



**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**  
**2013/2014**

\* For identification purpose only

## **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.**

*Hong Kong Exchanges and Clearing Limited and the Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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 total turnover of approximately HK\$1,678.776 million for the nine months ended 31 December 2013 as compared to a total turnover of approximately HK\$1,487.443 million recorded in the corresponding period in year 2012, representing a significant increase of about 12.86%.
- Profit attributable to owners of the Company for the nine months ended 31 December 2013 was approximately HK\$24.310 million (2012: approximately HK\$29.956 million), representing a decrease of about 18.85% as compared to the same period last year. The decrease was mainly related to the expenses incurred in the Group's Spin-off Project and the loss on early redemption of promissory note. By excluding such effect, profit attributable to owners of the Company was decreased by around 4.53% as compared to same period last year.
- Profit attributable to owners of the Company for the three months ended 31 December 2013 was approximately HK\$5.077 million (2012: approximately HK\$9.059 million), proportionately lowered compared to that of the same period last year. The decrease was mainly due to the reduction of the Company's equity interest in the pharmaceutical wholesale and pharmaceutical retail business operated under Wanjia Group Holdings Limited ("Wanjia Group") (from 100% of approximately 63.53% immediately upon completion of the Distribution on 10 October 2013) and in turns results in reduction of the profit attributable to owners of the Company.
- The basic and diluted earnings per share for the nine months ended 31 December 2013 were approximately HK1.817 cents and HK1.792 cents respectively (2012: basic and diluted earnings per share approximately HK2.533 cents and HK2.333 cents respectively).
- The directors do not recommend the payment of a dividend (2012: Nil).

## THIRD QUARTERLY RESULTS

The board of directors (the “**Board**”) 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 and nine months ended 31 December 2013, together with the unaudited comparative figures for the corresponding periods in 2012 as follows:

### Condensed Consolidated Statement of Comprehensive Income For the three months and nine months ended 31 December 2013

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2013	2012	2013	2012
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
<b>Turnover</b>	3	<b>537,236</b>	496,643	<b>1,678,776</b>	1,487,443
Cost of sales		<b>(466,531)</b>	(437,329)	<b>(1,478,394)</b>	(1,311,438)
Gross profit		<b>70,705</b>	59,314	<b>200,382</b>	176,005
Other revenue		<b>2,638</b>	892	<b>8,955</b>	8,270
Selling and distribution expenses		<b>(27,656)</b>	(21,489)	<b>(77,673)</b>	(69,033)
Administrative expenses		<b>(24,791)</b>	(20,696)	<b>(68,217)</b>	(56,146)
<b>Profit from operations</b>		<b>20,896</b>	18,021	<b>63,447</b>	59,096
Finance costs		<b>(2,959)</b>	(1,929)	<b>(8,674)</b>	(8,310)
<b>Profit before taxation</b>		<b>17,937</b>	16,092	<b>54,773</b>	50,786
Taxation	4	<b>(7,225)</b>	(5,508)	<b>(22,228)</b>	(15,953)
<b>Profit for the period</b>		<b>10,712</b>	10,584	<b>32,545</b>	34,833
<b>Other comprehensive income/(loss), net of tax:</b>					
Exchange differences arising on translating foreign operations		<b>2,481</b>	1,131	<b>10,040</b>	(128)
<b>Total comprehensive income for the period</b>		<b>13,193</b>	11,715	<b>42,585</b>	34,705

**Condensed Consolidated Statement of Comprehensive Income***For the three months and nine months ended 31 December 2013*

	Notes	Three months ended		Nine months ended	
		31 December		31 December	
		2013	2012	2013	2012
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Profit for the period</b>					
<b>attributable to:</b>					
Owners of the Company		<b>5,077</b>	9,059	<b>24,310</b>	29,956
Non-controlling interests		<b>5,635</b>	1,525	<b>8,235</b>	4,877
		<b>10,712</b>	10,584	<b>32,545</b>	34,833
<b>Total comprehensive income</b>					
<b>attributable to:</b>					
Owners of the Company		<b>7,289</b>	10,026	<b>33,236</b>	29,847
Non-controlling interests		<b>5,904</b>	1,689	<b>9,349</b>	4,858
		<b>13,193</b>	11,715	<b>42,585</b>	34,705
<b>Dividends</b>	5	<b>–</b>	–	<b>–</b>	–
<b>Earnings per share attributable to the owners of the Company</b>					
– Basic (cents)	6	<b>0.308</b>	0.766	<b>1.817</b>	2.533
– Diluted (cents)		<b>0.304</b>	0.706	<b>1.792</b>	2.333

## Unaudited Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2013

	Attributable to owners of the Company											Non-controlling interests	Total equity	
	Share capital	Share premium	Capital reserve	Other reserve	Special reserve	Translation reserve	Share-based payment reserve	Convertible note reserve	Statutory surplus reserve	Retained profits	Sub-total			
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
	(Note (a))		(Note (d))		(Note (b))		(Note (e))		(Note (c))					
At 1 April 2012	11,824	190,250	579,395	-	(6,735)	24,146	14,862	2,537	17,465	65,139	898,883	41,161	940,044	
Profit for the period	-	-	-	-	-	-	-	-	-	29,956	29,956	4,877	34,833	
Other comprehensive income, net of tax:														
Exchange difference on translating foreign operations	-	-	-	-	-	(109)	-	-	-	(109)	(19)	(128)		
Issue of share options	-	-	-	-	-	-	844	-	-	-	844	-	844	
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(6,089)	(6,089)	
Transfer to statutory reserve	-	-	-	-	-	-	-	-	4,302	(4,302)	-	-	-	
At 31 December 2012	11,824	190,250	579,395	-	(6,735)	24,037	15,706	2,537	21,767	90,793	929,574	39,930	969,504	
	Attributable to owners of the Company											Non-controlling interests	Total equity	
	Share capital	Share premium	Capital reserve	Other reserve	Special reserve	Translation reserve	Share-based payment reserve	Convertible note reserve	Statutory surplus reserve	Retained profits	Sub-total			
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
	(Note (a))		(Note (d))		(Note (b))		(Note (e))		(Note (c))					
At 1 April 2013	11,824	190,250	579,395	-	(6,735)	26,304	16,146	2,537	25,454	99,890	945,065	40,974	986,039	
Profit for the period	-	-	-	-	-	-	-	-	-	24,310	24,310	8,235	32,545	
Other comprehensive income, net of tax:														
Exchange difference on translating foreign operations	-	-	-	-	-	8,926	-	-	-	-	8,926	1,114	10,040	
Issue of share options	-	-	-	-	-	-	642	-	-	-	642	-	642	
Issue of non-redeemable convertible preference shares	5,042	114,958	-	-	-	-	-	-	-	-	120,000	-	120,000	
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(2,441)	(2,441)	
Exercise of share options	602	9,372	-	-	-	-	(342)	-	-	-	9,632	-	9,632	
Recognise upon reorganisation	-	-	-	(7,653)	-	-	-	-	-	-	(7,653)	-	(7,653)	
Dividend paid in specie (Note 5)	-	-	(283,785)	(89,926)	-	-	-	-	-	-	(373,711)	373,711	-	
At 31 December 2013	17,468	314,580	295,610	(97,579)	(6,735)	35,230	16,446	2,537	25,454	124,200	727,211	421,593	1,148,804	

Notes:

- (a) As at 31 December 2013, the total issued share capital of the Company was approximately HK\$17,468 million (2012: approximately HK\$11.824 million) divided into 1,144,138,264 ordinary shares and 602,701,680 non-voting convertible preference shares (2012: 1,083,938,264 ordinary shares and 98,500,000 non-voting convertible preference shares) of HK\$0.01 each (2012: HK\$0.01 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.
- (d) The capital reserve is resulted from the capital reorganisation taken by the Company during the year ended 31 March 2012.
- (e) The share-based payment reserve represents the fair value of services estimated to be received in exchange the grant of the relevant options over the relevant vesting periods, the total of which is based on the fair value of the options at grant date. The amount is recognised as staff costs and related expenses with a corresponding increase in the share-based payment reserve.

The share-based payment reserve which is expired would be released directly to retained profits.

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

*For the three months and nine months ended 31 December 2013*

### **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 (“**HKS**”), 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, distribution and pharmaceutical retail chain businesses and provision of general hospital services, in the People's Republic of China (the “**PRC**”).

### **2. Basis of preparation and principal accounting policies**

The condensed consolidated financial results for the nine months ended 31 December 2013 have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (the “**Interpretations**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the GEM Listing Rules of the Stock Exchange (the “**GEM Listing Rules**”). The unaudited condensed consolidated financial results have been prepared under the historical cost except for certain financial instruments, which are measured at fair value.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the nine months ended 31 December 2013 are consistent with those used in the preparation of the annual financial statements for the year ended 31 March 2013 (the “**2012/13 Financial Statements**”), which have become effective in this period as detailed in notes to the 2012/13 Financial Statements. The directors of the Company believe that the application of the other new and revised standards, amendments or interpretations has no material impact on the condensed consolidated financial results for the period.

Certain comparative amounts have been restated to confirm with the current period's presentation and accounting treatment.



### 3. Turnover

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

	Three months ended 31 December		Nine months ended 31 December	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover				
Pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses	497,159	460,881	1,564,833	1,382,519
Provision of general hospital services	40,077	35,762	113,943	104,924
	<u>537,236</u>	<u>496,643</u>	<u>1,678,776</u>	<u>1,487,443</u>

### 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 (2012: Nil). Corporate income tax of approximately 25% has been provided for the profit generated from the pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses and provision of general hospital services in the PRC (2012: approximately 25%).

### 5. Dividends

	Three months ended 31 December		Nine months ended 31 December	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Dividend recognised as distribution during the period				
2013/14 special interim dividend of HK\$0.12 per share	<u>283,785</u>	<u>—</u>	<u>283,785</u>	<u>—</u>

On 16 August 2013, a conditional special interim dividend was declared by the Board to be satisfied through a distribution in species by the Company of approximately 36.47% of the issued share capital of Wanjia Group Holdings Limited (“**Wanjia Group**”) after the capitalisation and reorganisation, subject to the spin-off condition (that is the listing sub-committee of the board of the Stock Exchange granting the listing of, and permission to deal in, the shares of Wanjia Group on the Stock Exchange).

The listing approval was obtained on 10 October 2013, and on 11 October 2013, approximately 36.47% of the shares of Wanjia Group were distributed to the owners of the Company pursuant to the Distributions and the shares of Wanjia Group were listed on the Stock Exchange.

The directors do not recommend the payment of a dividend for the nine months ended 31 December 2013 (2012: Nil).

## **6. Earnings per share**

The calculation of basic earnings per share for the three months ended 31 December 2013 was based on the net profit of approximately HK\$5.077 million (2012: approximately HK\$9.059 million) and on the weighted average number of 1,649,779,339 shares (2012: 1,182,438,264 shares).

The calculation of basic earnings per share for the nine months ended 31 December 2013 was based on the net profit of approximately HK\$24.310 million (2012: approximately HK\$29.956 million) and on the weighted average number of 1,337,650,081 shares (2012: 1,182,438,264 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 and nine months ended 31 December 2013, the Company had a category of dilutive potential ordinary shares: share options. For the three months and nine months ended 31 December 2013 and 2012, the calculation of diluted earnings per share did not assumed the exercise of the convertible note existed at 31 December 2013 and 2012 as the exercise of the convertible note would increase earnings per share, therefore anti-dilutive.

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 shares 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>Three months ended 31 December 2013 HK\$'000 (Unaudited)</b>	<b>Nine months ended 31 December 2013 HK\$'000 (Unaudited)</b>
Profit attributable to owners of the Company		
– Profit for the purpose of diluted earnings per share	<u>5,077</u>	<u>24,310</u>
Weighted average number of ordinary shares in issue	<u>1,649,779,339</u>	<u>1,337,650,081</u>
Adjustments for assumed exercise of share options	<u>22,830,594</u>	<u>18,941,966</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>1,672,609,933</u>	<u>1,356,592,047</u>
	<b>Three months ended 31 December 2013</b>	<b>Nine months ended 31 December 2013</b>
Diluted earnings per share	<u>HK0.304 cents</u>	<u>HK1.792 cents</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the nine months ended 31 December 2013 (the “period under review”), the Group recorded a turnover on business operations of approximately HK\$1,678.776 million (2012: approximately HK\$1,487.443 million), representing a significant increase of 12.86% compared to the same period last year. The rise in turnover was mainly driven by the sales from the pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses in the PRC.

Selling and distribution expenses for the period under review amounted to approximately HK\$77.673 million (2012: approximately HK\$69.033 million), a 12.52% increase. More selling and distribution expenses incurred due to the expansion of the business scale.

Administrative expenses amounted to approximately HK\$68.217 million (2012: approximately HK\$56.146 million), rising about 21.50%. The increase was mainly related to the expenses of the Group’s Spin-off Project.

The Group recorded a profit attributable to owners of the Company of approximately HK\$24.310 million for the period under review (2012: approximately HK\$29.956 million), representing a decrease of about 18.85% compared to the same period last year. The decrease was mainly related to the expenses incurred in the Group’s Spin-off Project and the loss on early redemption of promissory note. By excluding such effect the Group recorded a decreased of profit attributable to owners of the Company around 4.53% to same period last year.

Profit attributable to owners of the Company for the three months ended 31 December 2013 was approximately HK\$5.077 million (2012: approximately HK\$9.059 million), proportionately lowered compared to that of the same period last year. The decrease was mainly due to the reduction of the Company’s equity interest in the pharmaceutical wholesale and pharmaceutical retail business operated under Wanjia Group Holdings Limited (“Wanjia Group”) (from 100% to approximately 63.53% immediately upon completion of the Distribution on 10 October 2013) and in turns results in reduction of the profit attributable to owners of the Company.

## **Business Review and Outlook**

### **General hospital services**

During the nine months ended 31 December 2013, the Group operates two general hospitals in Chongqing and Jiaying and manages one general hospital in Zhuhai city which is principally engaged in the provision of general hospital services, including but not limited to medical wards, surgical wards, cosmetic surgery, dermatology and medical checkup and examination. The total turnover contributed by these general hospitals for the nine months ended 31 December 2013 was approximately HK\$113.943 million (2012: approximately HK\$104.924 million).

### **Pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses**

The Group engages in the wholesale, distribution of a broad range of pharmaceutical products to hospitals, clinics and pharmacies in Fujian Province, the PRC. The Group also operates a chain of retail pharmacies located in six prefectural-level districts in Fujian Province in the PRC under the brand name “Huihao Sihai”. The Group’s pharmaceutical retail chain operation has maintained the leading position in both retail drug store numbers and comprehensive competitiveness within Fujian Province. The Group continues to allocate resources to look for business opportunities to expand the pharmaceutical wholesale, distribution and retail chain businesses. The turnover contributed by the pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses for the nine months ended 31 December 2013 was approximately HK\$1,564.833 million (2012: approximately HK\$1,382.519 million).

## Future Prospects

On 14 October, 2013, the State Council of PRC released its guidance on the development of the healthcare services in China. This document calls for more investments into the healthcare services by continuing to loosen up the control over the entry barriers to the market, by offering more support from the central and local government. More significantly this official document clearly points out that by year 2020, the market is estimated to be worth approximately RMB8 trillion in total. In 2014, under this guidance, the concrete plans will be released by the different departments or agencies of the government to support the fast growth of the healthcare market. The management of the Group believes that this guidance has further strengthened the basis for the healthcare reform and ultimately created many opportunities for the Group, especially for the hospital businesses. As a result, the Group will try to maximize the potential opportunities in the field and continued to address the needs of the market and the public through refined services and quality products.

For the hospitals, we will continue to adjust our marketing strategies to reflect the impact of the fast economic growth on the increasing demands for quality medical services. We will continue to improve the service levels by our staff and standardised medical services. In addition to cultivating the new services implemented at the hospitals, the management has focused on the improved delivery procedures and patient oriented care. Our hospitals have well established themselves in their each local market in the both brands and competitiveness. The challenge to a steady and more profitable growth is to strengthen the brands by increasing patients' satisfaction and adapting the affordable quality service approaches. All of those will help the hospitals achieve further penetration into the fast growing healthcare market.

The new financial year 2013/14 will reach the late part of the 12th Five Year Plan in China, and fuelled by the new guidance of the State Council, and the Group will begin to achieve the fruitful performances supported by the early financial and technical investments and preparation for the both businesses. Therefore, the management of the Group will make great efforts to leverage the well recognised brands of the hospitals and pharmaceutical distribution to maintain our steady increase and to improve the profitability of our core healthcare operations.

## 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 31 December 2013, 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 of the Company:

Name of director	Nature of interest	Number of shares	Position	Approximate percentage of the total issued shares
Mr. Yung Kwok Leong	Corporate interest (Note 1)	120,960,500	Long	10.57%
	Personal interest (Note 2)	739,248,555	Long	64.61%
Mr. Zheng Gang	Personal interest	8,196,000	Long	0.72%
Mr. Chen Jin Shan	Personal interest	6,700,000	Long	0.59%
Dr. Jiang Tao	Personal interest	2,000,000	Long	0.17%
Dr. Huang Jiaqing	Personal interest	1,000,000	Long	0.09%
Dr. Wong Yu Man, James	Personal interest	1,000,000	Long	0.09%

*Note 1:* These shares are held through Easeglory Holdings Limited (“**Easeglory**”), a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Marshal International Investments Limited (“**Marshal**”) which is in turn wholly and beneficially owned by Mr. Yung Kwok Leong.

*Note 2:* The 739,248,555 shares represent (i) the 136,546,875 shares beneficially owned by Mr. Yung Kwok Leong, and (ii) the 602,701,680 convertible preference shares.

**(ii) Interests in the issued share capital of the Company’s associated corporation**

Name of director	Name of associated corporation	Capacity/ Nature of interest	Number of shares	Position	Approximate percentage of shareholding in the associated corporation’s issued share capital
Mr. Yung Kwok Leong	Wanjia Group ( <i>Note 1</i> )	Corporate interest ( <i>Note 2</i> )	24,192,100	Long	3.73%
		Personal interest	47,009,375	Long	7.25%

*Notes:*

- Hua Xia held the entire issued share capital of Greatly Wealth Global Group Limited (“**Greatly Wealth**”), a company incorporated in the British Virgin Islands (“**BVI**”) with limited liability, which is in turn interested in 411,917,648 shares of the Wanjia Group Holdings Limited (“**Wanjia Group**”), a company incorporated in the Cayman Islands with limited liability of which its shares are listed on the Main Board of the Stock Exchange (representing approximately 63.53% of the issued share capital of Wanjia Group). Therefore, Wanjia Group is an associated corporation of the Company for the purposes of the SFO.
- These shares are held through Easeglory, the entire issued share capital of which is owned by Marshal which is in turn wholly and beneficially owned by Mr. Yung Kwok Leong.



*(iii) 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\$0.50	1,700,000	Long
Dr. Jiang Tao	30 September 2009 to 29 March 2019	HK\$0.50	800,000	Long
	23 March 2010 to 22 March 2015	HK\$1.12	1,563,380	Long
Mr. Zheng Gang	30 September 2009 to 29 March 2019	HK\$0.50	800,000	Long
	23 March 2010 to 22 March 2015	HK\$1.12	2,814,084	Long
Dr. Huang Jiaqing	30 September 2009 to 29 March 2019	HK\$0.50	1,000,000	Long
	23 March 2010 to 22 March 2015	HK\$1.12	312,676	Long
Mr. Chen Jin Shan	30 September 2009 to 29 March 2019	HK\$0.50	1,700,000	Long
	23 March 2010 to 22 March 2015	HK\$1.12	2,084,507	Long

Save as disclosed above, as at 31 December 2013, 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 31 December 2013, 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)	120,960,500	Long	Beneficial owner	10.57%
Marshal International Investments Limited (Note 1)	120,960,500	Long	Beneficial owner	10.57%
Mrs. Yung Muk Ying (Note 1)	861,909,055	Long	Interest of spouse	75.33%
Mr. Zhan Guo Tuan (Note 2)	60,000,000	Long	Beneficial owner	5.24%
Mrs. Lin Zhen Jin (Note 2)	60,000,000	Long	Interest of spouse	5.24%
Rubyland Investments Limited (Note 3)	60,000,000	Long	Beneficial owner	5.24%
Mr. Lau Kim Hung, Jack (Note 4)	64,016,000	Long	Beneficial owner	5.60%
Mrs. Chan Yiu Kan, Katie (Note 4)	64,016,000	Long	Interest of spouse	5.60%

*Notes:*

- (1) The issued share capital of Easeglory Holdings Limited is 100% beneficially owned by Marshal International Investments Limited which is in turn 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 120,960,500 shares held by Easeglory Holdings Limited and 136,546,875 shares and 1,700,000 share options and 602,701,680 convertible preference shares beneficially held by Mr. Yung Kwok Leong in personal capacity.
- (2) Mr. Zhan Guo Tuan is interested in 60,000,000 shares of the Company. Mrs. Lin Zhen Jin is deemed to be interested in 60,000,000 shares by virtue of her being the spouse of Mr. Zhan Guo Tuan.
- (3) The issued share capital of Rubyland Investments Limited, a company incorporated in the British Virgin Islands with limited liability, is 100% beneficially owned by Mr. Lau Kim Hung, Jack.
- (4) The 66,900,000 shares represents (i) 60,000,000 shares are held through Rubyland Investments Limited, which is beneficially owned by Mr. Lau Kim Hung, Jack and (ii) 4,016,000 shares are held through by Bountiful Resources Limited, a company incorporated in British Virgin Islands with limited liability which the entire issued share capital of which is owned by Mr. Lau Kim Hung, Jack.

By virtue of her being the spouse of Mr. Lau Kim Hung, Jack, Mrs. Chan Yiu Kan, Katie is deemed to be interested in 60,000,000 shares held by Rubyland Investments Limited and 4,016,000 shares held by Bountiful Resources Limited.

Save as disclosed above, as at 31 December 2013, 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 2013, there were 44,051,287 outstanding share options, of which, were granted pursuant to the Post-IPO share option scheme adopted on 20 April 2002. A breakdown setting out the number of outstanding share options, their respective exercise prices and respective exercise periods under the Post-IPO scheme was as follows:

### Post-IPO share option schemes

<u>Categories of grantees</u>	<u>Exercise period</u>	<u>Exercise price</u>	<u>Number of share options outstanding</u>
Directors			
Mr. Yung Kwok Leong	30 September 2009 to 29 March 2019	HK\$0.50	1,700,000
Dr. Jiang Tao	30 September 2009 to 29 March 2019	HK\$0.50	800,000
	23 March 2010 to 22 March 2015	HK\$1.12	1,563,380
Mr. Zheng Gang	30 September 2009 to 29 March 2019	HK\$0.50	800,000
	23 March 2010 to 22 March 2015	HK\$1.12	2,814,084
Dr. Huang Jiaqing	30 September 2009 to 29 March 2019	HK\$0.50	1,000,000
	23 March 2010 to 22 March 2015	HK\$1.12	312,676

<b>Categories of grantees</b>	<b>Exercise period</b>	<b>Exercise price</b>	<b>Number of share options outstanding</b>
Mr. Chen Jin Shan	30 September 2009 to 29 March 2019	HK\$0.50	1,700,000
	23 March 2010 to 22 March 2015	HK\$1.12	2,084,507
Employees and consultants of the Group	13 July 2006 to 12 July 2016	HK\$3.61	459,739
	21 March 2007 to 20 March 2017	HK\$2.94	1,042,253
	30 September 2009 to 29 March 2019	HK\$0.50	8,200,000
	23 March 2010 to 22 March 2015	HK\$1.12	21,574,648
Total			<u>44,051,287</u>

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

During the nine months ended 31 December 2013, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

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

The Company had adopted a code of conduct regarding directors securities transactions 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. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by directors throughout the nine months ended 31 December 2013.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 15 of the GEM Listing Rules for the nine months ended 31 December 2013 except for the following deviation:

- (i) The code provision A.2.1 of the CG Code prescribed, among others, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the nine months ended 31 December 2013, 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 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.

## **PRE-EMPTIVE RIGHTS**

There are no provisions 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 Remuneration Committee consists of Mr. Zheng Gang, an executive director of the Company and three independent non-executive directors, namely Prof. Hu Shanlian, Prof. Lu Chuanzhen and Ms. Wong Ka Wai, Jeanne. Ms. Wong Ka Wai, Jeanne is the chairlady of the Remuneration Committee.

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.

## NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

On 11 February 2014, the Board resolved to establish a Nomination and Corporate Governance Committee in place and stead of the previously Nomination Committee, which was established on 27 March 2012 in compliance with the code provision. The Nomination and Corporate Governance Committee consists of Mr. Yung Kwok Leong, an executive director and three independent non-executive directors, namely Prof. Hu Shanlian, Prof. Lu Chuanzhen and Ms. Wong Ka Wai, Jeanne. Mr. Yung Kwok Leong is the chairman of the Nomination and Corporate Governance Committee.

The primary duties of the nomination and corporate governance committee include, but are not limited to: (i) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes; (ii) identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of, individuals nominated for directorships; (iii) making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman of the Board and the chief executive officer of the Company; and (iv) keeping the effectiveness of the corporate governance and system of internal controls of the Group.

## AUDIT COMMITTEE

The Company established the 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 ensure the adequacy and effectiveness of the accounting and financial controls of the Group; (ii) oversee the performance of internal control systems and financial reporting process; and (iii) monitor the integrity of the financial statements and compliance with statutory and listing requirements and to oversee independence and qualifications of the external auditors. The audit committee comprises three members including Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian and Prof. Lu Chuanzhen. All of them are the independent non-executive directors. The chairlady of the Audit Committee is Ms. Wong Ka Wai, Jeanne.

The Group's unaudited condensed consolidated results for the nine months ended 31 December 2013 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, 11 February 2014