



## 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)

First Quarterly Report  
**2007/08**



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

## HIGHLIGHTS

- The Group has recorded a total turnover of approximately HK\$30,913,000 for the three months ended 30 June 2007 as compared to a total turnover of approximately HK\$18,964,000 recorded in the corresponding period in 2006, representing an increase of approximately 63%.
- The Group has recorded a net profit attributable to equity holders for the three months ended 30 June 2007 of approximately HK\$6,404,000 as compared to a net profit attributable to equity holders of approximately HK\$5,202,000 recorded in the corresponding period in 2006.
- The basic and diluted earnings per share of the Company for the three months ended 30 June 2007 were approximately HK0.45 cents and HK0.36 cents respectively (2006: approximately HK1.01 cents and HK0.89 cents respectively).
- The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2007 (2006: Nil).

## FINANCIAL RESULTS

The board (the "Board") of Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 30 June 2007, together with the unaudited comparative figures for the corresponding period in 2006 as follows:

### Unaudited Consolidated Income Statement

		<b>Unaudited Three months ended 30 June</b>	
	<i>Notes</i>	<b>2007 HK\$'000</b>	2006 HK\$'000
<b>TURNOVER</b>	3	<b>30,913</b>	18,964
Cost of sales		<b>(10,128)</b>	(7,656)
Gross profit		<b>20,785</b>	11,308
Other income		<b>708</b>	212
Selling and distribution costs		<b>(1,727)</b>	(225)
Administrative expenses		<b>(9,897)</b>	(5,575)
<b>PROFIT FROM OPERATIONS</b>		<b>9,869</b>	5,720
Finance costs		<b>(143)</b>	(229)
<b>PROFIT BEFORE TAXATION</b>		<b>9,726</b>	5,491
Taxation	4	<b>(885)</b>	(311)
<b>PROFIT FOR THE PERIOD</b>		<b>8,841</b>	5,180
Attributable to:			
Equity holders of the Company		<b>6,404</b>	5,202
Minority interests		<b>2,437</b>	(22)
		<b>8,841</b>	5,180
<b>DIVIDENDS</b>		-	-
<b>EARNINGS PER SHARE</b>			
– Basic ( <i>cents</i> )	5	<b>0.45</b>	1.01
– Diluted ( <i>cents</i> )	5	<b>0.36</b>	0.89

## **NOTES TO THE UNAUDITED CONSOLIDATED INCOME STATEMENT**

*For the three months ended 30 June 2007*

### **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 principally engaged in the provision of general hospital and healthcare services in the PRC, the provision of healthcare and hospital management services in the PRC, the provision of environmental protection services, manufacture and sales of melamine and its related products.

### **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 June 2007 are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2007.

The unaudited consolidated results for the three months ended 30 June 2007 have been reviewed by the audit committee of the Company.

**3. Turnover**

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

	<b>Unaudited Three months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Turnover		
Provision of environmental protection services, manufacture and sales of melamine and its related products	<b>7,468</b>	10,905
Provision of hospital management services	<b>13,395</b>	8,059
Provision of general hospital and healthcare services	<b>10,050</b>	–
	<b>30,913</b>	18,964

**4. Taxation**

No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profits derived from Hong Kong's operations during the period (2006: Nil).

Provision for corporate income tax of approximately 5% in average had been made for income derived from the provisions of hospital management services in the PRC (2006: Nil).

**5. Earnings per share**

The calculation of basic earnings per share for the three months ended 30 June 2007 was based on the net profit of approximately HK\$6,404,000 (2006: approximately HK\$5,202,000) and on the weighted average number of 1,429,772,585 shares (2006: 517,403,348 shares).

Diluted earnings per share was calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the three months ended 30 June 2007, the Company had three categories of dilutive potential ordinary shares: convertible notes, warrants and share options.

The convertible notes and warrants are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense of convertible notes 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.

	<b>Unaudited</b>	
	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Profit attributable to equity holders of the Company	<b>6,404</b>	5,202
Interest expense on convertible notes (net of tax)	<b>121</b>	180
	<u><b>6,525</b></u>	<u>5,382</u>
Profit used to determine diluted earnings per share		
	<b>2007</b>	2006
Weighted average number of ordinary shares in issue	<b>1,429,772,585</b>	517,403,548
Adjustments for assumed exercise of share options	<b>148,674,085</b>	–
Adjustments for assumed exercise of warrants	<b>133,298,711</b>	–
Adjustments for assumed conversion of convertible notes	<b>109,277,950</b>	86,956,521
	<u><b>1,821,023,331</b></u>	<u>604,360,069</u>
Weighted average number of ordinary shares of diluted earnings per share		
	<b>2007</b>	2006
Diluted earnings per share	<u><b>HK0.36 cents</b></u>	<u>HK0.89 cents</u>

**6. Capital and reserves (unaudited)**

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note (a))	Translation reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible notes reserves HK\$'000	Statutory enterprise expansion fund HK\$'000 (Note (b))	Statutory reserve HK\$'000 (Note (c))	Warrants reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 April 2006	17,247	60,764	2,935	453	113	499	37	37	-	(51,103)	30,982	36	31,018
Net profit for the period	-	-	-	-	-	-	-	-	-	5,202	5,202	(22)	5,180
Issue of shares	8,623	-	-	-	-	-	-	-	-	-	8,623	-	8,623
Premium arising on issue of shares	-	1,725	-	-	-	-	-	-	-	-	1,725	-	1,725
Issuing expenses	-	(718)	-	-	-	-	-	-	-	-	(718)	-	(718)
Share-based payment expense	-	-	-	-	(113)	-	-	-	-	-	(113)	-	(113)
Exercise of share options	242	-	-	-	-	-	-	-	-	-	242	-	242
Premium arising on exercise of share options	-	255	-	-	-	-	-	-	-	-	255	-	255
Transfer to reserve	-	-	-	-	-	-	-	-	2,067	-	2,067	-	2,067
<b>At 30 June 2006</b>	<b>26,112</b>	<b>62,026</b>	<b>2,935</b>	<b>453</b>	<b>-</b>	<b>499</b>	<b>37</b>	<b>37</b>	<b>2,067</b>	<b>(45,901)</b>	<b>48,265</b>	<b>14</b>	<b>48,279</b>
At 1 April 2007	54,105	152,381	(38,645)	1,607	5,000	69	149	149	1,837	(45,346)	131,306	3,421	134,727
Net profit for the period	-	-	-	-	-	-	-	-	-	6,404	6,404	2,437	8,841
Issue of shares	31,316	-	-	-	-	-	-	-	-	-	31,316	-	31,316
Premium arising on issue of shares	-	284,039	-	-	-	-	-	-	-	-	284,039	-	284,039
Issuing expenses	-	(7,353)	-	-	-	-	-	-	-	-	(7,353)	-	(7,353)
Exercise of share options	375	-	-	-	-	-	-	-	-	-	375	-	375
Premium arising on exercise of share options	-	3,450	-	-	-	-	-	-	-	-	3,450	-	3,450
Special reserve arising on acquisition of a subsidiary	-	-	(35,043)	-	-	-	-	-	-	-	(35,043)	-	(35,043)
Transfer to reserve	-	-	-	-	-	3,594	(56)	(56)	-	-	3,482	-	3,482
<b>At 30 June 2007</b>	<b>85,796</b>	<b>447,223</b>	<b>(73,688)</b>	<b>1,607</b>	<b>5,000</b>	<b>3,663</b>	<b>93</b>	<b>93</b>	<b>1,837</b>	<b>(38,942)</b>	<b>432,682</b>	<b>5,858</b>	<b>438,540</b>

*Note:*

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

**7. Interim dividend**

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2007 (2006: Nil).



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

Results of the Group for the three months ended 30 June 2007 have shown improvement in turnover compared with the corresponding period ended 30 June 2006. Turnover of the Group for the three months ended 30 June 2007 was approximately HK\$30,913,000 in comparison with approximately HK\$18,964,000 in 2006, representing an increase of approximately 63%. Net profit attributable to equity holders for the three months ended 30 June 2007 was approximately HK\$6,404,000 in comparison with a net profit of approximately HK\$5,202,000 in 2006, representing an increase of approximately 23%.

The improvement in revenue for the three months ended 30 June 2007 was mainly driven by the contribution in turnover by the provision of general hospital and healthcare services and hospital management services in the PRC. The turnover of these new lines of services represented approximately HK\$23,445,000 equivalent to approximately 76% of the Group's turnover for the three months ended 30 June 2007.

### Business Review

#### *Waste water treatment businesses*

The Group's waste water treatment businesses for government and commercial projects are mainly carried out through Youngdong Environmental Engineering Co., Ltd. ("Youngdong") in Korea. Youngdong's turnover for the three months ended 30 June 2007 totalled approximately HK\$2,205,000 (2006: approximately HK\$3,839,000).

#### *Manufacture and sales of melamine and its related products*

The Group manufactures and sells the melamine materials through its wholly-owned subsidiary, Prime Source (Fujian) Chemical Co. Ltd., in the Fujian Province, the PRC. Melamine materials are raw materials used in the manufacture of household products which are widely used in environmental conscious countries and are durable, non-toxic and easy to be processed. The Group also trades the household products made from the environmental friendly melamine materials which are widely used in environmental conscious countries. The total turnover recorded in the sales of melamine materials and environmental friendly household products for the three months ended 30 June 2007 was approximately HK\$5,263,000 (2006: approximately HK\$4,417,000).

***Hospital management services***

On 24 November 2006, the Group completed the acquisition of Day View Group Limited. Day View Group Limited and its subsidiaries, including Shanghai Humanity Hospital Management Company Limited, are principally engaged in the business of healthcare management and training and consultancy for hospitals in the PRC, which include advising on management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support. The turnover contributed by the hospital management services for the three months ended 30 June 2007 was approximately HK\$13,395,000 (2006: approximately HK\$8,059,000).

***General hospital and healthcare services***

On 9 May 2007, the Group has completed the acquisition of the entire equity interest of Hero Vision Enterprises Limited. Hero Vision Enterprises Limited and its subsidiaries, including Chongqing Edward Hospital Company Limited, are principally engaged in the provision of general hospital and healthcare services, consultancy in hospital management, research and development of medical management information systems; and other complementary and value-added healthcare services. The turnover contributed by Hero Vision Enterprises Limited and its subsidiaries in these services for the three months ended 30 June 2007 was approximately HK\$10,050,000 (2006: Nil)

***Future Prospects***

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

The Directors intend to explore more business opportunities in the promising healthcare sector in the PRC including but not limited to possible future investments in or cooperations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the Directors believe will have growth potentials) and to consider undertaking those businesses which are complementary 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.

## **Capital Structure**

- (a) On 13 March 2007, the Company entered into a placing agreement with the placing agent in relation to the placing of not more than 200,000,000 shares at an issue price of HK\$0.352 per share. The net proceeds from the placing were approximately HK\$67,900,000 which would be used for partial payment of the consideration of the acquisition of Hero Vision Enterprises Limited, future business development of the Group and general working capital of the Group. The placing was completed on 24 April 2007. For further details, please refer to the Company's announcements dated 20 March 2007 and 24 April 2007.
- (b) Upon completion of the acquisition of the entire equity interest of Hero Vision Enterprises Limited on 9 May 2007, the Company has issued and allotted 170,320,000 consideration shares to the vendor.
- (c) On 15 May 2007, the Company entered into a placing agreement with the placing agent in relation to the placing of not more than 256,000,000 shares at an issue price of HK\$0.58 per share. The net proceeds from the placing were approximately HK\$142,000,000 which will be used for future investment in healthcare sector in the PRC and general working capital of the Group. The placing was completed on 28 May 2007. For further details, please refer to the Company's announcements dated 17 May 2007 and 28 May 2007.
- (d) On 21 May 2007, 7,500,000 shares options have been exercised and the Company has issued and allotted 7,500,000 ordinary shares to an employee of the Group. On 29 May 2007, 66,165 share options were surrendered to the Company by an ex-employee of the Group.

## DISCLOSURE OF INTERESTS

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

As at 30 June 2007, the interests and short position of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by Directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

#### (i) *Interests in Shares:*

Name of Director	Nature of interest	Number of shares	Position	Approximate percentage of the total issued shares
Mr. Yung Kwok Leong	Corporate interest (Note)	272,506,000	Long	15.88%
	Personal interest	6,187,500	Long	0.36%
Ms. Shum Ngai Pan	Personal interest	5,400,000	Long	0.31%
Mr. Weng Jiaying	Personal interest	5,625,000	Long	0.32%

*Note:* 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.

**(ii) Interests in Share Options:**

Name of Director	Exercise period	Exercise price	Number of share options granted	Position
Mr. Yung Kwok Leong	13 July 2006 to 12 July 2016	HK\$0.627	3,242,085	Long
	21 March 2007 to 20 March 2017	HK\$0.51	5,800,000	Long
Ms. Shum Ngai Pan	13 July 2006 to 12 July 2016	HK\$0.627	3,705,240	Long
	21 March 2007 to 20 March 2017	HK\$0.51	7,100,000	Long
Mr. Weng Jiaying	13 July 2006 to 12 July 2016	HK\$0.627	3,572,910	Long
	21 March 2007 to 20 March 2017	HK\$0.51	7,200,000	Long
Mr. Chen Jin Shan	13 July 2006 to 12 July 2016	HK\$0.627	6,881,160	Long
	21 March 2007 to 20 March 2017	HK\$0.51	3,900,000	Long
Dr. Jiang Tao	13 July 2006 to 12 July 2016	HK\$0.627	6,881,160	Long
	21 March 2007 to 20 March 2017	HK\$0.51	3,900,000	Long

Save as disclosed above, as at 30 June 2007, none of the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 June, 2007, other than the interests of a Director or chief executive of the Company as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures" above, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

### Long positions in shares:

Name of shareholder	Number of shares	Position	Capacity	Approximate percentage of the total issued shares
Easeglory Holdings Limited (Note 1)	272,506,000	Long	Beneficial owner	15.88%
Ms. Yung Muk Ying (Note 1)	287,735,585	Long	Interest of spouse	16.77%
Mr. Lau Kam Shui (Note 2)	264,070,000	Long	Beneficial owner	15.39%
Ms. Lau Yuk Lan (Note 2)	264,070,000	Long	Interest of spouse	15.39%

- Notes:
1. The issued share capital of Easeglory Holdings Limited is 100% beneficially owned by Mr. Yung Kwok Leong, an executive Director and chairman of the Company. Ms. Yung Muk Ying is deemed to be interested in 272,506,000 shares held by Easeglory Holdings Limited and 6,187,500 shares and 9,042,085 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. Mr. Lau Kam Shui 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 Mr. Lau Kam Shui.

Save as disclosed above, as at 30 June 2007, the Directors of the Company were not aware of any other person (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

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

## SHARE OPTION SCHEMES

As at 30 June 2007, there were 150,042,907 outstanding share options, of which, 1,368,822 and 148,674,085 share options were granted pursuant to the respective Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme. Details of the outstanding share options as at 30 June 2007 were as follows:

### (i) Pre-IPO Scheme

As at 30 June 2007, there were 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 as a result of the share consolidation, the rights issue and open offer, and their respective exercise period under the Pre-IPO Scheme was as follows:

	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 Share Option Scheme**

On 12 July, 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 148,674,085 share options to Directors, consultants and employees of the Group. It was resolved that share options be offered to the Directors, consultants and employees at the subscription price of HK\$0.83, HK\$0.82 and HK\$0.51 per share respectively with a 10 year exercise period each commencing from 13 July, 24 July 2006 and 21 March 2007 respectively. The exercise prices of the share options granted on 13 July and 24 July 2006 have been adjusted to HK\$0.62 and HK\$0.627 respectively as a result of the open offer becoming unconditional on 12 February 2007. As at 30 June 2007, a breakdown setting out the number of share options outstanding, their respective exercise price and exercise period was as follows:

	<b>Exercise period</b>	<b>Exercise price</b>	<b>Number of share options outstanding</b>
Mr. 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
Ms. 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
Mr. 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
Mr. 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
Dr. 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\$0.62	16,475,085
	21 March 2007 to 20 March 2017	HK\$0.51	64,600,000
<b>Total</b>			<b>148,674,085</b>



## DIRECTORS' SERVICE CONTRACTS

Mr. Yung Kwok Leong, the executive Director of the Company and chairman of the Board 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 and Mr. Chen Jin Shan 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. Weng Jiaying has resigned as the executive Director of the Company with effect from 1 August 2007 due to health reasons.

Dr. 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. Zheng Gang has been appointed as the executive Director by way of a letter of appointment with the Company for a period of one year commencing from 1 August 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 independent 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 above, none of the Directors has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

During the three months ended 30 June 2007, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

## **COMPETING INTERESTS**

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

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the period ended 30 June 2007.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the period ended 30 June 2007 except that no nomination committee of the Board is established.

## **PRE-EMPTIVE RIGHTS**

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

## REMUNERATION COMMITTEE

The remuneration committee was established on 3 June 2005 in compliance with the code provision. The chairman of the committee is Mr. Chan Francis Ping Kuen, and other members include Mr. Hsu William Shiu Foo and Mr. Yu Chai Mei, all of them are the independent non-executive Directors of the Company.

The role and function of the remuneration committee include the determination of the specific remuneration package of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of non-executive Directors. The remuneration committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. No meeting was held from the remuneration committee for the three months ended 30 June 2007.

## AUDIT COMMITTEE

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

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

The audit committee has reviewed the Group's unaudited results for the three months ended 30 June 2007.

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

Hong Kong, 14 August 2007

*As at the date of this report, the executive Directors of the Company are Mr. Yung Kwok Leong, Ms. Shum Ngai Pan, Mr. Chen Jin Shan, Dr. Jiang Tao and Mr. Zheng Gang, the non-executive Director is Dr. Wong Yu Man, James, and the independent non-executive Directors are Mr. Chan Francis Ping Kuen, Mr. Hsu William Shiu Foo and Mr. Yu Chai Mei.*