



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

2010/2011

* For identification purpose only

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

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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, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- The Group has recorded a total turnover of approximately HK\$344.782 million for the three months ended 30 June 2010 as compared to a total turnover of approximately HK\$29.648 million recorded in the corresponding period in 2009, representing a significant increase of about 1,063%.
- The Group has recorded profit attributable to owners of the Company for the three months ended 30 June 2010 of approximately HK\$16.278 million as compared to the profit attributable to owners of approximately HK\$2.133 million recorded in the corresponding period in 2009, representing a significant increase of about 663%.
- The basic and diluted earnings per share of the Company for the three months ended 30 June 2010 were approximately HK0.174 cents and HK0.166 cents respectively (2009: approximately HK0.05 cents for the basic and diluted earning per share).
- The Directors do not recommend the payment of a dividend for the three months ended 30 June 2010 (2009: Nil).

FIRST QUARTERLY RESULTS (UNAUDITED)

The board (the “Board”) of Directors of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 30 June 2010, together with the unaudited comparative figures for the corresponding period in 2009 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the three months ended 30 June 2010

	<i>Notes</i>	Unaudited Three months ended 30 June	
		2010 HK\$'000	2009 HK\$'000
TURNOVER	3	344,782	29,648
Cost of sales		(294,357)	(12,397)
Gross profit		50,425	17,251
Other income		5,469	7,813
Selling and distribution costs		(6,569)	(5,420)
Administrative expenses		(25,423)	(17,231)
PROFIT FROM OPERATIONS		23,902	2,413
Finance costs		(1,945)	(126)
PROFIT BEFORE TAXATION		21,957	2,287
Taxation	4	(4,150)	(597)
PROFIT FOR THE PERIOD		17,807	1,690
Other comprehensive income:			
Exchange differences arising on translating foreign operations		1,944	(341)
Other comprehensive income for the period, net of tax		1,944	(341)
Total comprehensive income for the period		19,751	1,349

		Unaudited	
		Three months ended	
		30 June	
	<i>Notes</i>	2010	2009
		<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to:			
Owners of the Company		16,278	2,133
Minority interests		1,529	(443)
		17,807	1,690
Total comprehensive income attributable to:			
Owners of the Company		19,561	1,402
Minority interests		190	(53)
		19,751	1,349
DIVIDENDS	7	–	–
EARNINGS PER SHARE			
– Basic (<i>cents</i>)	5	0.174	0.05
– Diluted (<i>cents</i>)	5	0.166	0.05

**NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME (UNAUDITED)**

For the three months ended 30 June 2010

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 GEM of The Stock Exchange. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681 GT George Town, Grand Cayman, KY1-1111, Cayman Islands. The head office and principal place of business of the Company in Hong Kong is located at 19/F., New Wing, 101 King's Road, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

The Company acts as an investment holding company while its subsidiaries are principally engaged in the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses, provision of general hospital and healthcare and hospital management services in the People's Republic of China (the "PRC").

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") 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. These financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the three months ended 30 June 2010 are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2010.

3. TURNOVER

Turnover represents the aggregate of net amounts received and receivable from third parties in connection with the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses, provision of general hospital and healthcare and hospital management services.

	Unaudited	
	Three months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Turnover		
Pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses	313,285	–
Provision of general hospital services	31,098	29,449
Provision of healthcare and hospital management services	399	199
	344,782	29,648

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 (2009: Nil).

Corporate income tax of approximately 25% has been provided for the profit generated from the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses, general hospital and healthcare and hospital management services in the PRC (2009: approximately 26%).

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 June 2010 was based on the profit attributable to owners of the Company of approximately HK\$16.278 million (2009: approximately HK\$2.133 million) and on the weighted average number of 9,328,445,319 shares (2009: 4,495,111,986 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 2010, the Company had two categories of dilutive potential ordinary shares: convertible note and share options.

The convertible note is assumed to have been converted into ordinary shares and the profit attributable to owners is adjusted to eliminate the interest expense of convertible note 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.

	Unaudited Three months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Profit attributable to owners of the Company	16,278	2,133
Interest expense on convertible note (net of tax)	32	32
Profit for the purpose of diluted earnings per share	16,310	2,165
	2010	2009
Weighted average number of ordinary shares in issue	9,328,445,319	4,495,111,986
Adjustments for assumed exercise of share options	483,142,203	244,226,937
Adjustments for assumed conversion of convertible note	30,805,687	30,805,687
Weighted average number of ordinary shares for the purpose of diluted earnings per share	9,842,393,209	4,770,144,610
	2010	2009
Diluted earnings per share	HK0.166 cents	HK0.05 cents

6. CAPITAL AND RESERVES (UNAUDITED)

	Attributable to owners of the Company										
	Share capital HK\$'000 (Note (a))	Share premium HK\$'000	Special reserve HK\$'000 (Note (b))	Translation reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible note reserve HK\$'000	Statutory surplus reserve HK\$'000 (Note (c))	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 April 2009	224,756	335,267	(6,735)	7,899	4,658	4,448	1,287	(243,757)	327,823	28,239	356,062
Profit for the period	-	-	-	-	-	-	-	2,133	2,133	(443)	1,690
Transfer to reserve	-	-	-	741	-	-	-	-	741	25	766
At 30 June 2009	224,756	335,267	(6,735)	8,640	4,658	4,448	1,287	(241,624)	330,697	27,821	358,518
At 1 April 2010	466,423	673,600	(6,735)	7,189	6,230	2,537	1,287	(446,547)	703,984	32,858	736,842
Profit for the period	-	-	-	-	-	-	-	16,278	16,278	1,529	17,807
Transfer to reserve	-	-	-	31	-	-	-	-	31	263	294
At 30 June 2010	466,423	673,600	(6,735)	7,220	6,230	2,537	1,287	(430,269)	720,293	34,650	754,943

Notes:

- (a) As at 30 June 2010, the total issued share capital of the Company was approximately HK\$466.423 million (2009: approximately HK\$224.756 million) divided into 4,495,111,986 ordinary shares and 4,833,333,333 non-voting convertible preference shares (2009: 4,495,111,986 ordinary shares) of HK\$0.05 each.
- (b) Included in the special reserve amounting to approximately HK\$2,935,000 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.

The decrease in special reserve amounting to approximately HK\$41,580,000 of the Group represents the difference between the fair value and the contracted value of the consideration shares paid for acquisition of subsidiaries during the year ended 31 March 2007.

The increase in special reserve amounting to approximately HK\$31,910,000 of the Group represents the difference between the fair value and the contracted value of consideration shares paid for acquisition of subsidiaries during the year ended 31 March 2008.

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

The Directors do not recommend the payment of a dividend for the three months ended 30 June 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 30 June 2010, the Group recorded a turnover on business operations of approximately HK\$344.782 million (2009: approximately HK\$29.648 million), representing a significant increase of about 1,063% compared to the same period last year. The rise in turnover was mainly driven by the sales from the newly acquired pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses in the PRC.

Other income amounted to approximately HK\$5.469 million of which approximately HK\$5.291 million was recorded during the three months ended 30 June 2010 from the vendor's compensation for the shortfall of guaranteed profit. For details, please refer to the Company's announcement dated 18 June 2010.

Selling and distribution expenses for the three months ended 30 June 2010 amounted to approximately HK\$6.569 million (2009: approximately HK\$5.420 million). Administrative expenses for the three months ended 30 June 2010 amounted to approximately HK\$25.423 million (2009: approximately HK\$17.231 million). The increase in these expenses was due to the Group's business expansion.

The Group reported profit attributable to owners of the Company of approximately HK\$16.278 million for the three months ended 30 June 2010 (2009: approximately HK\$2.133 million), representing a significant increase of about 663% compared to the same the period last year. The improvement in the Group's results was mainly attributable to the expansion of pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses in the PRC.

BUSINESS REVIEW AND OUTLOOK

Pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses

On 8 March 2010, the Group has successfully completed the acquisition of the entire equity interest of Huihao Medicine Wholesale Group (comprises of Hui Hao (HK) Group Limited, Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd, Putian Medicine Co. Ltd and Fujian Huiming Medicine Co. Ltd) (“Huihao Medicine Wholesale Group”) and 99.29% equity interest (through control agreements) of Fujian Huihao Sihai Pharmaceutical Chain Company Limited (the “Huihao Sihai”). The Huihao Medicine Wholesale Group is the first-tier distribution agent for over 100 pharmaceutical products from well-renowned overseas and local medicine manufactures in Fujian Province, the PRC. The Huihao Medicine Wholesale Group has more than 1,900 distribution customers in Fujian Province, the PRC, including more than 110 distributors and more than 1,000 clinics and pharmacies. The direct sales to hospitals deliver a broad range of pharmaceutical products to more than 100 hospitals. The major business of Huihao Sihai is the retailing of pharmaceutical products. Its pharmaceutical retail chain operation is the leader in pharmaceutical retail chains in Fujian Province, the PRC in terms of number of retail drug stores. There are currently 85 direct drug stores located in major cities in Fujian Province, the PRC under the brand name “Huihao Sihai”. The turnover contributed by the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses for the three months ended 30 June 2010 was approximately HK\$313.285 million.

General hospital services

During the three months ended 30 June 2010, the Group had three general hospitals operating in different cities of the PRC (i.e. Chongqing, Jiaying and Shangrao) which 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 total turnover contributed by these general hospitals for the three months ended 30 June 2010 was approximately HK\$31.098 million (2009: approximately HK\$29.449 million).

Healthcare and hospital management services

The Group provides healthcare management and training and consultancy for hospitals in the PRC which included advising on management strategies, operations and business modelling, 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 three months ended 30 June 2010 was approximately HK\$0.399 million (2009: approximately HK\$0.199 million).

Future Prospects

The Directors expect that the global economic environment will remain challenging for the year 2010. The management of the Group will continue to adapt to the changing business environment with effective and efficient measures and continue to keep focus on its core healthcare and pharmaceutical businesses in the PRC. The strong economic growth and increasing healthcare expenditures in the PRC are major drivers for greater demands for quality hospital services and affordable pharmaceutical products. The Directors therefore remain optimistic about the promising healthcare and pharmaceutical sectors in the PRC in the long-run including but not limited to possible future investments in or co-operation with healthcare and pharmaceutical businesses in the PRC (making use of various acquisition means, such as integrating hospitals and streamlining resources to expand the healthcare and pharmaceutical businesses more effectively). At the same time, the implementation of the healthcare reform measures and the government-mandated improvement of the healthcare standards on a national basis will lead to a seamless co-operation between hospital management enterprises and distributors of pharmaceutical products in the PRC, thus increasing the business opportunities for the Group as a whole. After taking into account such factors and undertaking those businesses which are complementary to the existing healthcare business of the Group as a further step, the diversification into the pharmaceutical sector would consequently create synergetic effects among the core business divisions, ultimately contributing noticeable benefits to the Group and enhancing shareholders' returns in the long run.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Disclosure of Interests

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

As at 30 June 2010, the interests and short positions 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 (<i>Note 1</i>)	1,209,605,000	Long	26.91%
	Personal interest (<i>Note 2</i>)	4,848,802,083	Long	107.87%
Mr. Weng Jiaxing	Personal interest	14,062,500	Long	0.31%
Mr. Zheng Gang	Personal interest	9,000,000	Long	0.20%

Note 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.

Note 2: The 4,848,802,083 shares represent (i) the 15,468,750 shares beneficially owned by Mr. Yung Kwok Leong, and (ii) the 4,833,333,333 convertible preference shares.

(ii) Interests in share options under Post-IPO share option scheme:

Name of Director	Exercise period	Exercise price	Number of share options granted	Position
Mr. Yung Kwok Leong	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000	Long
Dr. Jiang Tao	30 September 2009 to 29 March 2019	HK\$0.050	8,000,000	Long
	23 March 2010 to 22 March 2015	HK\$0.117	15,000,000	Long
Mr. Weng Jiaying	23 March 2010 to 22 March 2015	HK\$0.117	19,000,000	Long
Mr. Zheng Gang	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000	Long
	23 March 2010 to 22 March 2015	HK\$0.117	27,000,000	Long
Dr. Huang Jiaqing	30 September 2009 to 29 March 2014	HK\$0.05	10,000,000	Long
	23 March 2010 to 22 March 2015	HK\$0.117	3,000,000	Long
Mr. Chen Jin Shan	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000	Long
	23 March 2010 to 22 March 2015	HK\$0.117	20,000,000	Long

Save as disclosed above, as at 30 June 2010, 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 Rules 5.46 to 5.67 of the GEM Listing Rules.

(b) *Substantial shareholders' interests and short positions in shares and underlying shares*

As at 30 June 2010, 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)	1,209,605,000	Long	Beneficial owner	26.91%
Mrs. Yung Muk Ying (Note 1)	6,075,407,083	Long	Interest of spouse	135.16%

Note 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 Board and Chief Executive Officer of the Company. By virtue of her being the spouse of Mr. Yung Kwok Leong, Mrs. Yung Muk Ying is deemed to be interested in 1,209,605,000 shares held by Easeglory Holdings Limited and 15,468,750 shares and 17,000,000 share options and 4,833,333,333 convertible preference shares beneficially held by Mr. Yung Kwok Leong in personal capacity.

Save as disclosed above, as at 30 June 2010, 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 30 June 2010, there were 483,142,203 outstanding share options, of which, 2,281,370 and 480,860,833 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 2010 were as follows:

(i) Pre-IPO scheme

As at 30 June 2010, there were 2,281,370 outstanding share options pursuant to the Pre-IPO scheme adopted on 20 April 2002. A breakdown setting out the number of outstanding share options, their respective exercise price and 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 advisor of the Group	25 April 2002 to 24 April 2012	HK\$0.245	2,281,370

(ii) Post-IPO share option scheme

On 12 July 2006, 21 March 2007, 30 March 2009 and 18 March 2010 respectively, the Company passed Board resolutions pursuant to the Post-IPO scheme adopted on 20 April 2002 to grant a total of 480,860,833 share options to directors, consultants and employees of the Group. It was resolved that share options be offered to the directors, consultants and employees respectively with a 5 year and 10 year exercise period each commencing from 13 July 2006, 21 March 2007, 30 September 2009 and 23 March 2010 respectively. The exercise prices of the share options granted on 13 July 2006 and 21 March 2007 have been adjusted to HK\$0.376 and HK\$0.306 respectively as a result of the open offer become unconditional on 12 March 2009. A breakdown setting out the number of the share options outstanding, their respective exercise price and exercise period for the three months ended 30 June 2010 was as follows:

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
Directors			
Mr. Yung Kwok Leong	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000
Dr. Jiang Tao	30 September 2009 to 29 March 2019	HK\$0.050	8,000,000
	23 March 2010 to 22 March 2015	HK\$0.117	15,000,000
Mr. Weng Jiaxing	23 March 2010 to 22 March 2015	HK\$0.117	19,000,000
Mr. Zheng Gang	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000
	23 March 2010 to 22 March 2015	HK\$0.117	27,000,000
Dr. Huang Jiaqing	30 September 2009 to 29 March 2014	HK\$0.050	10,000,000
	23 March 2010 to 22 March 2015	HK\$0.117	3,000,000
Mr. Chen Jin Shan	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000
	23 March 2010 to 22 March 2015	HK\$0.117	20,000,000

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
Employees and consultants of the Group	13 July 2006 to 12 July 2016	HK\$0.376	11,027,500
	21 March 2007 to 20 March 2017	HK\$0.306	20,833,333
	30 September 2009 to 29 March 2019	HK\$0.050	102,000,000
	23 March 2010 to 22 March 2015	HK\$0.117	194,000,000
Total			480,860,833

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

During the three months ended 30 June 2010, 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 or had any conflicts of interest with the business of the Group for the three months ended 30 June 2010.

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 three months ended 30 June 2010.

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 three months ended 30 June 2010 except: (i) the roles of chairman and chief executive officer are not separated; and (ii) no nomination committee of the Board is established.

The roles of Chairman and Chief Executive Officer of the Company are not segregated and are exercised by the same individual. Mr. Yung Kwok Leong serves as the Chairman of the Board and Chief Executive Officer. The Board believes that vesting the roles of the Chairman and the Chief Executive Officer in the same person provides consistent and sustainable development of the Group, strong and consistent leadership in the Company’s decision making and operational efficiency.

The Board does not establish a nomination committee in consideration of the size of the Group. The Board is empowered under the Company’s articles of association to appoint any person as a Director either to fill a casual vacancy on or as an additional member of the Board. Suitable candidates will be proposed to the Board for consideration, and the Board will review the qualifications of the relevant candidate for determining the suitability to the Group on the basis of his qualifications, experience and background.

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 consists of four members and was established on 3 June 2005 in compliance with the code provisions. The members include Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian and Prof. Lu Chuanzhen, the independent non-executive Directors of the Company and Mr. Zheng Gang (committee chairman), the executive Director 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 members include Ms. Wong Ka Wai, Jeanne (committee chairlady), Prof. Hu Shanlian and Prof. Lu Chuanzhen, the independent non-executive Directors of the Company.

The Group's unaudited condensed consolidated results for the three months ended 30 June 2010 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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

Hong Kong, 12 August 2010