



**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  
2016/2017

\* 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 GEM (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\$947.551 million for the nine months ended 31 December 2016 as compared to a total turnover of approximately HK\$1,170.025 million recorded in the corresponding period in 2015, representing a decrease of approximately 19.01%.
- Loss attributable to owners of the Company for the nine months ended 31 December 2016 was approximately HK\$17.146 million (2015: approximately HK\$20.701 million).
- Profit attributable to owners of the Company for the three months ended 31 December 2016 was approximately HK\$4.130 million (2015: loss approximately HK\$6.794 million).
- Both the basic and diluted loss per share for the nine months ended 31 December 2016 were approximately HK0.824 cents (2015: basic and diluted earnings per share approximately HK1.159 cents and HK1.153 cents respectively).
- Save for the Distribution, the Directors do not recommend the payment of a dividend (2015: Nil).

# *The English translation of Chinese name(s) in this report, where indicated, is included for information only, and should not be regarded as the official English name(s) of such Chinese name(s).*

## 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 2016, together with the unaudited comparative figures for the corresponding periods in 2015 as follows:

### Condensed Consolidated Statement of Comprehensive Income

*For the three months and nine months ended 31 December 2016*

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2016	2015	2016	2015
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
<b>Turnover</b>	3	<b>298,515</b>	372,610	<b>947,551</b>	1,170,025
Cost of sales		<b>(209,495)</b>	(310,108)	<b>(701,208)</b>	(981,648)
<b>Gross profit</b>		<b>89,020</b>	62,502	<b>246,343</b>	188,377
Other revenue		<b>292</b>	1,287	<b>1,427</b>	5,634
Selling and distribution expenses		<b>(58,325)</b>	(46,709)	<b>(171,054)</b>	(131,250)
Administrative expenses		<b>(27,843)</b>	(21,354)	<b>(77,583)</b>	(69,127)
Loss on early redemption of promissory note		<b>-</b>	-	<b>(3,030)</b>	-
<b>Profit/(loss) from operations</b>		<b>3,144</b>	(4,274)	<b>(3,897)</b>	(6,366)
Finance costs		<b>(4,151)</b>	(4,809)	<b>(13,609)</b>	(13,832)
<b>Loss before taxation</b>		<b>(1,007)</b>	(9,083)	<b>(17,506)</b>	(20,198)
Taxation	4	<b>(1,214)</b>	(1,328)	<b>(3,487)</b>	(3,870)
<b>Loss for the period</b>		<b>(2,221)</b>	(10,411)	<b>(20,993)</b>	(24,068)
<b>Other comprehensive income, net of tax:</b>					
Exchange differences arising on translating foreign operations		<b>(22,668)</b>	1,052	<b>(52,610)</b>	(13,164)
<b>Total comprehensive loss for the period</b>		<b>(24,889)</b>	(9,359)	<b>(73,603)</b>	(37,232)

## Condensed Consolidated Statement of Comprehensive Income

For the three months and nine months ended 31 December 2016

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Profit/(loss) for the period attributable to:</b>					
Owners of the Company		4,130	(6,794)	(17,146)	(20,701)
Non-controlling interests		(6,351)	(3,617)	(3,847)	(3,367)
		<u>(2,221)</u>	<u>(10,411)</u>	<u>(20,993)</u>	<u>(24,068)</u>
<b>Total comprehensive income/(loss) attributable to:</b>					
Owners of the company		(10,457)	(13,515)	(55,910)	(33,744)
Non-controlling interests		(14,432)	4,156	(17,693)	(3,488)
		<u>(24,889)</u>	<u>(9,359)</u>	<u>(73,603)</u>	<u>(37,232)</u>
Dividends	5	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Profit/(loss) per share attributable to the owners of the Company</b>					
- Basic (cents)	6	<u>0.218</u>	<u>(0.378)</u>	<u>(0.824)</u>	<u>(1.159)</u>
- Diluted (cents)		<u>0.218</u>	<u>(0.373)</u>	<u>(0.824)</u>	<u>(1.153)</u>

## Unaudited Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2016

	Attributable to owners of the Company											Non-controlling interest	Total equity
	Share capital HK\$'000 (Note (a))	Share premium HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000 (Note (b))	Special reserve HK\$'000	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	Sub-total HK\$'000		
At 1 April 2015 (audited)	17,601	318,938	295,610	(97,455)	(6,735)	33,977	188	2,537	40,648	(383,499)	221,810	159,688	381,498
Loss for the period	-	-	-	-	-	-	-	-	-	(20,701)	(20,701)	(3,367)	(24,068)
Exchange difference on transaction of foreign operations	-	-	-	-	-	(13,043)	-	-	-	-	(13,043)	(121)	(13,164)
Total comprehensive loss for the period	-	-	-	-	-	(13,043)	-	-	-	(20,701)	(33,744)	(3,488)	(37,232)
Issue of convertible notes	-	-	-	-	-	-	-	9,866	-	-	-	9,866	9,866
Issue of share options	-	-	-	-	-	-	9,427	-	-	-	-	9,427	9,427
Exercise of share options	377	32,710	-	-	-	-	(8,235)	-	-	-	-	24,832	24,832
Capital contributed by non-controlling interests	-	-	-	(1,882)	-	-	-	-	-	-	-	(1,882)	6,477
At 31 December 2015 (unaudited)	17,978	351,648	295,610	(99,337)	(6,735)	20,934	1,260	12,403	40,648	(404,200)	230,309	162,677	392,986
	Attributable to owners of the Company											Non-controlling interest	Total equity
	Share capital HK\$'000 (Note (a))	Share premium HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Special reserve HK\$'000	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	Sub-total HK\$'000		
At 1 April 2016 (audited)	17,978	351,261	295,610	(126,113)	(6,735)	13,932	27,422	10,232	43,122	(444,744)	181,965	212,381	394,346
Loss for the period	-	-	-	-	-	-	-	-	-	(17,146)	(17,146)	(3,847)	(20,993)
Exchange difference on transaction of foreign operations	-	-	-	-	-	(38,764)	-	-	-	(128)	(38,892)	(13,718)	(52,610)
Total comprehensive loss for the period	-	-	-	-	-	(38,764)	-	-	-	(17,274)	(56,038)	(17,565)	(73,603)
Issue of new shares	6,590	214,072	-	-	-	-	-	-	-	-	220,662	-	220,662
Reserve of share options	-	-	-	-	-	-	2,200	-	-	-	2,200	-	2,200
Transfer to Statutory Reserve	-	-	-	-	-	-	-	4,562	-	-	4,562	-	4,562
At 31 December 2016 (unaudited)	24,568	565,333	295,610	(126,113)	(6,735)	(24,832)	29,622	10,232	47,684	(462,018)	353,351	194,816	548,167

### Notes:

- As at 31 December 2016, the total issued share capital of the Company was approximately HK\$24,568 million (31 March 2016: approximately HK\$17,978 million) divided into 2,358,249,944 ordinary shares and 98,500,000 non-voting convertible preference shares (31 March 2016: 1,699,249,944 ordinary shares and 98,500,000 non-voting convertible preference shares) of HK\$0.01 each (31 March 2016: HK\$0.01 each).
- The decrease in other reserve amounting to approximately HK\$1,882,000 of the Group arose on a deemed disposal of interest of a non wholly-owned subsidiary of Wanjia Group Holdings Limited (“**Wanjia**”), a non wholly-owned subsidiary of the Company.
- As stipulated by the relevant People’s Republic of China (“**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.

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

*For the three months and nine months ended 31 December 2016*

## 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 GEM. The registered office of the Company is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, 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 unaudited 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 considered that it is more appropriate to present the condensed consolidated financial statements in HK\$ as the shares of the Company are listed on GEM. The unaudited 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 PRC.

## 2. Basis of preparation and principal accounting policies

The unaudited condensed consolidated financial statements for the nine months ended 31 December 2016 have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), which is a collective term that 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. The unaudited condensed consolidated financial results have been prepared under the historical cost convention except for certain financial assets 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 accounting policies adopted in preparing the unaudited condensed consolidated financial results for the nine months ended 31 December 2016 are consistent with those used in the preparation of the annual financial statements for the year ended 31 March 2016 (the “**2015/16 Financial Statements**”), except for the new and revised standards, amendments and interpretations of HKFRSs (“**new and revised HKFRSs**”) issued by HKICPA which have become effective in this period as detailed in notes to the 2015/16 Financial Statements. The Directors believe that the application of these new and revised HKFRSs has no material impact on the amounts reported and disclosures set out in these unaudited condensed consolidated financial results.

### 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	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Turnover</b>				
Pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses	220,235	309,556	748,584	976,758
Provision of general hospital services	78,280	63,054	198,967	193,267
	<u>298,515</u>	<u>372,610</u>	<u>947,551</u>	<u>1,170,025</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 (2015: 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 (2015: approximately 25%).

### 5. Dividends

Save for the Distribution, the Directors do not recommend the payment of dividend for the nine months ended 31 December 2016 (2015: nil).

### 6. Loss per share

The calculation of basic loss per share for the three months ended 31 December 2016 was based on the profit attributable to owners of the Company of approximately HK\$4.130 million (2015: approximately HK\$6.794 million) and on the weighted average number of ordinary share of approximately 1,892,225,334 shares (2015: 1,797,496,757 shares).



The calculation of basic loss per share for the nine months ended 31 December 2016 was based on the net loss attributable to owners of the Company of approximately HK\$17.146 million (2015: approximately HK\$20.701 million) and on the weighted average number of ordinary shares of approximately 2,081,084,489 shares (2015: 1,786,073,726 shares).

Diluted loss 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 2016, the Company had a category of dilutive potential ordinary shares: share options. For the three months and nine months ended 31 December 2016 and 2015, the calculation of diluted earnings per share did not assumed the exercise of the convertible note existed at 31 December 2016 and 2015 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.

	Three months ended 31 December 2016 HK\$'000 (Unaudited)	Nine months ended 31 December 2016 HK\$'000 (Unaudited)
Profit/(loss) attributable to owners of the Company		
– Profit/(loss) for the purpose of diluted earnings per share	<u>4,130</u>	<u>(17,146)</u>
Weighted average number of ordinary shares in issue	1,892,225,334	2,081,084,489
Adjustments for assumed exercise of share options	<u>–</u>	<u>–</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>1,892,225,334</u>	<u>2,081,084,489</u>
	Three months ended 31 December 2015	Nine months ended 31 December 2015
Diluted profit/(loss) per share	<u>HK0.218 cents</u>	<u>HK(0.824) cents</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the nine months ended 31 December 2016 (the “**period under review**”), the Group recorded a turnover on business operations of approximately HK\$947.551 million (2015: approximately HK\$1,170.025 million), representing a decrease of approximately 19.01% compared to the same period last year. The decrease in turnover was mainly attributable to the decrease in revenue generated from the pharmaceutical wholesale, distribution and pharmaceutical retail chain business in the PRC. As a result of those decrease, the proportion of general hospital services turnover increased. The overall gross profits amounted to approximately HK\$246.343 million (2015: approximately HK\$188.377 million), increased by approximately 30.77%.

Selling and distribution expenses for the period under review amounted to approximately HK\$171.054 million (2015: approximately HK\$131.250 million), representing an increase of approximately 30.33% compared to the same period last year. More selling and distribution expenses incurred mainly due to the increase in both salaries and rental expenses during the period under review compared to the corresponding period in year 2015.

Administrative expenses amounted to approximately HK\$77.583 million (2015: approximately HK\$69.127 million), slightly increased by approximately 12.23%.

The Group recorded a loss attributable to owners of the Company of approximately HK\$17.146 million for the period under review (2015: approximately HK\$20.701 million). The profit attributable to owners of the Company for the three months ended 31 December 2016 was approximately HK\$4.130 million (2015: loss attributable to owners approximately HK\$6.794 million).

### Business Review and Outlook

#### General hospital services

During the nine months ended 31 December 2016, for the Group operates four general hospitals in Chongqing, Jiaying, Zhuhai and Beijing, 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 2016 was approximately HK\$198.967 million (2015: approximately HK\$193.267 million), representing an increase of approximately 2.95% compared to the same period last year.

## **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 through a non wholly-owned major subsidiary, Wanjia and its subsidiaries. The Group also operate 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 pharmaceutical retail chain businesses. The turnover contributed by the pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses for the period under review was approximately HK\$748.584 million (2015: approximately HK\$976.758 million), representing a decrease of approximately 23.36% compared to the same period last year.

### **Future Prospects**

The State Council of the PRC, recently released two very important documents regarding the continuing efforts in carrying on the healthcare reform and the healthcare planning of the 13th Five Year Plan, signaling the extra efforts to be exerted to address the needs and issues of the healthcare services in the PRC. Among all the goals, the increase of the private hospitals in numbers and beds is set as a top priority for the country along with other goals supported by the clearly defined financial and quality objectives. As a result, the plan demands more investments in healthcare services in the PRC in accordance with the economic targets of the country by the end of 2020, and there are clearly more demand for quality services and diversified care models to fight the fast increasing health issues affecting the citizens of all ages and lifestyles. As such, the management foresees more opportunities to expand the Group’s services through the general and specialized medical models, and is confident that the Group is well poised to take advantage of the favorable situations in the country. Therefore, the Group’s hospitals will continue to improve the quality of services and introduce the new medical technologies in the present market. At the same time, the Group continues to explore the development opportunities for the existing and future hospitals. The Group will continue to identify projects that involve the public and private partnerships. Those projects will further open up the healthcare market for the Group in different regions. This will increase the Group’s service coverage, medical specialties and more importantly attract more talents to join the Group’s hospitals. For the years ahead, the Group will continue to explore the private hospital market for more cooperation.

Being the second year of the 13th Five Year Plan, 2017 will witness a fast and strong growth of the healthcare market in the PRC, especially for the private segment, ultimately posing both opportunities and challenges to the Group. This special time not only sets up the path for the Company to further explore the potential in the PRC but also will witness the noticeable outcomes of the Company's branding, representing quality, accessibility and credibility in the local markets. The demand for excellent healthcare services will also result in tangible economic results for those who have long invested in the services, education, quality and trust. At the same time, the Group will allocate more resources to partner with international healthcare education institutions and management experts to further strengthen the Group's capabilities and positions in this fast growing market.

### **Dividends**

On 9 November 2016, the Company announced the Board's approval of a special dividend in the form of a distribution in specie (the "**Distribution**") of up to 393,080,000 shares of Wanjia ("**Wanjia Shares**") held by the Company to the shareholder(s) whose names appear on the register of members of the Company, other than the excluded shareholders, in proportion to their respective shareholdings in the Company on Wednesday, 22 February 2017 (the "**Record Date**") on the basis of four (4) Wanjia Shares for every 25 shares or convertible preference shares of the Company held on the Record Date, if the Distribution becomes unconditional.

Save for the Distribution, the Directors do not recommend the payment of a dividend for the nine months ended 31 December 2016 (2015: Nil).

For more details, please refer to the announcements of the Company dated 9 November 2016 and 27 January 2017, and the circular (the "**Circular**") of the Company dated 27 January 2017.

### **Placing of New Shares and Use of Proceeds**

On 21 July 2016, the Company and the placing agent entered into the placing agreement pursuant to which the Company has conditionally agreed to place through the placing agent of up to 339,000,000 placing shares at a price of HK\$0.31 per placing share. Completion of the placing took place on 10 August 2016, and 339,000,000 placing shares were allotted and issued to not less than six placees at the placing price of HK\$0.31 per placing share pursuant to the terms and conditions of the placing agreement. For more details, please refer to the announcements of the Company dated 21 July 2016, 22 July 2016 and 10 August 2016.

Among the net proceeds of approximately HK\$102 million from the placing, (1) HK\$14 million was used for the payment of the refundable deposit contemplated under the non-legally binding memorandum of understanding dated 8 July 2016 setting out the preliminary understanding in relation to the possible acquisition of the entire issued share capital of Glowing Smart Investment Limited (“**Glowing Smart**”); (2) approximately HK\$31 million was used for the payment of part of the consideration for the acquisition (the “**Glowing Smart Acquisition**”) of the entire issued share capital of Glowing Smart and the shareholder’s loan contemplated under the conditional sale and purchase agreement dated 14 September 2016; (3) HK\$45 million was used for the early redemption of part of the outstanding promissory notes issued by the Company on 8 March 2010; and (4) approximately HK\$12 million was utilised for general working capital of the Group, as stated in the Circular.

For more details of the Glowing Smart Acquisition, please refer to the announcements of the Company dated 14 September 2016 and 30 September 2016.

### **Material Acquisitions and Disposals**

On 24 January 2017, Fujian Rui Mai Trading Co. Limited# (福建銳邁貿易有限公司) (“**Fujian Rui Mai**”), an indirect non wholly-owned subsidiary of Wanjia, as purchaser, Mr. Zheng Zhen Xian (鄭振仙) and Mr. Gao Pan (高盤) (collectively, the “**Mingxi Vendors**”) as vendors, and Fujian Rongwei Real Estate Development Co., Limited# (福建榮威房地產開發有限公司) as guarantor, entered into the sale and purchase agreement, pursuant to which Fujian Rui Mai conditionally agreed to acquire and the Mingxi Vendors conditionally agreed to sell the entire equity interest in Mingxi County Trading Co., Limited# (明溪縣佳維貿易有限公司), at the cash consideration of RMB125,000,000 (equivalent to approximately HK\$141,228,000). For more details, please refer to the announcement of the Company dated 24 January 2017.

Save as disclosed above, during the period under review, the Group did not have any material acquisitions and disposal of subsidiaries, associates or joint ventures.

## 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 31 December 2016, 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 and underlying shares of the Company:*

Name of Director	Nature of interest	Number of shares	Position	Approximate percentage of the total issued ordinary shares
Mr. Yung Ka Chun (“Mr. Yung”)	Corporate interest (Note 1)	516,991,516	Long	21.92%
	Personal interest (Note 2)	2,640,000	Long	0.11%
Mr. Lin Jinzong	Corporate interest (Note 3)	320,000,000	Long	13.57%
Dr. Jiang Tao	Personal interest	9,300,000	Long	0.39%
Mr. Zheng Gang	Personal interest	6,044,000	Long	0.26%
Dr. Huang Jiaqing	Personal interest	1,400,000	Long	0.06%

Note 1: These shares are held through Easeglory Holdings Limited (“**Easeglory**”), a company incorporated in the British Virgin Islands (the “**BVI**”) with limited liability, the entire issued share capital of which is directly owned by Mr. Yung. By virtue of the SFO, Mr. Yung is deemed to be interested in the shares in which Easeglory is interested in and the 98,500,000 convertible preference shares held by Easeglory, which represented approximately 4.18% of the issued share capital of the Company. Together with the convertible preference shares held by Easeglory, Mr. Yung is deemed to be interested in approximately 26.1% of the issued share capital of the Company.

Note 2: The 2,640,000 shares are beneficially owned by Mr. Yung.

Note 3: These shares are held through Kingfull Corporate Finance Limited (“**Kingfull**”), a company incorporated in the BVI with limited liability, the entire issued share capital of which is directly owned by Mr. Lin Jinzong. By virtue of the SFO, Mr. Lin Jinzong is deemed to be interested in the shares in which Kingfull is interested in.

***(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
Nil	-	-	-	-	-

*(iii) Interests in share options under share option scheme:*

Name of Director	Exercise period	Exercise price	Number of share options granted	Position
Mr. Yung Ka Chun	18 April 2015 to 17 April 2018	HK\$0.68	3,960,000	Long
Dr. Jiang Tao	18 April 2015 to 17 April 2018	HK\$0.68	4,410,000	Long
Mr. Zheng Gang	18 April 2015 to 17 April 2018	HK\$0.68	4,410,000	Long
Dr. Huang Jiaqing	18 April 2015 to 17 April 2018	HK\$0.68	4,200,000	Long
Dr. Wong Yu Man, James	18 April 2015 to 17 April 2018	HK\$0.68	1,000,000	Long
Mr. Tang Xun	18 April 2015 to 17 April 2018	HK\$0.68	3,000,000	Long

Save as disclosed above, as at 31 December 2016, 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 2016, 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 ordinary shares
Easeglory Holdings Limited (Notes 1&2)	516,991,516	Long	Beneficial owner	21.92%
New Hope International (Hong Kong) Limited (Note 3)	343,217,539	Long	Beneficial owner	14.55%
Southern Hope Enterprise Co., Ltd. <sup>#</sup> (南方希望實業有限公司) (Note 3)	343,217,539	Long	Corporate interest	14.55%
New Hope Group Co., Ltd. <sup>#</sup> (新希望集團有限公司) (Note 3)	343,217,539	Long	Corporate interest	14.55%
Tibet Hengye Feng Industrial Co., Ltd. <sup>#</sup> (西藏恒業鋒實業有限公司) (Note 3)	343,217,539	Long	Corporate interest	14.55%
Mr. Liu Yonghao (Note 3)	343,217,539	Long	Corporate interest	14.55%
Ms. Liu Chang (Note 3)	343,217,539	Long	Corporate interest	14.55%
Ms. Li Wei (Note 3)	343,217,539	Long	Interest of spouse	14.55%
Kingfull Corporate Development Limited (Note 4)	320,000,000	Long	Beneficial owner	13.57%

Note 1: Easeglory is interested in 418,491,516 shares and 98,500,000 convertible preference shares. The issued share capital of Easeglory is wholly-owned by Mr. Yung. Mr. Yung is deemed to be interested in the shares and the convertible preference shares in which Easeglory is interested in.

Note 2: Easeglory has charged 418,491,516 shares and 98,500,000 convertible preference shares to Golden Prince Group Limited (“**Golden Prince**”) and Mr. Ng Leung Ho respectively. The issued share capital of Golden Prince is wholly-owned by Mr. Ng Leung Ho. Mr. Ng Leung Ho is deemed to be interested in the 418,491,516 shares and is interested in the 98,500,000 convertible preference shares.

Note 3: New Hope International (Hong Kong) Limited is interested in 343,217,539 shares. The issued share capital of New Hope International (Hong Kong) Limited is owned as to 75% by Southern Hope Enterprise Co., Ltd.<sup>#</sup> which is in turn owned as to 51% by New Hope Group Co., Ltd.<sup>#</sup> and 49% by Tibet Hengye Feng Industrial Co., Ltd.<sup>#</sup>. Both New Hope Group Co., Ltd.<sup>#</sup> and Tibet Hengye Feng Industrial Co., Ltd.<sup>#</sup> are owned as to 62.34% by Mr. Liu Yonghao, as to 36.35% by Ms. Liu Chang and as to 1.31% by Ms. Li Wei. Mr. Liu Yonghao, Ms. Liu Chang and Ms. Li Wei are deemed to be interested in the shares in which New Hope International (Hong Kong) Limited is interested in.

Note 4: Kingfull is interested in 320,000,000 shares. The issued share capital of Kingfull is wholly-owned by Mr. Lin Jinzong. Mr. Lin Jinzong is deemed to be interested in the shares in which Kingfull is interested in.

Save as disclosed above, as at 31 December 2016, the Directors 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 31 December 2016, there were 66,132,253 outstanding share options, of which representing approximately 2.80% of the issued share capital of the Company. All of which were granted pursuant to the share option schemes adopted on 20 April 2002 and 10 August 2011. A breakdown setting out the number of outstanding share options, their respective exercise prices and respective exercise periods was as follows:

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
<i>Directors</i>			
Mr. Yung Ka Chun	18 April 2015 to 17 April 2018	HK\$0.68	3,960,000
Dr. Jiang Tao	18 April 2015 to 17 April 2018	HK\$0.68	4,410,000
Mr. Zheng Gang	18 April 2015 to 17 April 2018	HK\$0.68	4,410,000
Dr. Huang Jiaqing	18 April 2015 to 17 April 2018	HK\$0.68	4,200,000
Dr. Wong Yu Man, James	18 April 2015 to 17 April 2018	HK\$0.68	1,000,000
Mr. Tang Xun	18 April 2015 to 17 April 2018	HK\$0.68	3,000,000
Employees and consultants of the Group	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
	18 April 2015 to 17 April 2018	HK\$0.68	43,660,000
Total			<u>66,132,253</u>

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

During the period under review, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at 31 December 2016, none of the Directors or their respective associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## **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.

## **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 the Directors throughout the nine months ended 31 December 2016.

## 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 2016, save for the deviation from code provision E.1.3 of the CG Code which stipulates that the Company should arrange for the notice to shareholders to be sent for annual general meeting at least 20 clear business days before the meeting. The Company’s notice for the 2015 annual general meeting (the “2015 AGM”) was despatched on 23 July 2015, and the 2015 AGM was held on 17 August 2015, which deviated from code provision E.1.3 of the CG Code. The Board was not aware of the deviation and failed to report the same in the subsequent first quarterly, interim, third quarterly and annual results announcements, and first quarterly, interim, third quarterly and annual reports for the period from 1 April 2015 to 31 March 2016. As a result, the Company was not in compliance with Rule 17.101 of the GEM Listing Rules. The deviation was only an isolated event, and the Company had adopted preventive measures to ensure future compliance with the CG Code.

## REMUNERATION COMMITTEE

The remuneration committee of the Company (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 and four independent non-executive Directors, namely Prof. Hu Shanlian, Prof. Lu Chuanzhen, Prof. Zhang Bin 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 of the Company (the “**Nomination and Corporate Governance Committee**”) in place and stead of the previous nomination committee of the Company, which was established on 27 March 2012 in compliance with the code provision. The Nomination and Corporate Governance Committee comprised of Dr. Jiang Tao, an executive Director and four independent non-executive Directors, namely Prof. Hu Shanlian, Prof. Lu Chuazhen, Prof. Zhang Bin and Ms. Wong Ka Wai, Jeanne. Dr. Jiang Tao 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 of the Company (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 risk management and 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 four members including Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian, Prof. Zhang Bin and Prof. Lu Chuazhen. 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 period under review has not been audited by the auditors of the Company, but 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**  
**Jiang Tao**  
*Chief Executive Officer*

Hong Kong, 10 February 2017