) 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 of the Company;

(e) 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 of the Company;

(f) the placing agreement dated 25 November 2005 entered into between the Company and Hantec Capital Limited in relation to the placing of the convertible notes in the aggregate principal amount of HK$15 million to HK$20 million;

(g) the underwriting agreement dated 28 February 2006 entered into between the Company and Quam Securities Company Limited 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;

(h) the non-legally binding memorandum of understanding dated 30 March 2006 entered into between Grand Brilliant Corporation Limited, 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;

(i) 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 subscriber, making up an aggregate of 103,414,000 warrants collectively, at an issue price of HK$0.02 per warrant;

(j) the conditional sale and purchase agreement dated 12 June 2006 entered into between Grand Brilliant Corporation Limited, Mr. Wu Wendong and Shanghai Humanity Hospital Management Company Limited (上海博愛醫院管理股份有限公司) relating to the proposed acquisition of the sale shares and the sale loan of Day View Group Limited;

(k) the non-legally binding letter of intent dated 12 July 2006 entered into between Grand Brilliant Corporation Limited 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. The letter of intent has lapsed in accordance with its terms.

(l) the non-legally binding letter of intent dated 18 October 2006 entered into between the Company and Town Health International Holdings Company Limited setting out the basic understanding in relation to leveraging the resources and expertise of Town Health International Company Limited and the Company in their cooperative development in the medical and healthcare related business in the PRC;

(m) 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 Company Limited 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;

(n) the underwriting agreement dated 11 December 2006 entered into between the Company and Quam Securities Company Limited, Partners Capital Securities Limited and Hantec Capital Limited in relation to the underwriting of not less than 350,692,167 offer shares and not more than 368,117,579 offer shares;

(o) the Placing Agreement;

(p) the Agreement;

(q) the letter dated 27 March 2007 in respect of the extension of the long-stop date in relation to the non-legally binding letter of intent dated 24 November 2006 as detailed in note (m) above; and

(r) the supplemental agreement dated 13 April 2007 entered into between the Company and the Placing Agent in respect of the extension of the long-stop date in relation to the Placing.

7. INTEREST IN CONTRACTS AND ASSETS

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.

None of the Directors and the experts referred to in the paragraph headed "Qualification and Consent of Experts" in this appendix has any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 March 2006, the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

8. MATERIAL ADVERSE CHANGE

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

9. QUALIFICATION AND CONSENT OF EXPERTS

The followings are the respective qualifications of the experts who have been named in this circular or have given their opinions, letters or advice which are contained in this circular:

Name	Qualification
INCU Corporate Finance Limited	Licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activities
Veda Capital Limited	Licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activities
Greater China Appraisal Limited	Chartered Valuation Surveyor Registered Professional Surveyor
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Cheung & Siu	Certified Public Accountants

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member 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 the above experts 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 they appear.

10. MISCELLANEOUS

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman KY1-1111, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretary and qualified accountant of the Company is Mr. Chan Siu Wing, Raymond, who is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Certified Practising Accountant in Australia, with over 16 years of accounting and company secretarial experiences.

(e) The compliance officer of the Company is Mr. Yung Kwok Leong who is also an executive Director and the chairman of the Company.

(f) 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, interim and quarterly reports and given advice and comments thereon to the Directors and (ii) to review and supervise the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive Directors, namely, Mr. Chan Francis Ping Kuen, Mr. Hsu William Shiu Foo, Mr. Yu Chai Mei with Mr. Chan Francis Ping Kuen acting as the chairman of the audit committee.

Independent non-executive Directors

Mr. Chan Francis Ping Kuen, aged 48, 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 AGL MediaTech Holdings Limited and Kinetana International Biotech Pharma Limited, both companies are listed on GEM. Mr. Chan was also an executive director of Maxitech International Holdings Limited which is 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 of the Stock Exchange.

Mr. Hsu William Shiu Foo, 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 and MP Logistics International Holdings Limited, which are listed on GEM.

Mr. Yu Chai Mei, aged 51, was appointed as an independent non-executive Director on 2 November 2001. Mr. 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. Mr. Yu possesses extensive knowledge in pollution treatment and environmental monitoring. Mr. Yu obtained his doctoral degree in Chemistry at the University of Idaho, in the United States. Mr. 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 to carry out research on the functions of PCO reactors in the early stage of the Group's business development.

(g) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong during normal business hours on any Business Day, from the date of this circular up to and including the date of the EGM and at the EGM:

(a) the memorandum and Articles of Association of the Company;

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

(c) the unaudited interim report 2006/07 of the Company for the six months ended 30 September 2006;

(d) the unaudited third quarterly report 2006/07 of the Company for the nine months ended 31 December 2006;

(e) the letter from the Independent Board Committee, the text of which is set out on page 45 of this circular;

(f) the letter from the Independent Financial Adviser, the text of which is set out on pages 46 to 52 of this circular;

(g) the accountants' report of Hero Vision Enterprises Limited, the text of which is set out in Appendix II to this circular;

(h) the accountants' report of Maidisen, the text of which is set out in Appendix III in this circular;

(i) the accountants' report of Edward Hospital, the text of which is set out in Appendix IV to this circular;

(j) the letter from HLB Hodgson Impey Cheng in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V in this circular;

(k) the valuation report from Greater China Appraisal Limited as set out in Appendix VI in this circular;

(l) the written consents of the experts referred to in the paragraph headed "Qualification and Consent of Experts" in this Appendix;

(m) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(n) copy of the circular of the Company dated 20 April 2006 issued in relation to, among other matters, a discloseable transaction regarding the entering into a memorandum of understanding for the proposed acquisition by the Group of the whole or part of the equity interest in Shanghai Humanity Hospital Management Company Limited (上海博愛醫院管理股份有限公司)¸indirectly held by Mr. Wu Wendong;

(o) copy of the circular of the Company dated 28 July 2006 issued in relation to, among other matters, a major transaction regarding the acquisition by the Group of 76% equity interest in Day View Group Limited, which holds indirectly 51% equity interest in Shanghai Humanity Hospital Management Company Limited (上海博愛醫院管理股份有限公司) held by Mr. Wu Wendong; and

(p) this circular.

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 the shareholders (the "**Shareholders**") of Hua Xia Healthcare Holdings Limited (the "**Company**") will be convened at Room 1902, 19/F., Sing Pao Building, No. 101 King's Road, North Point, Hong Kong on Thursday, 3 May 2007 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company with votes on resolutions numbered 1, 3 and 4 to be taken by show of hands and resolution numbered 2 to be taken by poll:

ORDINARY RESOLUTION 1

"**THAT** conditional upon the conditions set out in the conditional sale and purchase agreement (the "**Agreement**") dated 13 March 2007 entered into among Wisdom Rise Group Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Company, as purchaser, Mr. Lau Kam Shui (the "**Vendor**") as vendor and Hero Vision Enterprises Limited (the "**Target**") as issuer in respect of (i) the sale and purchase of 1,163 shares of US$1.00 each (the "**Target Shares**") in the share capital of the Target, representing its entire issued share capital as at the date of the Agreement and all obligations, liabilities and debts owing or incurred by the Target to the Vendor on completion of the Agreement and (ii) the subscription and issue of 410 new Target Shares by the Purchaser and the Target respectively for a total consideration of HK$157,300,000, a copy of the Agreement has been produced to the meeting marked "A" and signed for the purpose of identification by the chairman of the meeting,

(a) the Agreement and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

(b) the allotment and issue of an aggregate of 170,320,000 new ordinary shares (the "**Consideration Shares**" and each a "**Consideration Share**") of HK$0.05 each in the share capital of the Company credited as fully paid at an issue price of HK$0.352 per Consideration Share to the Vendor pursuant to the Agreement be and is hereby approved;

(c) the issue the convertible notes (the "**Convertible Notes**") in the principal amount of HK$33,000,000 to the Vendor and the allotment and issue of new ordinary shares (the "**Conversion Shares**") of HK$0.05 each in the share capital of the Company upon exercise of the conversion rights attached to the Convertible Notes pursuant to the Agreement be and is hereby approved; and

(d) any one or more directors of the Company (the "**Directors**") be and is/are hereby authorised to implement and take all steps and do all acts and things and execute all such documents (including under seal) which he/she/they consider necessary or expedient to give effect to the Agreement and the transactions contemplated thereunder including the allotment and issue of the Consideration Shares, the issue of the Convertible Notes and the allotment and issue of Conversion Shares."

* *for identification purpose only*

ORDINARY RESOLUTION 2

"**THAT**:

(a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares ("**Shares**") in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this resolution shall authorize the Directors during the Relevant Period (as defined below) to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of the share capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) issued or deal with by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the exercise of any option under the share option scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; or (iii) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the Company which carry rights to subscribe for are convertible into Shares, shall not exceed the aggregate of:

    (i) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of passing of this resolution; and

    (ii) (if the Directors are so authorized by a separate ordinary resolution of the Shareholders) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of passing of this resolution), and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purpose of this resolution:

(aa) "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any other applicable laws of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.

(bb) "Rights Issue" means an offer or issue of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company)."

ORDINARY RESOLUTION 3

"**THAT** Dr. Wong Yu Man, James be re-elected as a non-executive Director."

ORDINARY RESOLUTION 4

"**THAT** Mr. Jiang Tao be re-elected as an executive Director."

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

Hong Kong, 16 April 2007

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

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, to vote on his/her/its behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the EGM is enclosed with the circular of the Company dated 16 April 2007. Whether or not you intend to attend the EGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he/she/it so wish.

3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's principal place of business in Hong Kong 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 appointed for holding the EGM or any adjournment thereof.

4. In the case of joint holders of Shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such Shares as if he/she was solely entitled thereto, but if more than one such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.

5. Resolutions numbered 1, 3 and 4 shall be approved by the Shareholders at the EGM by show of hands.

6. Resolution numbered 2 shall be approved by the independent Shareholders (as defined in the Rules Governing the Listing of Securities on the GEM) at the EGM by poll.