

THIRD QUARTERLY REPORT 2010/2011



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)

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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

- Total turnover increased more than eleven-fold to approximately HK\$1,096.365 million (2009: approximately HK\$98.462 million).
- Profit attributable to owners of the Company was approximately HK\$43.562 million (2009: net loss approximately HK\$0.275 million).
- The basic and diluted earnings per share were approximately HK4.46 cents and HK4.42 cents respectively (2009: basic and diluted loss per share approximately HK0.10 cents (restated) and HK0.04 cents (restated) respectively).
- The Directors do not recommend the payment of a dividend (2009: Nil).

THIRD QUARTERLY RESULTS

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 nine months ended 31 December 2010, together with the unaudited comparative figures for the corresponding periods in 2009 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the three months and nine months ended 31 December 2010

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
TURNOVER	3	388,988	34,541	1,096,365	98,462
Cost of sales		(334,042)	(9,438)	(939,176)	(34,214)
Gross profit		54,946	25,103	157,189	64,248
Other income		710	157	7,989	8,007
Selling and distribution costs		(6,532)	(5,842)	(18,335)	(17,332)
Administrative expenses		(24,993)	(15,294)	(76,090)	(49,565)
PROFIT FROM OPERATIONS		24,131	4,124	70,753	5,358
Finance costs		(2,178)	(124)	(6,337)	(1,127)
PROFIT BEFORE TAXATION		21,953	4,000	64,416	4,231
Taxation	4	(6,003)	157	(16,055)	(724)
PROFIT FOR THE PERIOD		15,950	4,157	48,361	3,507
Other comprehensive income:					
Exchange differences arising on translating foreign operations		2,750	750	6,928	539
Other comprehensive income for the period		2,750	750	6,928	539
Total comprehensive income for the period		18,700	4,907	55,289	4,046

Condensed Consolidated Statement of Comprehensive Income*For the three months and nine months ended 31 December 2010*

	<i>Notes</i>	Three months ended		Nine months ended	
		31 December		31 December	
		2010	2009	2010	2009
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit/(loss) for the period attributable to:					
Equity owners of the Company		14,492	1,044	43,562	(275)
Minority interests		1,458	3,113	4,799	3,782
		15,950	4,157	48,361	3,507
Total comprehensive income/ (loss) attributable to:					
Equity owners of the Company		18,493	1,419	54,656	(192)
Minority interests		207	3,488	633	4,238
		18,700	4,907	55,289	4,046
DIVIDENDS	5	–	–	–	–
			(restated)		(restated)
EARNINGS/(LOSS) PER SHARE					
– Basic (<i>cents</i>)	6	1.36	0.20	4.46	(0.10)
– Diluted (<i>cents</i>)		1.35	0.20	4.42	(0.04)

Unaudited Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2010

	Share capital	Share premium	Special reserve	Translation reserve	Share-based payment reserve	Convertible note reserve	Statutory surplus reserve	Accumulated (losses)/profit	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
	(Note (a))		(Note (b))				(Note (c))				
At 1 April 2009	224,756	335,267	(6,735)	7,899	4,658	4,448	1,287	(243,757)	327,823	28,239	356,062
Loss for the period	-	-	-	-	-	-	-	(275)	(275)	3,782	3,507
Transfer to reserve	-	-	-	844	770	-	-	-	1,614	-	1,614
At 31 December 2009	224,756	335,267	(6,735)	8,743	5,428	4,448	1,287	(244,032)	329,162	32,021	361,183
At 1 April 2010	466,423	673,600	(6,735)	7,189	6,230	2,537	1,287	(446,547)	703,984	32,858	736,842
Issue of shares	124,796	(30,291)	-	-	-	-	-	-	94,505	-	94,505
Issuing expenses	-	(6,573)	-	-	-	-	-	-	(6,573)	-	(6,573)
Offset accumulated losses with share premium	-	(446,547)	-	-	-	-	-	446,547	-	-	-
Profit for the period	-	-	-	-	-	-	-	43,562	43,562	4,799	48,361
Transfer to reserve	-	-	-	1,165	-	-	-	-	1,165	279	1,444
At 31 December 2010	591,219	190,189	(6,735)	8,354	6,230	2,537	1,287	43,562	836,643	37,936	874,579

Notes:

- (a) As at 31 December 2010, the total issued share capital of the Company was approximately HK\$591.219 million (2009: approximately HK\$224.756 million) divided into 672,438,264 ordinary shares and 510,000,000 convertible preference shares (2009: 449,511,198 ordinary shares (restated)) of HK\$0.50 each.
- (b) Included in the special reserve amounting to approximately HK\$2,935,000 of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of a subsidiary acquired pursuant to a group reorganisation in 2001.

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

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

- (c) As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall set aside 10% of its profit after taxation for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the Board and by the relevant authority, to offset accumulated losses or increase capital.

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

For the nine months ended 31 December 2010

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 28 May 2001 as an exempted company with limited liability. The shares of the Company are listed on the GEM of The Stock Exchange. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681 GT George Town, Grand Cayman, KY1-1111, Cayman Islands. The head office and principal place of business of the Company in Hong Kong is located at 19/F, New Wing, 101 King's Road, Hong Kong.

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

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

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

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

3. TURNOVER

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

	Three months ended 31 December		Nine months ended 31 December	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Turnover				
Pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses	368,254	–	1,014,212	–
Provision of general hospital services	20,588	34,097	80,873	97,365
Provision of healthcare and hospital management services	146	444	1,280	1,097
	388,988	35,541	1,096,365	98,462

4. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profits derived from Hong Kong's operations during the period (2009: Nil).

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

5. DIVIDENDS

The Directors do not recommend the payment of a dividend for the nine months ended 31 December 2010 (2009: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 December 2010 was based on the net profit of approximately HK\$14.492 million (2009: net profit of approximately HK\$1.044 million) and on the weighted average number of 1,067,938,740 shares (2009: 449,511,198 shares (restated)).

The calculation of basic earnings per share for the nine months ended 31 December 2010 was based on the net profit of approximately HK\$43.562 million (2009: net loss of approximately HK\$0.275 million) and on the weighted average number of 977,711,586 shares (2009: 449,511,198 shares (restated)).

Diluted earnings per share was calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares. For the three months and nine months ended 31 December 2010, the Company had two categories of dilutive potential ordinary shares: convertible note and share options.

The convertible note are assumed to have been converted into ordinary shares and the net earnings is adjusted to eliminate the interest expense of the convertible notes less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Three months ended 31 December 2010 HK\$'000 (Unaudited)	Nine months ended 31 December 2010 HK\$'000 (Unaudited)
Earnings attributable to equity owners of the Company	14,492	43,562
Interest expense on convertible note (net of tax)	34	98
Earnings used to determine diluted earnings per share	14,526	43,660
Weighted average number of shares in issue	1,067,938,740	977,711,586
Adjustments for assumed conversion of convertible note	3,421,053	3,421,053
Adjustments for assumed exercise of share options	5,534,851	6,917,906
Weighted average number of shares of diluted earnings per share	1,076,894,644	988,050,545
	Three months ended 31 December 2010	Nine months ended 31 December 2010
Diluted earnings per share	HK1.35 cents	HK4.42 cents

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 31 December 2010 (the “period under review”), the Group recorded a turnover on business operations of approximately HK\$1,096.365 million (2009: approximately HK\$98.462 million), representing about an eleven-fold increase compared to the same period last year. The rise in turnover was mainly driven by the sales from the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses in the PRC.

Selling and distribution expenses for the period under review amounted to approximately HK\$18.335 million (2009: approximately HK\$17.332 million), rising about 6%.

Administrative expenses amounted to approximately HK\$76.090 million (2009: approximately HK\$49.565 million), climbing about 53%. The increase in these expenses was due to the Group’s business expansion initiatives.

The Group recorded a profit attributable to owners of the Company of approximately HK\$43.562 million for the period under review (2009: net loss of approximately HK\$0.275 million). The improvement in the Group’s results was mainly attributable to the expansion of its pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses in the PRC.

Business Review and Outlook

Pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses

The Group engages in the wholesale and distribution of a broad range of pharmaceutical products to hospitals, clinics and pharmacies in Fujian Province, the PRC. The Group’s pharmaceutical retail chain operation is also in the leading position within Fujian Province in both retail drug store numbers and comprehensive competitiveness. The Group will continue to allocate resources and look for business opportunities to expand the pharmaceutical wholesale and distribution and retail chain businesses. The turnover contributed by the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses for the nine months ended 31 December 2010 was approximately HK\$1,014.212 million (2009: Nil).

General hospital and healthcare and hospital management services

At 31 December 2010, the Group has 2 general hospitals (2009: 5) operating in Chongqing and Jiaying cities which 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 Group also provides healthcare management and training and consultancy services for hospitals. The total turnover contributed by these general hospitals and healthcare and hospital management services for the nine months ended 31 December 2010 was approximately HK\$82.153 million (2009: approximately HK\$98.462 million).

Prospects

The management of the Group will continue to adapt to the changing business environment with effective and efficient measures and continue to maintain its focus on its core healthcare and pharmaceutical businesses in the PRC. The strong economic growth, and increasing healthcare expenditures in the PRC spurred by greater public awareness of health issues are major drivers for greater demands for quality hospital services and affordable pharmaceutical products. The Directors therefore remain optimistic about the promising healthcare and pharmaceutical sectors in the PRC in the long-run.

Thus, the Group is considering initiatives to continue to expand its business including but not limited to possible future investments in or co-operation with healthcare and pharmaceutical businesses in the PRC through a variety of acquisition means, such as consolidating hospitals and streamlining resources to expand its healthcare and pharmaceutical businesses more effectively. At the same time, the implementation of the healthcare reform measures and the Government mandated reform of the healthcare standards on a national basis is likely to lead to greater co-operation between hospital management enterprises and distributors of pharmaceutical products in the PRC, thus increasing the business opportunities for the Group as a whole. After taking into account these factors and considering those business sectors which are complementary to the existing healthcare business of the Group as a further step, the diversification into the pharmaceutical sector would consequently create synergies among the core business divisions. Such a step would ultimately contribute noticeable benefits to the Group and enhance shareholders' returns in the long run.

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

Disclosure of Interests

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

As at 31 December 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by Directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(i) Interests in shares:

Name of Director	Nature of interest	Number of shares	Position	Approximate percentage of the total issued shares
Mr. Yung Kwok Leong	Corporate interest (<i>Note 1</i>)	120,960,500	Long	17.99%
	Personal interest (<i>Note 2</i>)	581,546,875	Long	86.48%
Mr. Weng Jiaxing	Personal interest	1,406,250	Long	0.21%
Mr. Zheng Gang	Personal interest	2,000,000	Long	0.30%

Note 1: These shares are held through Easeglory Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Mr. Yung Kwok Leong.

Note 2: The 581,546,875 shares represent (i) the 71,546,875 shares beneficially owned by Mr. Yung Kwok Leong, and (ii) the 510,000,000 convertible preference shares.

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

Name of Director	Exercise period	Exercise price	Number of share options granted	Position
Mr. Yung Kwok Leong	30 September 2009 to 29 March 2019	HK\$0.50	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. Weng Jiaying	23 March 2010 to 22 March 2015	HK\$1.12	1,980,282	Long
Mr. Zheng Gang	30 September 2009 to 29 March 2019	HK\$0.50	800,000	Long
	23 March 2010 to 22 March 2015	HK\$1.12	2,814,084	Long
Dr. Huang Jiaqing	30 September 2009 to 29 March 2014	HK\$0.50	1,000,000	Long
	23 March 2010 to 22 March 2015	HK\$1.12	312,676	Long
Mr. Chen Jin Shan	30 September 2009 to 29 March 2019	HK\$0.50	1,704,000	Long
	23 March 2010 to 22 March 2015	HK\$1.12	2,084,507	Long

Save as disclosed above, as at 31 December 2010, none of the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

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

As at 31 December 2010, other than the interests of a Director or chief executive of the Company as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures" above, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in shares of the Company:

Name of shareholder	Number of shares	Position	Capacity	Approximate percentage of the total issued shares
Easeglory Holdings Limited (Note 1)	120,960,500	Long	Beneficial owner	17.99%
Mrs. Yung Muk Ying (Note 1)	704,207,375	Long	Interest of spouse	104.72%
Mr. Lau Kam Shui (Note 2)	42,580,000	Long	Beneficial owner	6.33%
Mrs. Lau Yuk Lan (Note 2)	42,580,000	Long	Interest of spouse	6.33%

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 Board and Chief Executive Officer of the Company. By virtue of her being the spouse of Mr. Yung Kwok Leong, Mrs. Yung Muk Ying is deemed to be interested in 120,960,500 shares held by Easeglory Holdings Limited and 71,546,875 shares and 1,700,000 share options and 510,000,000 convertible preference shares beneficially held by Mr. Yung Kwok Leong in personal capacity.
- (2) Mr. Lau Kam Shui is interested in 42,580,000 shares of the Company. Mrs. Lau Yuk Lan is deemed to be interested in 42,580,000 shares by virtue of her being the spouse of Mr. Lau Kam Shui.

Save as disclosed above, as at 31 December 2010, the Directors of the Company were not aware of any other person (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures" above, at no time since incorporation of the Company were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

As at 31 December 2010, there were 47,053,131 outstanding share options, of which, 237,777 and 46,815,354 share options were granted pursuant to the respective Pre-IPO share option scheme and Post-IPO share option scheme. Details of the outstanding share options as at 31 December 2010 were as follows:

(i) Pre-IPO scheme

As at 31 December 2010, there were 237,777 outstanding share options pursuant to the Pre-IPO scheme adopted on 20 April 2002. A breakdown setting out the number of outstanding share options, their respective exercise price and respective exercise period under the Pre-IPO scheme was as follows:

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
Former employee and advisor of the Group	25 April 2002 to 24 April 2012	HK\$2.35	237,777

(ii) Post-IPO share option scheme

As at 31 December 2010, there were 46,815,354 outstanding share options pursuant to the Post-IPO scheme adopted on 20 April 2002. A breakdown setting out the number of outstanding share options, their respective exercise price and respective exercise period under the 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. Weng Jiaying	23 March 2010 to 22 March 2015	HK\$1.12	1,980,282
Mr. Zheng Gang	30 September 2009 to 29 March 2019	HK\$0.50	800,000
	23 March 2010 to 22 March 2015	HK\$1.12	2,814,084
Dr. Huang Jiaqing	30 September 2009 to 29 March 2014	HK\$0.50	1,000,000
	23 March 2010 to 22 March 2015	HK\$1.12	312,676
Mr. Chen Jin Shan	30 September 2009 to 29 March 2019	HK\$0.50	1,700,000
	23 March 2010 to 22 March 2015	HK\$1.12	2,084,507
Employees and consultants of the Group	13 July 2006 to 12 July 2016	HK\$3.61	1,149,346
	21 March 2007 to 20 March 2017	HK\$2.94	2,171,361
	30 September 2009 to 29 March 2019	HK\$0.50	8,520,000
	23 March 2010 to 22 March 2015	HK\$1.12	20,219,718
Total			46,815,354

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

During the nine months ended 31 December 2010, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the nine months ended 31 December 2010.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the nine months ended 31 December 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the nine months ended 31 December 2010 except: (i) the roles of chairman and chief executive officer are not separated; and (ii) no nomination committee of the Board is established.

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

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

PRE-EMPTIVE RIGHTS

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

REMUNERATION COMMITTEE

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

The role and function of the remuneration committee include the determination of the specific remuneration package of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of non-executive Directors. The remuneration committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

AUDIT COMMITTEE

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

The primary duties of the audit committee are (i) to review the annual reports and accounts, half-year reports and quarterly reports and give advice and comments thereon to the Directors; and (ii) to review and supervise the financial reporting process and internal controls of the Group. The audit committee members include Ms. Wong Ka Wai, Jeanne (committee chairlady), Prof. Hu Shanlian and Prof. Lu Chuanzhen, the independent non-executive Directors of the Company.

The Group's unaudited condensed consolidated results for the nine months ended 31 December 2010 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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

Hong Kong, 14 February 2011