



## 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)



Interim Report 2006/07

\* For Identification Purpose Only



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*This report, for which the directors (the “Directors”) of Hua Xia Healthcare Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



## HIGHLIGHTS

- The Group has recorded a total turnover of approximately HK\$39,688,000 for the six months ended 30 September 2006 as compared to a total turnover of approximately HK\$15,578,000 recorded in the corresponding period in 2005, representing an increase of approximately 155%.
- The Group has recorded a net profit attributable to equity holders for the six months ended 30 September 2006 of approximately HK\$7,286,000 as compared to a net profit attributable to equity holders of approximately HK\$500,000 recorded in the corresponding period in 2005.
- The basic and diluted earnings per share of the Company for the six months ended 30 September 2006 were approximately HK1.35 cents and HK1.05 cents respectively (2005: basic earnings HK0.15 cents (adjusted)).
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2006 (2005: Nil).

## CONSOLIDATED INTERIM RESULTS (UNAUDITED)

The board (the "Board") of Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and six months ended 30 September 2006, together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

### Unaudited Consolidated Income Statements

For the three months and six months ended 30 September 2006

	Notes	Three months ended 30 September		Six months ended 30 September	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
<b>TURNOVER</b>	3&4	<b>20,724</b>	9,642	<b>39,688</b>	15,578
Cost of sales		<b>(11,050)</b>	(4,178)	<b>(18,706)</b>	(6,655)
Gross profit		<b>9,674</b>	5,464	<b>20,982</b>	8,923
Other income		<b>91</b>	956	<b>303</b>	961
Selling and distribution costs		<b>(207)</b>	(771)	<b>(432)</b>	(1,057)
Administrative expenses		<b>(7,298)</b>	(4,147)	<b>(12,874)</b>	(8,215)
<b>PROFIT FROM OPERATIONS</b>	5	<b>2,260</b>	1,502	<b>7,979</b>	612
Finance costs	6	<b>(134)</b>	(22)	<b>(363)</b>	(39)
<b>PROFIT BEFORE TAXATION</b>		<b>2,126</b>	1,480	<b>7,616</b>	573
Taxation	7	<b>(172)</b>	(192)	<b>(483)</b>	(120)
<b>PROFIT FOR THE PERIOD</b>		<b>1,954</b>	1,288	<b>7,133</b>	453
Attributable to:					
Equity holders of the Company		<b>2,084</b>	1,312	<b>7,286</b>	500
Minority interests		<b>(130)</b>	(24)	<b>(153)</b>	(47)
		<b>1,954</b>	1,288	<b>7,133</b>	453
<b>DIVIDENDS</b>	13	<b>-</b>	-	<b>-</b>	-
<b>EARNINGS PER SHARE</b>	8				
- Basic (cents)		<b>0.37</b>	0.38	<b>1.35</b>	0.15
- Diluted (cents)		<b>0.29</b>	N/A	<b>1.05</b>	N/A

## Unaudited Consolidated Balance Sheet

As at 30 September 2006

	Note	30 September 2006 HK\$'000 (Unaudited)	31 March 2006 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		14,232	14,585
Available-for-sale investments		138	138
Goodwill		1,893	1,893
		<u>16,263</u>	<u>16,616</u>
Current assets			
Inventories		4,756	3,250
Trade and other receivables	9	46,803	30,211
Pledged bank deposits	11	5,061	93
Cash and bank balances		14,556	8,992
		<u>71,176</u>	<u>42,546</u>
Total assets		<u>87,439</u>	<u>59,162</u>
Equity:			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	28,407	17,247
Reserves		31,072	13,735
		<u>59,479</u>	<u>30,982</u>
Minority interests		<u>(117)</u>	<u>36</u>
Total equity		<u>59,362</u>	<u>31,018</u>



		<b>30 September 2006 HK\$'000 (Unaudited)</b>	31 March 2006 HK\$'000 (Audited)
	<i>Note</i>		
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables	10	<b>12,085</b>	9,591
Obligations under finance lease-due within one year		<b>55</b>	111
Amounts due to directors		<b>–</b>	655
Amount due to minority shareholder of a subsidiary		<b>160</b>	160
Secured short-term bank loan		<b>8,000</b>	–
Tax payable		<b>217</b>	568
		<b>20,517</b>	11,085
Long-term liabilities			
Convertible notes		<b>7,263</b>	16,762
Obligations under finance lease-due after one year		<b>297</b>	297
		<b>7,560</b>	17,059
Total liabilities		<b>28,077</b>	28,144
Total equity and liabilities		<b>87,439</b>	59,162
Net current assets		<b>50,659</b>	31,461
Total assets less current liabilities		<b>66,922</b>	48,077

## Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2006

	Share capital	Share premium	Special reserve	Translation reserve	Share-based payment reserve	Convertible notes reserves	Statutory enterprise expansion fund	Statutory reserve	Warrants reserve	Accumulated losses	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note (a))				(Note (c))	(Note (b))					
2005													
At 1 April 2005	13,904	56,022	2,935	355	-	-	-	-	-	(54,220)	18,996	133	19,129
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	(294)	-	-	-	-	-	-	(294)	-	(294)
Net profit for the period	-	-	-	-	-	-	-	-	-	500	500	(48)	452
At 30 September 2005	<u>13,904</u>	<u>56,022</u>	<u>2,935</u>	<u>61</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(53,720)</u>	<u>19,202</u>	<u>85</u>	<u>19,287</u>
2006													
At 1 April 2006	17,247	60,764	2,935	453	113	499	37	37	-	(51,103)	30,982	36	31,018
Net profit for the period	-	-	-	-	-	-	-	-	-	7,286	7,286	(153)	7,133
Issue of shares	10,918	-	-	-	-	-	-	-	-	-	10,918	-	10,918
Premium arising on issue of shares	-	9,176	-	-	-	-	-	-	-	-	9,176	-	9,176
Issuing expenses	-	(1,103)	-	-	-	-	-	-	-	-	(1,103)	-	(1,103)
Share-based payment expense	-	-	-	-	(113)	-	-	-	-	-	(113)	-	(113)
Exercise of share options	242	-	-	-	-	-	-	-	-	-	242	-	242
Premium arising on exercise of share options	-	255	-	-	-	-	-	-	-	-	255	-	255
Transfer to reserve	-	-	-	-	-	-	-	-	1,836	-	1,836	-	1,836
At 30 September 2006	<u>28,407</u>	<u>69,092</u>	<u>2,935</u>	<u>453</u>	<u>-</u>	<u>499</u>	<u>37</u>	<u>37</u>	<u>1,836</u>	<u>(43,817)</u>	<u>59,479</u>	<u>(117)</u>	<u>59,362</u>

Note:

- The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of a subsidiary acquired pursuant to a group reorganisation in 2001.
- As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall set aside 10% of the net profit after taxation for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the Board and by the relevant authority, to offset accumulated losses or increase capital.
- As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall appropriate 5% to 10% of the net profit after taxation as the statutory enterprise expansion fund. The Directors shall have discretion in determining the percentage within the range specified by the relevant PRC laws and regulations.



## Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2006

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash inflow from operating activities	4,012	7,683
Net cash outflow from investing activities	(17,665)	(7,366)
Net cash inflow/(outflow) from financing activities	19,217	(756)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	5,564	(439)
Cash and cash equivalents at 1 April	8,992	3,136
	<hr/>	<hr/>
Cash and cash equivalents at 30 September	14,556	2,697
	<hr/>	<hr/>





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

*For the six months ended 30 September 2006*

### **1. General**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company are listed on GEM of the Stock Exchange.

The Company acts as an investment holding company while its subsidiaries are engaged in the manufacture and sales of environmental protection products as well as provision of related services, manufacture and sales of melamine and its related products, and the provision of healthcare and hospital management services in the PRC.

### **2. Basis of preparation**

The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

The accounting policies adopted in preparing the unaudited consolidated results for the period ended 30 September 2006 are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2006.

### **3. Turnover**

Turnover represents the aggregate of net amounts received and receivable from third parties in connection with the sales of environmental protection products and provision of related services, sales of melamine and its related products, and provision of healthcare and hospital management services.

## 4. Segment Information

### Business segments

An analysis of the Group's business segments information is as follows:

	Three months ended 30 September		Six months ended 30 September	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover				
– Sales of environmental protection products and provision of related services	8,509	6,748	12,717	12,684
– Sales of melamine and its related products	5,475	2,894	10,971	2,894
– Provision of healthcare and hospital management services	6,740	–	16,000	–
	<b>20,724</b>	<b>9,642</b>	<b>39,688</b>	<b>15,578</b>
Results				
– Sales of environmental protection products and provision of related services	3,213	5,119	5,450	8,579
– Sales of melamine and its related products	460	345	1,182	345
– Provision of healthcare and hospital management services	6,001	–	14,350	–
	<b>9,674</b>	<b>5,464</b>	<b>20,982</b>	<b>8,924</b>
Unallocated other income	91	956	303	961
Unallocated corporate expenses	(7,505)	(4,918)	(13,306)	(9,273)
Profit from operations	2,260	1,502	7,979	612
Finance costs	(134)	(22)	(363)	(39)
Profit before taxation	2,126	1,480	7,616	573
Taxation	(172)	(192)	(483)	(120)
Profit for the period	<b>1,954</b>	<b>1,288</b>	<b>7,133</b>	<b>453</b>
Attributable to:				
Equity holders of the Company	2,084	1,312	7,286	500
Minority interests	(130)	(24)	(153)	(47)
	<b>1,954</b>	<b>1,288</b>	<b>7,133</b>	<b>453</b>



### Geographical segments

During the period under review, the Group's operations are located in Hong Kong, the PRC and Korea. The following table provides an analysis of the Group's geographical segment information:

	Three months ended 30 September 2006		Six months ended 30 September 2006	
	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Turnover				
– Hong Kong	3,744	599	6,225	2,048
– PRC	1,658	11,714	1,658	25,390
– Korea	4,240	8,411	7,695	12,250
	<u>9,642</u>	<u>20,724</u>	<u>15,578</u>	<u>39,688</u>
Results				
– Hong Kong	1,994	108	3,623	418
– PRC	97	6,310	97	15,069
– Korea	3,373	3,256	5,204	5,495
	<u>5,464</u>	<u>9,674</u>	<u>8,924</u>	<u>20,982</u>

### 5. Profit from Operations

	Three months ended 30 September 2006		Six months ended 30 September 2006	
	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Profit from operations has been arrived at after charging:				
Cost of inventories recognised as expenses	–	–	–	39
Depreciation of property, plant and equipment	213	251	433	525
Operating lease rentals in respect of buildings	202	215	595	381
Staff costs (including Directors' remuneration)	2,110	2,326	4,299	4,601
	<u>2,110</u>	<u>2,326</u>	<u>4,299</u>	<u>4,601</u>



## 6. Finance Costs

	Three months ended 30 September		Six months ended 30 September	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Interest expenses				
– Convertible notes	117	–	300	–
– Finance lease	8	–	16	–
Bank interest and charges	9	22	47	39
	<u>134</u>	<u>22</u>	<u>363</u>	<u>39</u>

## 7. Taxation

No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profits deriving from Hong Kong's operations during the period (2005: Nil).

Provision for corporate income tax of approximately 5% in average has been made for income derived from the provisions of hospital management and environmental protection consultancy services in the PRC (2005: Nil).

## 8. Earnings Per Share

The calculation of basic earnings per share for the three months ended 30 September 2006 was based on the net profit of approximately HK\$2,084,000 (2005: approximately HK\$1,312,000) and on the weighted average number of 560,760,308 shares (2005: 344,119,576 (restated) shares) in issue during the period after adjusting for the effects of the rights issue on 11 April 2006. The basic earnings per share for 2005 had been adjusted accordingly.

The calculation of basic earnings per share for the six months ended 30 September 2006 was based on the net profit of approximately HK\$7,286,000 (2005: approximately HK\$500,000) and on the weighted average number of 538,354,753 shares (2005: 344,119,576 (restated) shares) in issue during the period after adjusting for the effects of the rights issue on 11 April 2006. The basic earnings per share for 2005 had been adjusted accordingly.

Diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the three months and six months ended 30 September 2006, the Company had three categories of dilutive potential ordinary shares: unlisted convertible notes, non-listed warrants and share options. The unlisted convertible notes were assumed to have been converted into ordinary shares and the net profit was adjusted to eliminate the interest expenses less the tax effect.



	Three months ended 30 September 2006 HK\$'000 (unaudited)	Six months ended 30 September 2006 HK\$'000 (unaudited)
Profit attributable to equity holders of the Company	2,084	7,286
Interest expense on unlisted convertible notes (net of tax)	<u>117</u>	<u>300</u>
Profit used to determine diluted earnings per share	<u>2,201</u>	<u>7,586</u>
	2006	2006
Weighted average number of ordinary shares in issue	560,760,308	538,354,753
Adjustments for assumed conversion of unlisted convertible notes	41,062,812	41,062,812
Adjustments for assumed conversion of non-listed warrants	103,414,000	103,414,000
Adjustments for assumed exercise of share options	<u>42,500,000</u>	<u>42,500,000</u>
Weighted average number of ordinary shares of diluted earnings per share	<u>747,737,120</u>	<u>725,331,565</u>
	2006	2006
Diluted earnings per share	<u>HK0.29 cents</u>	<u>HK1.05 cents</u>

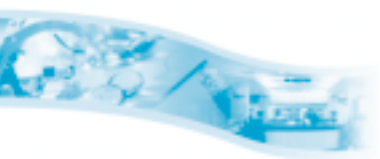
No diluted earnings per share had been presented for the three months and six months ended 30 September 2005 as share options outstanding during the three months and six months ended 30 September 2005 had an anti-dilutive effect on basic earnings per share.



## 9. Trade and Other Receivables

Payment terms with customers are mainly on credit together with deposits and receivable by instalments basis. Invoices are normally payable from 30 to 90 days of issuance, except for certain well established customers and receivables by instalment basis where it is normally payable from 1 to 2 years of issuance. The following is an aged analysis of trade receivables as at the balance sheet date:

	<b>30 September 2006 HK\$'000 (Unaudited)</b>	31 March 2006 HK\$'000 (Audited)
Trade receivables	<b>27,199</b>	15,538
Deposits and prepayments	<b>18,183</b>	267
Other receivables	<b>1,421</b>	14,406
	<hr/> <b>46,803</b> <hr/>	<hr/> 30,211 <hr/>
	<b>30 September 2006 HK\$'000 (Unaudited)</b>	31 March 2006 HK\$'000 (Audited)
Trade receivables		
<b>Age</b>		
0 to 90 days	<b>10,111</b>	11,403
91 to 180 days	<b>9,717</b>	427
181 to 365 days	<b>5,170</b>	1,287
Over 365 days	<b>2,201</b>	5,987
	<hr/> <b>27,199</b> <hr/>	<hr/> 19,104 <hr/>
Less: Allowance for bad and doubtful debts	<hr/> – <hr/>	<hr/> (3,566) <hr/>
	<hr/> <b>27,199</b> <hr/>	<hr/> 15,538 <hr/>



## 10. Trade and Other Payables

Payment terms with trade creditors are normally ranging from 90 to 120 days. The following is an aged analysis of trade payables as at the balance sheet date:

	<b>30 September 2006 HK\$'000 (Unaudited)</b>	31 March 2006 HK\$'000 (Audited)
Trade payables	<b>5,988</b>	4,757
Value-added tax payable	<b>217</b>	432
Other payables	<b>6,097</b>	4,402
	<hr/> <b>12,302</b> <hr/>	<hr/> 9,591 <hr/>
	<b>30 September 2006 HK\$'000 (Unaudited)</b>	31 March 2006 HK\$'000 (Audited)
Trade payables		
<b>Age</b>		
0 to 90 days	<b>2,782</b>	4,333
91 to 180 days	<b>2,043</b>	68
181 to 365 days	<b>1,087</b>	5
Over 365 days	<b>76</b>	351
	<hr/> <b>5,988</b> <hr/>	<hr/> 4,757 <hr/>

## 11. Pledged Bank Deposits

For the six months ended 30 September 2006, certain bank deposits of the Group totalled approximately HK\$5,061,000 were pledged as collateral for the short-term bank loan and general banking facilities (31 March 2006: approximately HK\$93,000).



## 12. Share Capital

	Number of Ordinary Shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.05 each at 30 September 2005	300,000,000	15,000
– Increase in authorised share capital on 8 November 2005 ( <i>Note (a)</i> )	300,000,000	15,000
– Increase in authorised share capital on 9 May 2006 ( <i>Note (b)</i> )	1,400,000,000	70,000
	<hr/>	<hr/>
– at 30 September 2006	<u>2,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.05 each at 30 September 2005	278,080,333	13,904
– Issue of new shares on subscription on 12 October and 11 November 2005 ( <i>Note (c)</i> )	55,600,000	2,780
– Exercise of share options between October 2005 and April 2006 ( <i>Note (d)</i> )	16,098,750	805
– Issue of new shares by way of rights issue on 19 April 2006 ( <i>Note (e)</i> )	172,465,166	8,623
– Issue of new shares upon exercise of the conversion rights attached to the unlisted convertible notes on 12 July and 20 July 2006 ( <i>Note (f)</i> )	45,893,709	2,295
	<hr/>	<hr/>
– at 30 September 2006	<u>568,137,958</u>	<u>28,407</u>

### Notes:

- (a) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 8 November 2005, the authorised share capital of the Company has been increased from HK\$15,000,000 divided into 300,000,000 shares of HK\$0.05 each to HK\$30,000,000 divided into 600,000,000 shares of HK\$0.05 each by the creation of an additional 300,000,000 un-issued shares of HK\$0.05 each.





- (b) Pursuant to the ordinary resolution passed by the shareholders in the special general meeting held on 9 May 2006, the authorised share capital of the Company has been increased from HK\$30,000,000 divided into 600,000,000 shares of HK\$0.05 each to HK\$100,000,000 divided into 2,000,000,000 shares of HK\$0.05 each by the creation of an additional 1,400,000,000 un-issued shares of HK\$0.05 each.
- (c) On 12 October 2005 and 11 November 2005, the Company issued and allotted 16,000,000, 23,600,000 and 16,000,000 new ordinary shares of HK\$0.05 each to three independent third parties, Mr. Chan Fung, Mr. Lau Kam Chee and Fruitful Profits Limited at a subscription price of HK\$0.13 per share respectively.
- (d) In July 2005, 15,000,000 share options conferring rights to subscribe for 15,000,000 shares were granted to Directors and employees of the Group. These 15,000,000 share options had then further been adjusted as a result of the rights issue to become 16,098,750 share options to subscribe for 16,098,750 shares. These 16,098,750 share options had all been exercised during the period from October 2005 to April 2006.
- (e) On 19 April 2006, the Company completed to issue 172,465,166 new ordinary shares by way of a rights issue on the basis of one rights share for every two existing shares of HK\$0.05 each at a subscription price of HK\$0.06.
- (f) The Company had issued HK\$18,000,000 unlisted convertible notes on 11 January 2006 and the holders of these unlisted convertible notes are entitled to convert those unlisted convertible notes into a total of 86,956,521 shares (adjusted as a result of the rights issue completed on 11 April 2006) at the conversion price of HK\$0.207 (adjusted as a result of the rights issue completed on 11 April 2006) upon the exercise of the conversion rights attached to the unlisted convertible notes at any time after expiry of six months after the issue date, (i.e. 10 July 2006) and up to the close of business on the maturity date. On 12 July and 20 July 2006 respectively, a total of HK\$9,500,000 unlisted convertible notes had been converted into a total of 45,893,709 shares. As at 30 September 2006, there were a total of 41,062,812 shares equivalent to HK\$8,500,000 unlisted convertible notes outstanding for conversion.

### **13. Dividends**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2006 (2005: Nil).



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

Results of the Group for the six months ended 30 September 2006 have shown substantial improvement in turnover compared with the corresponding period ended 30 September 2005. Turnover of the Group for the six months ended 30 September 2006 was approximately HK\$39,688,000 in comparison with a turnover of approximately HK\$15,578,000 in 2005, representing an increase of approximately 155%. Net profit attributable to equity holders for the six months ended 30 September 2006 was approximately HK\$7,286,000 in comparison with a net profit of approximately HK\$500,000 in 2005, representing an increase of approximately 1,357%.

The improvement in revenue for the six months ended 30 September 2006 was mainly driven by the increased contribution in turnover by the sales of environmental friendly melamine household products, and the provision of the environmental protection consultancy services to hospitals and hospital management services in the PRC. The turnover of these new lines of products and services represented approximately HK\$26,971,000 equivalent to approximately 68% of the Group's turnover for the six months ended 30 September 2006.

Administrative expenses for the six months ended 30 September 2006 recorded an increase of approximately 56.71% as compared with the corresponding period ended 30 September 2005. The increase was mainly constituted from the increase of professional fees in relation to the rights issue, acquisition of the hospital management company, and increase in the marketing and promotional expenses.

### Business Review and Outlook

#### *Waste water treatment businesses*

The Group's waste water treatment businesses for government and commercial projects are mainly carried out through Youngdong Environmental Engineering Co., Ltd. ("Youngdong") in Korea. Youngdong's turnover for the six months ended 30 September 2006 totalled approximately HK\$12,250,000 (2005: approximately HK\$7,695,000).



The Group also provides cleansing and ancillary services to both public and private housing in Hong Kong for cleansing of fresh and flush roof tanks, sump tanks and water tanks since December 2004. The turnover for this division of business for the six months ended 30 September 2006 recorded approximately HK\$330,000 (2005: approximately HK\$391,000).

### ***Energy saving products and enzyme treatments***

The Group's energy saving and enzyme treatment divisions recorded a total turnover of approximately HK\$137,000 for the six months ended 30 September 2006 (2005: approximately HK\$4,590,000). The significant decrease in turnover was due to intense market competition and fall in demand for the products.

### ***Manufacture and sales of melamine and its related products***

The Group manufactures and sells the melamine materials through its wholly-owned subsidiary, Prime Source (Fujian) Chemical Co. Ltd., in the Fujian Province, the PRC. Melamine materials are raw materials used in the manufacture of household products which are widely used in environmental conscious countries and are durable, non-toxic and easy to be processed. The Group also trades the household products made from the environmental friendly melamine materials which are widely used in environmental conscious countries. The total turnover recorded in the sales of melamine materials and environmental friendly household products for the six months ended 30 September 2006 was approximately HK\$10,971,000 (2005: approximately HK\$2,894,000).

### ***Environmental protection consultancy and management services for hospitals***

Since October 2005, the Group has entered into the service agreements with hospitals in the PRC to provide professional consulting services in the areas of environmental protection such as energy saving, waste water treatments, and improvement on the hospitals' air and water quality. The turnover recorded in these services for the six months ended 30 September 2006 was approximately HK\$1,202,000.

In addition to rendering environmental protection services for hospitals, the Group subcontracts its services to a hospital management company in the PRC to provide hospital management services. The turnover recorded in these services for the six months ended 30 September 2006 was approximately HK\$14,798,000.



## Future Prospects

Under the environment of fast economic growth in the PRC and more people becoming aware of the importance of health, the Directors believe that the healthcare market in the PRC provides abundant business opportunities for the Group in the future.

The Directors intend to explore more business opportunities in the promising healthcare sector in the PRC including but not limited to possible future investments in or cooperations with hospitals in the PRC (including but not limited to taking equity interests in hospitals in the PRC which the Directors believe will have growth potentials) and to consider undertaking those businesses which are complimentary to the existing business as a further step to the acquisition in order to benefit from the growth in the healthcare sector and enhance shareholders' returns in the long-run. In this regard, on 12 July 2006, the Company announced that Grand Brilliant entered into a non-legally binding letter of intent with the Vendor in relation to the proposed acquisition of the whole or part of equity interests to be indirectly held by the Vendor in Shanghai Humanity Hospital. Under the letter of intent, both Grand Brilliant and the Vendor will proceed to the negotiation for a legally binding formal agreement on or before 31 December 2006. For further details, please refer to the Company's announcement dated 12 July and 28 September 2006 respectively.

On 18 October 2006, the Company has entered into a non-legally binding letter of intent with Town Health International Holdings Company Limited ("Town Health International") with an objective to leveraging the resources and expertise of Town Health International and the Company in the cooperative development in the medical and healthcare related business in the PRC, particularly in the areas of dental services and beauty services including cosmetic dermatology and plastic surgery. In addition, both companies agreed to cooperate in the areas of hospital management, training of medical service personnel, education and scientific research. For further details, please refer to the Company's announcement dated 19 October 2006.

While developing the business in the healthcare market in the PRC, the Group will continue to pursue its principal business in the environmental business in order to maximise greater returns for the Company and the shareholders.



## Business and Geographical Expansion

On 12 June 2006, Grand Brilliant Corporation Limited (“Grand Brilliant”), a wholly-owned subsidiary of the Company entered into a conditional Sale and Purchase Agreement with the Vendor to acquire the 760 shares of US\$1.00 each of Day View Group Limited and all 76% of all obligations, liabilities and debts owing or incurred by Day View Group Limited to its existing shareholders, including the Vendor and a minority shareholder. The total consideration amounted to approximately HK\$96,860,000 and will be satisfied by the following manner:

- (i) HK\$10,000,000 as deposit which has already been paid by Grand Brilliant pursuant to the MOU as earnest money;
- (ii) approximately HK\$76,860,000 by procuring the Company to allot and issue shares at an issue price of HK\$0.61 per share upon completion of the transaction; and
- (iii) HK\$10,000,000 by cash upon completion of the transaction

For further details, please refer to the Company’s announcements dated 30 March 2006 and 15 June 2006 respectively.

Day View Group Limited indirectly holds 51% interests in a hospital management company in Shanghai, Shanghai Humanity Hospital Management Company Limited. Day View Group Limited and its subsidiaries, including Shanghai Humanity Hospital Management Company Limited, are principally engaged in the business of healthcare management and training and consultancy for hospitals in the PRC, which include advising on management strategies, operation and business model, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support. The Directors consider that the acquisition will enhance the Group’s overall business performance, strengthen its revenue bases and diversify its business risk through the synergistic effect. According to the supplemental agreement signed between Grand Brilliant and the Vendor, the long-stop date for the acquisition has been extended to 164 days from 12 June 2006.



## **Liquidity and Financial Resources**

The Group had total cash and bank balances of approximately HK\$14,556,000 as at 30 September 2006 (31 March 2006: approximately HK\$8,992,000). With short-term bank loan of HK\$8,000,000 (31 March 2006: Nil), the Group recorded a net cash balance of approximately HK\$6,556,000 as at 30 September 2006. The short-term bank loan was secured by the pledged bank deposit of HK\$5,000,000.

The gearing ratio (calculated as total debts divided by total assets) of the Group as at 30 September 2006 was 0.096 (31 March 2006: Nil). Increase in the gearing ratio was mainly due to the borrowing of the short-term bank loan of HK\$8,000,000.

The Group recorded total current assets of approximately HK\$71,176,000 as at 30 September 2006 (31 March 2006: approximately HK\$42,546,000) and total current liabilities of approximately HK\$20,517,000 as at 30 September 2006 (31 March 2006: approximately HK\$11,085,000). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, is 3.47 as at 30 September 2006 (31 March 2006: 3.84).

## **Contingent Liabilities**

The Group had no material contingent liabilities as at 30 September 2006 (31 March 2006: Nil).

## **Treasury Policies**

The Group generally finances its operations with internal resources.

## **Foreign Currency Exposure**

During the six months ended 30 September 2006, the Group experienced only immaterial exchange rate fluctuations as the functional currencies of the Group's operations were mainly in Hong Kong dollars, Korean Won and Renminbi. As the risk on exchange rate difference was considered to be minimal, the Group did not employ any financial instrument for hedging purposes.

## **Employee Information**

As at 30 September 2006, the Group had 130 (31 March 2006: 156) full time employees. During the six months ended 30 September 2006, the staff costs, including directors' remuneration, totalled approximately HK\$4,601,000 (2005: approximately HK\$4,299,000). Share options and bonuses are also available to the Group's employees at the discretion of the Board and depending upon the financial performance of the Group. The Group's employment and remuneration policies remained the same as detailed in its Annual Report for the year ended 31 March 2006.



## DISCLOSURE OF INTERESTS

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

As at 30 September 2006, the interests and short position of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by Directors of the Company as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

#### Long positions in shares:

Name of Director	Capacity	Number of shares	Approximate percentage of the total issued share capital
Yung Kwok Leong <sup>Note 1</sup>	Interest in controlled corporation <sup>Note 1</sup>	122,804,000	21.62%
	Beneficial owner	6,575,000	1.15%
Shum Ngai Pan <sup>Note 2</sup>	Beneficial owner	6,400,000	1.13%
Weng Jiaxing <sup>Note 2</sup>	Beneficial owner	6,450,000	1.14%
Chen Jin Shan <sup>Note 2</sup>	Beneficial owner	5,200,000	0.92%

#### Notes:

1. These shares are held through Easeglory Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Mr. Yung Kwok Leong.
2. Mr. Weng Jiaxing and Mr. Chen Jin Shan are executive Directors. Ms. Shum Ngai Pan is executive Director and Chief Executive Officer.



Save as disclosed above, as at 30 September 2006, none of the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### **Substantial shareholders' interests and short positions in shares and underlying shares**

As at 30 September 2006, 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:**

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Approximate percentage of the total issued share capital</b>
Easeglory Holdings Limited (Note 1)	Beneficial owner	122,804,000	21.62%
Yung Muk Ying (Note 1)	Interest of spouse	129,379,000	22.77%
Top Rainbow Ltd. (Note 2)	Beneficial owner	67,351,887	11.85%
Yang Pei Gen (Note 2)	Interest in controlled corporation	67,351,887	11.85%
Lu Jin Ming (Note 2)	Interest of spouse	67,351,887	11.85%
Wu Wendong (Note 3)	Beneficial owner	126,000,000	22.18%

Notes: 1. The issued share capital of Easeglory Holdings Limited is 100% beneficially owned by Mr. Yung Kwok Leong, an executive Director and the chairman of the Company. Ms. Yung Muk Ying is deemed to be interested in 126,929,000 shares by virtue of her being the spouse of Mr. Yung Kwok Leong.



2. The issued share capital of Top Rainbow Ltd. is 100% beneficially owned by Mr. Yang Pei Gen. Ms. Lu Jin Ming is deemed to be interested in the Company by virtue of her being the spouse of Mr. Yang Pei Gen.
3. 126,000,000 shares are beneficially owned by Mr. Wu Wendong upon completion of the acquisition of Day View Group Limited.

Save as disclosed above, as at 30 September 2006, 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 Director 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

### (i) Pre-IPO Scheme

As at 30 September 2006, there were 1,034,400 outstanding share options pursuant to the Pre-IPO Scheme adopted on 20 April 2002. A breakdown setting out the number of outstanding share options and their respective exercise price, both of which have been adjusted as a result of the share consolidation and the rights issue, and their respective exercise period under the Pre-IPO Scheme is as follows:

	Exercise period	Exercise price	Number of share options outstanding
Former employee and advisor of the Company	26 April 2002 to 9 May 2012	HK\$0.541	1,034,400



## (ii) Post-IPO Scheme

In July 2005, 15,000,000 share options conferring rights to subscribe for 15,000,000 shares were granted to Directors and employees of the Group. These 15,000,000 share options had then further been adjusted as a result of the rights issue to become 16,098,750 share options to subscribe for 16,098,750 shares. These 16,098,750 share options had all been exercised during the period from October 2005 to April 2006.

On 12 July and 24 July 2006 respectively, the Company passed board resolutions pursuant to the Post-IPO Scheme adopted on 20 April 2002 to grant a total of 42,500,000 share options to Directors, consultants and employees of the Group. It was resolved that share options be offered to the Directors, consultants and employees at the subscription price of HK\$0.83 and HK\$0.82 per share respectively with a 10 year exercise period each commencing from 13 July and 24 July 2006 respectively. A breakdown setting out the number of share options granted, their respective exercise price and exercise period is as follows:

Directors	Exercise period	Exercise price	Number of share options granted
Yung Kwok Leong	13 July 2006 to 12 July 2016	HK\$0.83	2,450,000
Shum Ngai Pan	13 July 2006 to 12 July 2016	HK\$0.83	2,800,000
Weng Jiaying	13 July 2006 to 12 July 2016	HK\$0.83	2,700,000
Chen Jin Shan	13 July 2006 to 12 July 2016	HK\$0.83	5,200,000
Employees and consultants of the Group	13 July 2006 to 12 July 2016	HK\$0.83	16,850,000
	24 July 2006 to 23 July 2016	HK\$0.82	12,500,000
Total			<hr/> <u>42,500,000</u>



## **DIRECTORS' SERVICE CONTRACTS**

There is no service contract entered into between the Company and Mr. Yung Kwok Leong, the executive Director and chairman of the Company. Ms. Shum Ngai Pan, Mr. Chen Jin Shan and Mr. Weng Jiaxing have been appointed as executive Directors by way of letters of appointment with the Company for a period of one year commencing 25 April 2006 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Mr. Chan Francis Ping Kuen, an independent non-executive Director, has been appointed by way of a letter of appointment with the Company for a period of one year commencing from 27 September 2004 which will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing. All the other independent non-executive Directors, namely Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei, have entered into non-executive Directors' contracts with the Company for a term of one year commencing on 22 April 2002 and will continue thereafter until terminated by either party giving to the other party not less than one month's notice in writing.

Save as disclosed above, none of the Directors has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

During the six months ended 30 September 2006, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

## **COMPETING INTERESTS**

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



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

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the period ended 30 September 2006.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the period ended 30 September 2006 except that no nomination committee of the Board is established.

## **PRE-EMPTIVE RIGHTS**

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

## **AUDIT COMMITTEE**

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

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



The audit committee has reviewed the Group's unaudited results for the six months ended 30 September 2006.

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

Hong Kong, 10 November 2006

*As at the date of this report, the executive Directors are Mr. Yung Kwok Leong, Ms. Shum Ngai Pan, Mr. Chen Jin Shan and Mr. Weng Jiaxing. The independent non-executive Directors are Mr. Chan Francis Ping Kuen, Mr. Hsu Shiu Foo, William and Mr. Yu Chai Mei.*