



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 2014/2015
QUARTERLY
REPORT**

* 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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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\$437.122 million for the three months ended 30 June 2014 as compared to a total turnover of approximately HK\$600.901 million recorded in the corresponding period in 2013, representing a decrease of about 27.26%.
- The Group has recorded loss attributable to owners of the Company for the three months ended 30 June 2014 of approximately HK\$493.687 million as compared to the profit attributable to owners of the Company of approximately HK\$14.204 million recorded in the corresponding period in 2013.
- The basic and diluted loss per share of the Company for the three months ended 30 June 2014 were approximately HK28.052 cents and HK28.045 cents respectively (2013: approximately HK1.201 cents and HK1.185 cents for the basic and the diluted earnings per share).
- The directors do not recommend the payment of a dividend for the three months ended 30 June 2014 (2013: Nil).



FIRST QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “**Board**”) of Hua Xia Healthcare Holdings Limited (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 2014, together with the unaudited comparative figures for the corresponding period in year 2013, as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income For the three months ended 30 June 2014

		Three months ended 30 June	
		2014	2013
		HK\$'000	HK\$'000
	Note	(unaudited)	(unaudited)
Turnover	3	437,122	600,901
Cost of sales		(380,879)	(535,747)
Gross profit		56,243	65,154
Other income		6,622	2,824
Selling and distribution expenses		(24,495)	(24,687)
Administrative expenses		(21,679)	(17,391)
Impairment loss on goodwill	4	(785,483)	–
(Loss)/profit from operations		(768,792)	25,900
Finance costs		(2,179)	(2,814)
(Loss)/profit before taxation		(770,971)	23,086
Taxation	5	(4,446)	(7,276)
(Loss)/profit for the period		(775,417)	15,810
Other comprehensive income for the period, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		37	5,246
Total comprehensive (loss)/income for the period		(775,380)	21,056



	Note	Three months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
(Loss)/profit for the period attributable to:			
Owners of the Company		(493,687)	14,204
Non-controlling interests		(281,730)	1,606
		<u>(775,417)</u>	<u>15,810</u>
Total comprehensive (loss)/income for the period attributable to:			
Owners of the Company		(493,795)	18,856
Non-controlling interests		(281,585)	2,200
		<u>(775,380)</u>	<u>21,056</u>
Dividends	8	<u>–</u>	<u>–</u>
(Loss)/earnings per share attributable to owners of the Company			
– Basic	6	<u>HK(28.052) cents</u>	<u>HK1.201 cents</u>
– Diluted	6	<u>HK(28.048) cents</u>	<u>HK1.185 cents</u>

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended 30 June 2014

1. Corporate information

The Company was incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability. The shares of the Company are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is 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 condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is the functional currency of the Company, and the functional currency of most of its subsidiaries is Renminbi (“RMB”). The directors of the Company considered that it is more appropriate to present the condensed consolidated financial statements in HK\$ as the shares of the Company are listed on the GEM board of the Stock Exchange. The condensed consolidated financial statements are presented in thousands of units of HK\$ (HK\$’000), unless otherwise stated.

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

2. Basis of preparation and principal accounting policies

The condensed consolidated financial results for the three months ended 30 June 2014 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which is a collective term includes all applicable HKFRSs, 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 assets (including derivative financial instruments) and investment properties that are measured at fair value. Historical cost is generally based on the fair value of the consideration of given in exchange of assets.

The Group has consistently applied its accounting policies to all the period presented, unless otherwise stated, in the preparation of the condensed consolidated financial statements.



The accounting policies adopted in preparing the unaudited condensed consolidated financial results for the three months ended 30 June 2014 are consistent with those used in the preparation of the annual financial statements for the year ended 31 March 2014 (the “**2013/2014 Financial Statements**”), except for the amendments and interpretations of HKFRSs (“**New HKFRSs**”) issued by HKICPA which have become effective in this period as detailed in notes to the 2013/2014 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.

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 the provision of general hospital services during the period. The analysis of the Group’s turnover for the periods are as follows:

	Three months ended 30 June	
	2014	2013
	HK\$’000	HK\$’000
	(unaudited)	(unaudited)
Turnover		
Pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses	397,639	562,361
Provision of general hospital services	39,483	38,540
	<u>437,122</u>	<u>600,901</u>

4. Impairment loss on goodwill

The Group has appointed an independent valuer, who is not connected with the Group, to provide the valuation on the recoverable amount of the cash generating units based on the value-in-use calculation. Directors of the Group based on the valuation and recognised an impairment loss on the full amount of goodwill of approximately HK\$785.483 million during the three months ended 30 June 2014.

5. Taxation

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group had no assessable profits derived from Hong Kong’s operations during the period (2013: 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 the provision of general hospital services in the PRC (2013: approximately 25%).

6. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the three months ended 30 June 2014 and 2013 was based on the loss for the period attributable to owners of the Company of approximately HK\$493.687 million (2013: profit for the period attributable to owners of the Company of approximately HK\$14.204 million) and on the weighted average number of 1,759,918,515 shares (2013: 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 ended 30 June 2014 and 2013, the Company had a category of dilutive potential ordinary shares: share options. The calculation of diluted (loss)/earnings per share did not assume the exercise of convertible note existed at 30 June 2014 and 2013 as the exercise of the convertible note would decrease loss/increase earnings per share, therefore antidilutive.

For the share options, 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.

	Three months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss)/profit attributable to owners of the Company		
– (Loss)/profit for the purpose of diluted (loss)/earnings per share	(493,687)	14,204
	2014	2013
Weighted average number of ordinary shares in issue	1,759,918,515	1,182,438,264
Adjustments for assumed exercise of share options	414,295	16,591,974
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	1,760,332,810	1,199,030,238
	2014	2013
Diluted (loss)/earnings per share	HK(28.045) cents	HK1.185 cents



7. Capital and reserve (unaudited)

	Attributable to owners of the Company												
	Share capital HK\$'000 (Note (a))	Share premium HK\$'000	Capital reserve HK\$'000 (Note (d))	Other reserve HK\$'000 (Note (e))	Special reserve HK\$'000 (Note (b))	Translation reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible note reserve HK\$'000	Statutory reserve HK\$'000 (Note (c))	(Accumulated losses)/ retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
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	-	-	-	-	-	-	-	-	-	14,204	14,204	1,606	15,810
Exchange difference on translating foreign operations	-	-	-	-	-	4,652	-	-	-	-	4,652	594	5,246
Total comprehensive income for the period	-	-	-	-	-	4,652	-	-	-	14,204	18,856	2,200	21,056
At 30 June 2013	11,824	190,250	579,395	-	(6,735)	30,956	16,146	2,537	25,454	114,094	963,921	43,174	1,007,095
At 1 April 2014	17,562	316,969	295,610	(97,455)	(6,735)	32,789	15,645	2,537	37,079	110,252	724,253	426,170	1,150,423
Loss for the period	-	-	-	-	-	-	-	-	-	(493,687)	(493,687)	(281,730)	(775,417)
Exchange difference on translating foreign operations	-	-	-	-	-	(108)	-	-	-	-	(108)	145	37
Total comprehensive income for the period	-	-	-	-	-	(108)	-	-	-	(493,687)	(493,795)	(281,585)	(775,380)
Increasing in non-controlling interests resulting from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	7,428	7,428
Exercise of share options	39	1,969	-	-	-	-	(58)	-	-	-	1,950	-	1,950
At 30 June 2014	17,601	318,938	295,610	(97,455)	(6,735)	32,681	15,587	2,537	37,079	(383,435)	232,408	152,013	384,421

Notes:

- (a) As at 30 June 2014, the total issued share capital of the Company was approximately HK\$17.601 million (2013: approximately HK\$11,824 million) divided into 1,157,388,264 ordinary shares and 602,701,680 non-voting convertible preference shares (2013: 1,083,938,264 ordinary shares and 98,500,000 non-voting convertible preference shares) of HK\$0.01 each (2013: 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 net profit after taxation for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.
- (d) Included in the capital reserve amounting to approximately HK\$579,395,000 of the Group represents the result of capital reorganisation taken by the Company during year ended 31 March 2012.

The decrease in capital reserve amounting to approximately HK\$283,785,000 during the year ended 31 March 2014 represents special interim dividend paid in species in connection with the separate listing of shares of Wanjia Group Holdings Limited (“**Wanjia Group**”), a subsidiary of the Company, on the Main Board of the Stock Exchange on 11 October 2013.

- (e) The decrease in other reserve amounting to approximately HK\$89,802,000 of the Group represents the difference between the amount of special interim dividend paid in specie and the non-controlling interests' share of net assets of Wanjia Group pursuant to the separate listing of shares of Wanjia Group in year 2013/14.

The decrease in other reserve of approximately HK\$7,653,000 represents the capitalized listing expenses arising from the separate listing of shares of Wanjia Group during the year ended 31 March 2014.

8. Dividends

The directors do not recommend the payment of a dividend for the three months ended 30 June 2014 (2013: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 30 June 2014, the Group recorded a turnover on business operations of approximately HK\$437.122 million (2013: approximately HK\$600.901 million), representing a decrease of about 27.26% compared to the same period last year. The decrease in turnover was mainly driven by the decrease in revenue generated from the pharmaceutical wholesale business through our non-wholly owned major subsidiary – Wanjia Group, the shares of which are listed on the Main Board of the Stock Exchange, for the reporting period. Due to the promulgation and implementation of new Good Supply Practice (“**New GSP**”) in Fujian, the PRC in April 2014 which imposes stringent regulations on pharmaceutical distributor operation as further elaborated in the section headed “pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses” below. As such, there is significant decrease in sales to Wanjia Group’s distributor customers during the three months ended 30 June 2014.

Selling and distribution expenses for the three months ended 30 June 2014 amounted to approximately HK\$24.495 million (2013: approximately HK\$24.687 million), representing a slight decrease of about 1% compared to the same period last year. The slight decrease was due to the combined effects of (i) decrease in selling and distribution expenses incurred as a result of the reduction in pharmaceutical wholesales business and; (ii) more staff cost and marketing expenses incurred due to increase in number of retail pharmacies compared with the same period of last year.

Administrative expenses for the three months ended 30 June 2014 amounted to approximately HK\$21.679 million (2013: approximately HK\$17.391 million), rising about 24.66%. The increment was mainly related to more staff cost incurred compared with the same period of last year as a result of business expansion.

The Group reported a loss attributable to owners of the Company of approximately HK\$493.687 million for the three months ended 30 June 2014 (2013: profit attributable to owners of the Company of approximately HK\$14.204 million). The net loss was mainly attributable to the impairment loss on the goodwill of approximately HK\$785.438 million recognized by our non-wholly owned subsidiary – Wanjia Group due to the New GSP and as result, the forecasted performance in sales to distributor customers of Wanjia Group could be significantly affected. Therefore, Wanjia Group recorded a goodwill impairment loss of approximately HK\$785.483 million in the first quarter of year 2014/2015.

Business Review and Outlook

General hospital services

During the three months ended 30 June 2014, the Group operated two general hospitals in Chongqing and Jiaying and managed one general hospital in Zhuhai city, 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 turnover generated from the provision of general hospital services for the three months ended 30 June 2014 was approximately HK\$39.483 million (2013: approximately HK\$38.540 million), representing a steady increase of approximately 2.5% over the same period of last year.

Pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses

The Group engaged in the wholesale and distribution of a broad range of pharmaceutical products to hospitals, clinics and pharmacies in Fujian Province, the PRC through our non-wholly owned major subsidiary, Wanjia Group.

In April 2014, the New GPS was promulgated and implemented in Fujian, the PRC, under which with effect from the year 2016, only selected pharmaceutical distributors are allowed to distribute medicine to the public hospitals and public healthcare institutions. In view of the New GSP, the existing distributor customers have become very prudent in placing the purchase order to Wanjia Group and the repayment period for them increase steadily, therefore Wanjia Group prudently tightened the credit policy to the distributor customers gradually during the three months period ended 30 June 2014. As a result, there is significant decrease in sales to Wanjia Group's distributor customers during the three months ended 30 June 2014.

In August 2014, Fujian Food and Drug Administration (福建省食品藥品監督管理局) announced the 10 companies which are permitted to conduct the business in the distribution to public hospitals and public healthcare institutions after 2016, in which the operating subsidiary of the Company, namely 福建省福州市惠好藥業有限公司 (Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd[#]) is on the list. Notwithstanding this recognition as a qualified participant in the distribution industry is encouraging, the effect of the implementation of the New GSP and any future policy development on the hospital distribution business of the Wanjia Group remains uncertain. Having taken into account the financial performance as of June 2014, the board of Wanjia Group reviewed again the potential effects of the New GSP on the distribution business in late July 2014 and prudently lowered the forecasted performance in sales to distributor customers that resulted in a goodwill impairment loss of approximately HK\$785.438 million in the first quarter of year 2014/2015.

[#] English translation of official Chinese names are for identification purpose only



The Group also operated a chain of retail pharmacies located in six prefectural-level districts in Fujian Province, the PRC under the brand same “Huihao Sihai”. The Group’s pharmaceutical retail chain operation had maintained the leading position in both the number of the retail drug store and comprehensive competitiveness within Fujian Province. The Group continues to allocate resources to look for business opportunities to expand the pharmaceutical distribution and retail chain businesses. The turnover contributed by the pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses for the three months ended 30 June 2014 was approximately HK\$397.639 million (2013: approximately HK\$562.361 million), representing a decrease of approximately 29.29% compared to same period of last year. The decrease was mainly attributable to the reduction in wholesales to distributor customers due to the stringent regulations after the promulgation and implementation of the new GSP during year 2014.

Future Prospects

The management of the Group expects that the healthcare industry in the PRC will remain challenging for the rest of 2014. The management has noticed that results of the Group for the three months ended 30 June 2014 was less favorable than the corresponding period in year 2013. Although the challenges remain, the management of the Group will adapt to the changing business environment with effective and efficient measures and continue to keep focus on its core healthcare business in the PRC.

The latest reinforcement of the policies and regulations in favor of private healthcare providers in the PRC is a strong signal for the continuation of the opening up market. The management of the Group believes that thanks to the efforts made by the government, the landscape of the healthcare is shaping itself in support of investments and business expansions in all aspects of the industry. Therefore, the Group will position itself as one of the premium healthcare providers in the PRC and add more resources to strengthen its branding and network.

For the general hospital services, while we are adjusting our marketing strategies to address the ever increasing needs for quality services, we also continue to seek opportunities to participate in the expansion of private hospitals and the reform of public hospitals as well. Our focuses will be on the improvements of the efficiency of services and products and the expansion of new services emerging along with the upgrading of the lifestyles and standards in PRC. We anticipate to allocate more resource to explore the new services as one of the opportunities to increase revenue. At the same time, the new technologies in marketing and branding are playing an important role in penetrating into the market, and the management will adapt to the changing environments of healthcare in PRC to deliver high quality, safe and advanced medical services.

The new financial year 2014/15 posts both opportunities and challenges to the Group. This special time sets up the path for the Company to further explore the potential in PRC and also will witness the noticeable outcomes of the Huaxia branding, representing the quality, accessibility and credibility in the local markets. The healthcare reform will also produce the tangible economic results for those who have long invested in the services, education, quality and trust.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There was no other significant event took place subsequent to the end of the reporting period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

Disclosure of Interests

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

As at 30 June 2014, 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:*

<u>Name of director</u>	<u>Nature of interest</u>	<u>Number of shares</u>	<u>Position</u>	<u>Approximate percentage of the total issued shares</u>
Mr. Yung Kwok Leong	Corporate interest (Note 1)	120,960,500	Long	10.45%
	Personal interest (Note 2)	396,031,016	Long	34.22%
Mr. Zheng Gang	Personal interest	3,104,000	Long	0.27%
Dr. Jiang Tao	Personal interest	2,000,000	Long	0.17%
Mr. Chen Jin Shan	Personal interest	444,000	Long	0.04%
Dr. Huang Jiaqing	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 (“**BVI**”) 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.

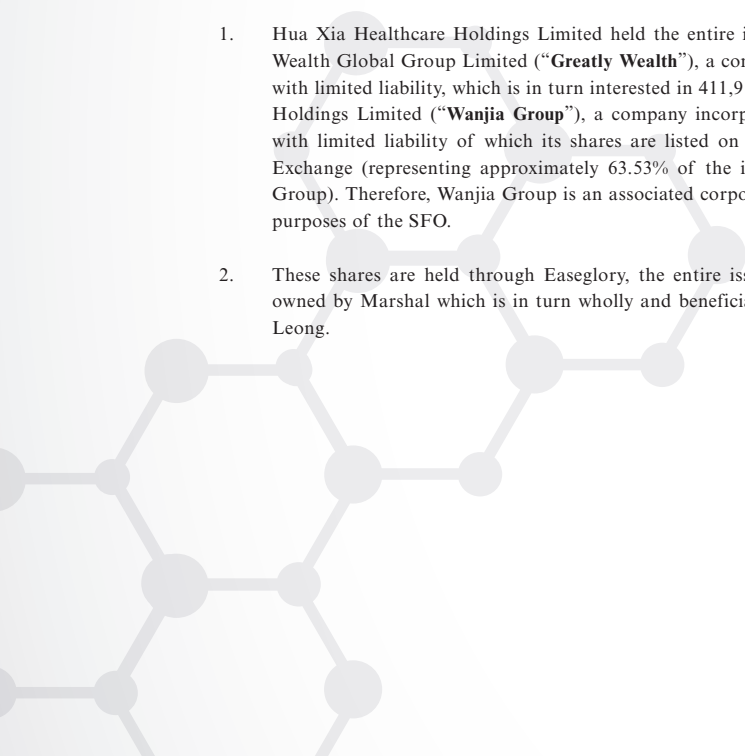
Note 2: The 396,031,016 shares represent (i) the 136,546,875 shares beneficially owned by Mr. Yung Kwok Leong, and (ii) the 259,484,141 convertible preference shares.

(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 shareholdings 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 Healthcare Holdings Limited held the entire issued share capital of Greatly Wealth Global Group Limited (“**Greatly Wealth**”), a company incorporated in the BVI with limited liability, which is in turn interested in 411,917,648 shares of 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	23 March 2010 to 22 March 2015	HK\$1.12	2,814,084	Long
Dr. Huang Jiaqing	23 March 2010 to 22 March 2015	HK\$1.12	312,676	Long
Mr. Chen Jin Shan	23 March 2010 to 22 March 2015	HK\$1.12	2,084,507	Long

Save as disclosed above, as at 30 June 2014, 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 2014, 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 of the Company and its associated corporations" 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
Marshal International Investments Limited (Note 1)	120,960,500	Long	Corporate interest	10.45%
Easeglory Holdings Limited (Note 1)	120,960,500	Long	Beneficial owner	10.45%
Mrs. Yung Muk Ying (Note 1)	518,691,516	Long	Interest of spouse	44.82%
南方希望實業有限公司 (Note 2)	343,217,539	Long	Corporate interest	29.65%
新希望集團有限公司 (Note 2)	343,217,539	Long	Corporate interest	29.65%
New Hope International (Hong Kong) Limited (Note 2)	343,217,539	Long	Beneficial owner	29.65%
Mr. Liu Yonghao (Note 2)	343,217,539	Long	Corporate interest	29.65%
Ms. Liu Chang (Note 2)	343,217,539	Long	Corporate interest	29.65%
Ms. Li Wei (Note 2)	343,217,539	Long	Corporate interest	29.65%
Mr. Zhan Guo Tuan (Note 3)	60,000,000	Long	Beneficial owner	5.18%
Ms. Lin Zhen Jin (Note 3)	60,000,000	Long	Interest of spouse	5.18%
Rubyland Investments Limited (Note 4)	60,000,000	Long	Beneficial owner	5.18%
Mr. Lau Kim Hung, Jack (Note 4)	64,016,000	Long	Beneficial owner	5.53%
Ms. Chan Yiu Kan, Katie (Note 4)	64,016,000	Long	Interest of spouse	5.53%



Note 1: The issued share capital of Easeglory is 100% beneficially owned by Marshal 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, 136,546,875 shares, 1,700,000 share options and 259,484,141 convertible preference shares beneficially held by Mr. Yung Kwok Leong in personal capacity.

Note 2: New Hope International (Hong Kong) Limited is interested in 343,217,539 convertible preference shares of the Company. The issued share capital of New Hope International (Hong Kong) Limited is 75% beneficially owned by 南方希望實業有限公司 which is in turn 51% held by 新希望集團有限公司 and 49% is held by 西藏恒業鋒實業有限公司.

Both 新希望集團有限公司 and 西藏恒業鋒實業有限公司 are beneficially held by Mr. Liu Yonghao, Ms. Liu Chang and Ms. Li Wei in shareholding proportionate among them as 62.34%, 36.35% and 1.31% respectively. Therefore, Mr. Liu Yonghao, Ms. Liu Chang and Ms. Li Wei are interested in shares of the Company.

Note 3: Mr. Zhan Guo Tuan is interested in 60,000,000 shares of the Company. Ms. Lin Zhan Jin is deemed to be interested in 60,000,000 shares by virtue of her being the spouse of Mr. Zhan Guo Tuan.

Note 4: The issued share capital of Rubyland Investments Limited, a company incorporated in the BVI with limited liability, is 100% beneficially owned by Mr. Lau Kim Hung, Jack.

The 64,016,000 shares represents (i) 60,000,000 shares are held through Rubyland Investments Limited; and (ii) 4,016,000 shares are held through by Bountiful Resources Limited, a company incorporated in the BVI with limited liability, the entire issued share capital of which are both owned by Mr. Lau Kim Hung, Jack.

By virtue of her being the spouse of Mr. Lau Kim Hung, Jack, Ms. 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 30 June 2014, 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 of the Company and its associated corporations" 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 2014, there were 32,801,287 outstanding share options, of which, were granted pursuant to the Post-IPO share option schemes 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 Post-IPO scheme 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\$0.50	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	23 March 2010 to 22 March 2015	HK\$1.12	2,814,084
Dr. Huang Jiaqing	23 March 2010 to 22 March 2015	HK\$1.12	312,676

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
Directors			
Mr. Chen Jin Shan	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	450,000
	23 March 2010 to 22 March 2015	HK\$1.12	21,574,648
Total			<u>32,801,287</u>

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

During the three months ended 30 June 2014, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

PRE-EMPTIVE RIGHTS

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



COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a set of code for the required standard of dealing in securities by directors of the Company 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 enquiries of all directors of the Company and the directors confirmed that they have fully complied with the required standard with respect to the securities dealings of the Company and there was no event of non-compliance throughout the three months ended 30 June 2014.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 15 of the GEM Listing Rules for the three months ended 30 June 2014 except for the following deviation:

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 three months ended 30 June 2014, 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 of the Company. 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. However, the Board will review and make appropriate changes when necessary in order to enhance the level of corporate governance.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 3 June 2005 in compliance with the code provision. 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 comprised 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 three months ended 30 June 2014 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 has been made.

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

Hong Kong, 13 August 2014

