



**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)



**Third Quarterly Report  
2008/2009**

\* For identification purpose only

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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.

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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\$149,404,000 for the nine months ended 31 December 2008 as compared to a total turnover of approximately HK\$99,805,000 recorded in the corresponding period in 2007, representing an increase of approximately 50%.
- The Group has recorded a net profit attributable to equity holders for the nine months ended 31 December 2008 of approximately HK\$13,758,000 as compared to a net profit attributable to equity holders of approximately HK\$24,946,000 recorded in the corresponding period in 2007, representing a decrease of approximately 45%.
- The basic and diluted earnings per share of the Company for the nine months ended 31 December 2008 were approximately HK0.77 cents and HK0.71 cents respectively (2007: approximately HK1.51 cents and HK1.33 cents respectively).
- The Directors do not recommend the payment of a quarterly dividend for the nine months ended 31 December 2008 (2007: Nil).

## CONSOLIDATED THIRD QUARTERLY RESULTS (UNAUDITED)

The board (the “Board”) of Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 31 December 2008, together with the unaudited comparative figures for the corresponding periods in 2007 as follows:

### Unaudited Condensed Consolidated Income Statement

For the three months and nine months ended 31 December 2008

		Three months ended 31 December		Nine months ended 31 December	
		2008	2007	2008	2007
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Continuing operations</b>					
Turnover	3	<b>45,679</b>	37,993	<b>149,404</b>	99,805
Cost of sales		<b>(12,854)</b>	(12,188)	<b>(43,433)</b>	(31,557)
Gross profit		<b>32,825</b>	25,805	<b>105,971</b>	68,248
Other income		<b>271</b>	2,450	<b>2,017</b>	4,202
Selling and distribution costs		<b>(6,456)</b>	(1,333)	<b>(16,865)</b>	(6,139)
Administrative expenses		<b>(17,702)</b>	(9,854)	<b>(51,620)</b>	(26,711)
Profit from operations		<b>8,938</b>	17,068	<b>39,503</b>	39,600
Finance costs		<b>(191)</b>	(493)	<b>(734)</b>	(852)
Profit before taxation		<b>8,747</b>	16,575	<b>38,769</b>	38,748
Taxation	4	<b>(3,021)</b>	(2,885)	<b>(12,538)</b>	(5,874)
Profit for the period from continuing operations		<b>5,726</b>	13,690	<b>26,231</b>	32,874

		<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>31 December</b>		<b>31 December</b>	
		<b>2008</b>	2007	<b>2008</b>	2007
Notes		<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
<b>Discontinued operation</b>					
(Loss) for the period from discontinued operation					
		–	(1,070)	–	(1,107)
		<b>5,726</b>	12,620	<b>26,231</b>	31,767
Attributable to:					
	Equity holders of the Company	<b>3,031</b>	10,494	<b>13,758</b>	24,946
	Minority interests	<b>2,695</b>	2,126	<b>12,473</b>	6,821
		<b>5,726</b>	12,620	<b>26,231</b>	31,767
Dividends	5	–	–	–	–
Earnings per share from continuing and discontinued operations					
	6	<b>0.17 cents</b>	0.58 cents	<b>0.77 cents</b>	1.51 cents
	– Basic (cents)	<b>0.17 cents</b>	0.58 cents	<b>0.77 cents</b>	1.51 cents
	– Diluted (cents)	<b>0.16 cents</b>	0.53 cents	<b>0.71 cents</b>	1.33 cents
Earnings per share from continuing operations					
	6	<b>0.17 cents</b>	0.67 cents	<b>0.77 cents</b>	1.61 cents
	– Basic (cents)	<b>0.17 cents</b>	0.67 cents	<b>0.77 cents</b>	1.61 cents
	– Diluted (cents)	<b>0.16 cents</b>	0.59 cents	<b>0.71 cents</b>	1.39 cents

# Unaudited Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2008

	Share capital	Share premium	Special reserve	Translation reserve	Share-based payment reserve	Convertible notes reserve	Statutory enterprise expansion fund	Statutory surplus reserve	Warrant reserve	Accumulated losses	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note (a))		(Note (b))				(Note (c))	(Note (d))					
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	-	-	-	-	-	-	-	-	-	24,946	24,946	6,821	31,767
Issue of shares	35,746	-	-	-	-	-	-	-	-	-	35,746	-	35,746
Premium arising on issue of shares	-	329,337	-	-	-	-	-	-	-	-	329,337	-	329,337
Issuing expenses	-	(7,649)	-	-	-	-	-	-	-	-	(7,649)	-	(7,649)
Exercise of share options	375	-	-	-	-	-	-	-	-	-	375	-	375
Premium arising on exercise of share options	-	3,450	-	-	-	-	-	-	-	-	3,450	-	3,450
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	308	-	-	-	-	-	-	308	-	308
Warrant reserve transferred to retained profits upon expiry of warrants	-	-	-	-	-	-	-	-	(1,837)	1,837	-	-	-
Increase in minority interests resulting from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	18,462	18,462
Transfer to reserve	-	-	-	-	-	3,594	(56)	(56)	-	(1,359)	2,123	-	2,123
<b>At 31 December 2007</b>	<b>90,226</b>	<b>477,519</b>	<b>(38,645)</b>	<b>1,915</b>	<b>5,000</b>	<b>3,663</b>	<b>93</b>	<b>93</b>	<b>-</b>	<b>(19,922)</b>	<b>519,942</b>	<b>28,704</b>	<b>548,646</b>
At 1 April 2008	89,902	425,169	(6,735)	1,461	4,658	24,693	-	753	-	(62,099)	477,802	26,682	504,484
Net profit for the period	-	-	-	-	-	-	-	-	-	13,758	13,758	12,473	26,231
Increase in minority interests resulting from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	345	345
Transfer to reserve	-	-	-	935	-	-	-	-	-	-	935	-	935
<b>At 31 December 2008</b>	<b>89,902</b>	<b>425,169</b>	<b>(6,735)</b>	<b>2,396</b>	<b>4,658</b>	<b>24,693</b>	<b>-</b>	<b>753</b>	<b>-</b>	<b>(48,341)</b>	<b>492,495</b>	<b>39,500</b>	<b>531,995</b>

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Notes:

- (a) As at 31 December 2008, the number of ordinary shares of HK\$0.05 each issued and fully paid were 1,798,044,795 shares (2007: 1,804,524,795 shares).
- (b) 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 subsidiaries acquired pursuant to group reorganisations.
- (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.
- (d) 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.

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

*For the nine months ended 31 December 2008*

### **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 provision of general hospital services and 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 2008 are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2008.

The unaudited consolidated results for the nine months ended 31 December 2008 have been reviewed by the audit committee of the Company.



### 3. TURNOVER

For the nine months ended 31 December 2008, turnover consisted the aggregate of net amounts received and receivable from third parties in connection with the provision of general hospital services and healthcare and hospital management services.

	Three months ended		Nine months ended	
	31 December		31 December	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Continuing operations:</b>				
Turnover				
– Provision of general hospital services	<b>39,707</b>	20,558	<b>134,169</b>	43,883
– Provision of healthcare and hospital management services	<b>5,972</b>	13,148	<b>15,235</b>	42,090
– Sale of melamine and its related products	–	4,287	–	13,832
	<b>45,679</b>	37,993	<b>149,404</b>	99,805
Discontinued operation:				
Turnover				
– Sale of environmental protection products and provision of related services	–	1,935	–	6,205
	–	1,935	–	6,205

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#### **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 (2007: Nil).

Corporate income tax of approximately 25% has been provided for the profit generated from the general hospital services and healthcare and hospital management services in the PRC (2007: approximately 25%).

#### **5. DIVIDENDS**

The Directors do not recommend the payment of a quarterly dividend for the nine months ended 31 December 2008 (2007: Nil).

#### **6. EARNINGS PER SHARE**

The calculation of basic earnings per share for the three months ended 31 December 2008 was based on the net profit of approximately HK\$3,031,000 (2007: approximately HK\$10,494,000) and on the weighted average number of 1,798,044,795 shares (2007: 1,796,819,787 shares).

The calculation of basic earnings per share for the nine months ended 31 December 2008 was based on the net profit of approximately HK\$13,758,000 (2007: approximately HK\$24,946,000) and on the weighted average number of 1,798,044,795 shares (2007: 1,648,294,938 shares).

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 2008, the Company had two categories of dilutive potential ordinary shares: unlisted convertible notes and share options.

The unlisted convertible notes are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense of the unlisted 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 below is compared with the number of shares that would have been issued assuming the exercise of the share options.

	<b>Three months ended 31 December 2008 HK\$'000 (unaudited)</b>	Nine months ended 31 December 2008 HK\$'000 (unaudited)
Profit attributable to equity holders of the Company	<b>3,031</b>	13,758
Interest expense on unlisted convertible notes (net of tax)	<b>138</b>	519
	<hr/>	<hr/>
Profit used to determine diluted earnings per share	<b>3,169</b>	14,277
	<hr/>	<hr/>
	<b>Three months ended 31 December 2008</b>	Nine months ended 31 December 2008
Weighted average number of ordinary shares in issue	<b>1,798,044,795</b>	1,798,044,795
Adjustments for assumed conversion of unlisted convertible notes	<b>58,141,587</b>	58,141,587
Adjustments for assumed exercise of share options	<b>146,536,162</b>	146,536,162
	<hr/>	<hr/>
Weighted average number of ordinary shares of diluted earnings per share	<b>2,002,722,544</b>	2,002,722,544
	<hr/>	<hr/>
	<b>Three months ended 31 December 2008</b>	Nine months ended 31 December 2008
Diluted earnings per share	<b>HK0.16 cents</b>	HK0.71 cents
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## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

During the nine months ended 31 December 2008, the business environment had become challenging for the Group. The unpredictable global economic crisis had adversely affected the business environment of the Group like any other business segments. Turnover of the Group for the nine months ended 31 December 2008 was approximately HK\$149,404,000 in comparison with a turnover of approximately HK\$99,805,000 in 2007, representing an increase of approximately 50%. The said increase was mainly driven by the increased number of hospitals acquired by the Group with the increased contribution in turnover from HK\$43,883,000 in 2007 to HK\$134,169,000 in 2008 by the provision of general hospital services in the PRC. Upon completion of the previously reported hospital acquisitions, the Group had changed the composition of its turnover and the revenue was mainly generated from the acquired hospitals.

Net profit attributable to equity holders for the nine months ended 31 December 2008 was approximately HK\$13,758,000 in comparison with a net profit of approximately HK\$24,946,000 in 2007, representing a decrease of approximately 45%. The decrease in net profit attributable to equity holders was due to the increase in costs of sale and administrative expenses during the period as the cost structure for provision of general hospital services was different from the corresponding period in 2007. Administrative expenses for the nine months ended 31 December 2008 was approximately HK\$51,620,000 which was an increase of approximately 93% as compared with the corresponding period ended 31 December 2007.

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## **Business Review and Outlook**

### **General hospital services**

On 9 May 2007, the Group had completed the acquisition of the entire equity interest of Hero Vision Enterprises Limited. Hero Vision Enterprises Limited and its subsidiaries, including the 55% owned Chongqing Edward Hospital Company Limited, a privately-run general hospital established in Chongqing, the PRC, is principally engaged in the provision of general hospital services including but not limited to medicine ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination. The turnover contributed by Hero Vision Enterprises Limited and its subsidiaries for the nine months ended 31 December 2008 was approximately HK\$53,336,000 (2007: approximately HK\$38,022,000).

On 8 October 2007, the Group had completed the acquisition of the entire equity interest of Merry Sky Investments Limited. Merry Sky Investments Limited and its subsidiaries, including the 55% owned Jiaying City Shuguang Western and Chinese Composite Hospital Limited, a privately-run general hospital established in Jiaying city, the PRC, are principally engaged in the provision of traditional Chinese medical treatments as well as general hospital medical services including but not limited to medical ward, surgical ward, cosmetic surgery, dermatology department and medical checkup and examination. The turnover contributed by Merry Sky Investments Limited and its subsidiaries for the nine months ended 31 December 2008 was approximately HK\$39,473,000 (2007: approximately HK\$5,861,000).

On 22 February 2008, the Group had completed the acquisition of the entire equity interest of Direct Way Group Limited and its subsidiaries, including the 70% owned Foshan Qide Hospital, is a privately-run hospital established in Foshan, the PRC, by Foshan Qide Hospital Limited, which provides general hospital services in Foshan, the PRC, including but not limited to medicine ward, surgical ward, gynaecology, paediatric unit, plastic surgery, ear nose and throat unit, emergency and accident unit and medical checkup and examination. The turnover contributed by Direct Way Group Limited and its subsidiaries for the nine months ended 31 December 2008 was approximately HK\$16,756,000 (2007: Nil).

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On 14 April 2008, the Group had completed the acquisition of the entire equity interest of United First Investments Limited. United First Investments Limited indirectly has 100% control of Fuzhou Hui Hao Dental Hospital Company Limited, a privately-run dental hospital established in Fuzhou, the PRC which provides comprehensive dental specialty services including cosmetic dentistry, dental implant, orthodontic treatment, and dental surgery etc. The turnover contributed by United First Investments Limited and its subsidiaries for the nine months ended 31 December 2008 was approximately HK\$1,004,000 (2007: Nil).

On 5 May 2008, the Group had completed the acquisition of the entire equity interest of Large Forever Group Limited and its subsidiaries, including the 70% owned Shangrao Xiehe Hospital, is a privately-run hospital established in Shangrao, the PRC by Shangrao Shi Xiehe Hospital Company Limited, which provides general hospital services in Shangrao, the PRC including but not limited to medicine ward, surgical ward, gynaecology, paediatric unit, plastic surgery, ear nose and throat unit and Chinese medical treatments. The turnover contributed by Large Forever Group Limited and its subsidiaries for the nine months ended 31 December 2008 was approximately HK\$21,986,000 (2007: Nil).

On 17 July 2008, the Group had completed the acquisition of the entire equity interest of Smart Peak Limited. Smart Peak Limited indirectly has 100% control of Bengbu Shi Aomeigia Female Hospital Limited, a privately-run hospital established in Anhui, the PRC which provides general hospital services in Anhui, the PRC including but not limited to medicine ward, surgical ward, gynaecology, paediatric unit, plastic surgery, ear nose and throat unit, emergency and accident unit and medical checkup and examination. The turnover contributed by Smart Peak Limited and its subsidiaries for the nine months ended 31 December 2008 was approximately HK\$1,614,000 (2007: Nil).

#### **Healthcare and hospital management services**

The Group provides healthcare management and training and consultancy for hospitals in the PRC through Fujian Madsen Enterprises Company Limited and Beiyi Renzhi (Beijing) Investment Consultancy Limited 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 healthcare and hospital management services for the nine months ended 31 December 2008 was approximately HK\$15,235,000 (2007: approximately HK\$42,090,000).

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### Future prospects

The Directors expect that the global economic environment will remain challenging for the rest of 2009. The management had noticed the results of the Group for the three months ended 31 December 2008 was less favourable than the three months ended 30 September 2008. Although the challenges remain, the management of the Group will adopt to the changing business environment with effective and efficient measures. The Directors remain optimistic about the promising healthcare sector in the PRC for the long-run 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.

On 30 December 2008, the Company announced, among other things, that the Board proposed to raise not less than approximately HK\$44,950,000, before expenses, by an open offer of not less than 899,022,397 offer shares and not more than 930,100,901 offer shares at a subscription price of HK\$0.05 per Offer Share, payable in full on application, on the basis of one offer share for every two shares held on record date with bonus issue. The net proceeds of the open offer (after deduction of commission and expenses) are expected to amount to approximately HK\$42,500,000 (assuming no outstanding share options and no rights attaching to the convertible notes are exercised on or before the record date) will be used to finance future investments in the promising healthcare sector in the PRC, business development of the Group and towards general working capital. For further details, please refer to the Company's announcement and circular dated 30 December 2008 and 20 January 2009 respectively.

## DISCLOSURE OF INTERESTS

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

As at 31 December 2008, 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)	375,706,000	Long	20.90%
	Personal interest	6,187,500	Long	0.34%
Mr. Zheng Gang	Personal interest	3,600,000	Long	0.20%
Ms. Shum Ngai Pan	Personal interest	5,400,000	Long	0.30%

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:**

<b>Name of Director</b>	<b>Exercise period</b>	<b>Exercise price</b>	<b>Number of share options granted</b>	<b>Position</b>
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
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
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. 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

Save as disclosed above, as at 31 December 2008, 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 31 December 2008, 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 of the Company:

Name of shareholder	Number of shares	Position	Capacity	Approximate percentage of the total issued shares
Easeglory Holdings Limited (Note 1)	375,706,000	Long	Beneficial owner	20.90%
Ms. Yung Muk Ying (Note 1)	390,935,585	Long	Interest of spouse	21.74%
Mr. Lau Kam Shui (Note 2)	212,933,637	Long	Beneficial owner	11.84%
Ms. Lau Yuk Lan (Note 2)	212,933,637	Long	Interest of spouse	11.84%

#### 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 375,706,000 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 212,933,637 shares, being the aggregate of the 170,320,000 consideration shares and the 42,613,637 conversion shares under the SFO. Ms. Lau Yuk Lan is deemed to be interested in 212,933,637 shares by virtue of her being the spouse of Mr. Lau Kam Shui.

Save as disclosed above, as at 31 December 2008, 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 Directors 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 31 December 2008, there were 146,536,162 outstanding share options, of which, 1,368,822 and 145,167,340 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 31 December 2008 were as follows:

### (i) Pre-IPO scheme

As at 31 December 2008, 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:

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
Former employee and adviser of the Group	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 145,167,340 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 31 December 2008, a breakdown setting out the number of share options outstanding, their respective exercise price and exercise period was as follows:

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
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
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
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. 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
Employees and consultants of the Group	13 July 2006 to 12 July 2016	HK\$0.627	15,681,105
	24 July 2006 to 23 July 2016	HK\$0.62	16,276,590
	21 March 2007 to 20 March 2017	HK\$0.51	71,800,000
Total			<u>145,167,340</u>

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## DIRECTORS' SERVICE CONTRACTS

Mr. Yung Kwok Leong, the executive Director and chairman of the Company has signed a letter of appointment with the Company for the monthly fee of HK\$60,000 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 notice in writing.

Dr. Jiang Tao has been appointed as an executive Director by way of letter of appointment with the Company for the monthly fee of HK\$30,000 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 notice in writing.

Mr. Zheng Gang has been appointed as an executive Director by way of letter of appointment with the Company for the monthly fee of HK\$60,000 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 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 the monthly fees of HK\$15,000 and HK\$5,000 respectively 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 notice in writing.

Dr. Wong Yu Man, James, has been appointed as a non-executive Director by way of a letter of appointment with the Company for the monthly fee of HK\$10,000 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 notice in writing.

Ms. Wong Ka Wai, Jeanne 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 1 November 2007 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 Prof. 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 notice in writing. Each of the three independent non-executive Directors receives a monthly fee of HK\$5,000.

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

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the nine months ended 31 December 2008.

## **COMPETING INTERESTS**

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

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

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the period ended 31 December 2008.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the period ended 31 December 2008 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.

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## REMUNERATION COMMITTEE

The remuneration committee was established on 3 June 2005 in compliance with the code provision. The members include Ms. Wong Ka Wai, Jeanne, Mr. Hsu William Shiu Foo and Prof. 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.

## AUDIT COMMITTEE

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

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

The audit committee has reviewed the Group's unaudited results for the nine months ended 31 December 2008.

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

Hong Kong, 10 February 2009