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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other licensed securities dealer, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Hua Xia Healthcare Holdings Limited** (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular 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 document misleading.

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This circular is for information only. It does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

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## 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)

**(1) THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
THE PHARMACEUTICAL WHOLESALE AND DISTRIBUTION BUSINESS  
AND PHARMACEUTICAL RETAIL CHAIN BUSINESS OF THE GROUP  
ON THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED;  
(2) ADOPTION OF THE WANJIA SHARE OPTION SCHEME;  
(3) CONNECTED TRANSACTION INVOLVING THE ISSUE OF  
NON-REDEEMABLE CONVERTIBLE PREFERENCE SHARES;  
AND  
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial adviser to the Company



INCU Corporate Finance Limited

Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders

VEDA | CAPITAL

智略資本

Veda Capital Limited

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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” of this circular.

A letter from the Board is set out on pages 8 to 54 of this circular. A letter of advice from the Independent Board Committee is set out on pages 55 to 56 of this circular.

A letter from Veda Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Spin-off and the CPS Subscription is set out on pages 57 to 82 of this circular.

A notice convening the EGM to be held on Wednesday, 4 September 2013 at 11:30 a.m. or immediately following the conclusion (or adjournment) of the annual general meeting of the Company is set out on pages 143 to 146 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instruction printed thereon and return the same to the principal place of business of the Company at 19/F., New Wing, 101 King’s Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting if you so wish.

This circular will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting and the website of the Company at [www.huaxia-healthcare.com](http://www.huaxia-healthcare.com).

\* For identification purpose only

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## CHARACTERISTICS OF GEM

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**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 Stock 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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## CONTENTS

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	<i>Page</i>
<b>Characteristics of GEM</b> .....	i
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	8
<b>Letter from the Independent Board Committee</b> .....	55
<b>Letter from Veda Capital</b> .....	57
<b>Appendix I – Financial Information of the Group</b> .....	83
<b>Appendix II – Unaudited Pro Forma Financial Information of the Group</b> .....	86
<b>Appendix III – Summary of the principal terms of the Wanjia Share Option Scheme</b> .....	93
<b>Appendix IV – Terms of the Second Batch CPS</b> .....	106
<b>Appendix V – General Information</b> .....	134
<b>Notice of EGM</b> .....	143

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“business day(s)”	any day (other than Saturday, Sunday or a public holiday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company” or “Hua Xia”	Hua Xia Healthcare Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM
“connected person(s)”	has the meanings ascribed to it under the GEM Listing Rules
“Conversion CPS(s)”	new Hua Xia Shares to be issued by the Company upon the exercise of the conversion rights attached to the CPS
“CPS(s)”	the non-redeemable convertible preference shares, including both the First Batch CPS and the Second Batch CPS
“CPS Subscription”	the subscription of the Second Batch CPS in the principal amount of HK\$120 million pursuant to the CPS Subscription Agreement
“CPS Subscription Agreement”	the conditional subscription agreement dated 10 April 2013 and entered into between the Company and Mr. Yung in relation to the CPS Subscription

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## DEFINITIONS

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“Distribution”	the payment of a special dividend by the Company to its Qualifying Shareholders by way of distribution of one (1) Wanjia Share for every five (5) Hua Xia Shares held by the Qualifying Shareholders on the Record Date, details of which are subject to final decision of the Hua Xia Board
“Easeglory”	Easeglory Holdings Limited, a company incorporated in the BVI with limited liability, the entire share capital of which is beneficially owned by Marshal
“EGM”	the extraordinary general meeting to be convened and held on Wednesday, 4 September 2013 by the Company for the purpose of approving, among other things, the Proposed Spin-off, the adoption of the Wanjia Share Option Scheme and the CPS Subscription Agreement and the transactions contemplated thereunder
“Excluded Shareholder(s)”	the Overseas Shareholder(s) whom the Hua Xia Board, after making enquiries considers it necessary or expedient not to transfer the Wanjia Shares to, on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“First Batch CPS”	a total of 98,500,000 CPSs held by Mr. Yung and having the rights and benefits and subject to the restrictions set out in the terms governing the First Batch CPS as stated in the circular of the Company dated 11 February 2010
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group” or “Hua Xia Group”	the Company and its subsidiaries (before the Proposed Spin-off)
“HKSCC”	Hong Kong Securities Clearing Company Limited

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## DEFINITIONS

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“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hospital Business”	the provision of general hospital services in the PRC operated by the Remaining Group
“Hua Xia Board”	the board of Hua Xia Directors
“Hua Xia CN”	the unlisted convertible notes issued on 3 May 2007 by the Company in the principal amount of HK\$6,500,000 and is convertible into 3,421,053 Hua Xia Shares at the conversion price of HK\$1.9 per Hua Xia Share
“Hua Xia Directors”	directors of the Company
“Hua Xia Shares”	ordinary shares of HK\$0.01 each in the issued share capital of the Company
“Hua Xia Shareholder(s)”	holder(s) of the Hua Xia Share(s)
“Hua Xia Share Option(s)”	the share option(s) of the Company
“Independent Board Committee”	the independent board committee formed by all the independent non-executive Hua Xia Directors to advise the Independent Shareholders on the Proposed Spin-off and the CPS Subscription
“Independent Shareholder(s)”	the Hua Xia Shareholders, apart from Mr. Yung and his associates, who are entitled to vote for or against the Proposed Spin-off and the CPS Subscription at the EGM
“Independent Third Parties”	any person or company and its ultimate beneficial owner(s), to the best of the Hua Xia Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Issue Price”	the issue price of HK\$0.238 per Second Batch CPS

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## DEFINITIONS

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“Latest Practicable Date”	13 August 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing”	the listing of the Wanjia Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Document”	the listing document to be issued by Wanjia in relation to the Listing
“Main Board”	the stock market (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with GEM
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Main Board
“Marshal”	Marshal International Investments Limited, a company incorporated in the BVI, and is wholly and beneficially owned by Mr. Yung
“Mr. Yung”	Mr. Yung Kwok Leong, an executive Hua Xia Director and a substantial Hua Xia Shareholder
“Overseas Shareholder(s)”	Hua Xia Shareholders whose addresses appear on the register of members of the Company at the close of business on the Record Date are in jurisdictions outside Hong Kong
“Pharmaceutical Business”	the pharmaceutical wholesale and distribution business and pharmaceutical retail chain business in the PRC operated by the Wanjia Group
“PN3”	practice note 3 “Practice with regard to proposals submitted by issuers to effect the separate listing on the Exchange or elsewhere of assets or businesses wholly or partly with in their existing groups” to the GEM Listing Rules

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## DEFINITIONS

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“PRC”	the People’s Republic of China, but for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Promissory Note”	outstanding promissory note in the principal amount of HK\$220 million and beneficially held by Mr. Yung as at the Latest Practicable Date
“Proposed Spin-off”	the proposed separate listing of the Wanjia Shares on the Main Board, which is expected to be effected by way of introduction, together with the Distribution
“Qualifying Shareholder(s)”	Hua Xia Shareholder(s) and the holder(s) of the First Batch CPS whose names appear on the register of members of the Company at the close of business on the Record Date other than the Excluded Shareholders
“Record Date”	the date for ascertaining Hua Xia Shareholders’ entitlements to the Distribution, which is to be determined and announced by Hua Xia when the timetable for the Distribution is determined
“Registrar”	the Hong Kong branch share registrar of the Company, Tricor Tengis Limited, of 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Remaining Group”	the Hua Xia Group other than the Wanjia Group
“Second Batch CPS”	504,201,680 CPSs to be allotted and issued by the Company pursuant to the CPS Subscription Agreement and having the rights and benefits and subject to the restrictions governing the Second Batch CPS
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



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## DEFINITIONS

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“substantial shareholder(s)”	has the meaning ascribed to it under the Main Board Listing Rules or GEM Listing Rules (as the case may be)
“Timely Hero”	Timely Hero Limited, a company incorporated in the BVI, an indirect wholly-owned subsidiary of Hua Xia, with its subsidiaries engaging in the Pharmaceutical Business as at the Latest Practicable Date
“Veda Capital”	Veda Capital Limited, a corporation licensed to carry out business in type 6 (advising on corporate finance) regulated activity under the SFO and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Proposed Spin-off and the CPS Subscription
“Wanjia”	Wanjia Group Holdings Limited, a company incorporated in the Cayman Islands, an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date, the issued Shares of which are proposed to be listed on the Main Board upon completion of the Proposed Spin-off
“Wanjia Board”	the board of Wanjia Directors
“Wanjia Director(s)”	the directors of Wanjia
“Wanjia Group”	Wanjia, Timely Hero and its subsidiaries upon completion of the Proposed Spin-off
“Wanjia Share(s)”	ordinary shares of nominal value of HK\$0.01 each in the capital of Wanjia
“Wanjia Share Option Scheme”	the share option scheme which will be conditionally adopted by Wanjia

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## DEFINITIONS

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“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.
“sq.m”	square metre

*For ease of reference, the names of certain PRC laws and regulations or the PRC established companies or entities have been included in this circular in both the Chinese and English languages. The English names of these companies and entities are only English translation of their respective official Chinese names and they are denoted with “#”. In the event of any inconsistency as to the names of such laws, regulations, companies or entities, the Chinese version shall prevail.*

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## LETTER FROM THE BOARD

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### 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)

*Executive Directors:*

Mr. Yung Kwok Leong  
(Chairman and Chief Executive Officer)  
Dr. Jiang Tao (Deputy Chief Executive)  
Mr. Zheng Gang  
Dr. Huang Jiaqing  
Mr. Chen Jin Shan

*Non-executive Director:*

Dr. Wong Yu Man, James

*Independent non-executive Directors:*

Ms. Wong Ka Wai, Jeanne  
Prof. Hu Shanlian  
Prof. Lu Chuanzhen

*Registered office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal place of business*

*in Hong Kong:*  
19th Floor, New Wing  
101 King's Road  
Hong Kong

19 August 2013

*To the Shareholders*

Dear Sir or Madam,

**(1) THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
THE PHARMACEUTICAL WHOLESALE AND DISTRIBUTION BUSINESS  
AND PHARMACEUTICAL RETAIL CHAIN BUSINESS OF THE GROUP  
ON THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED;  
(2) ADOPTION OF THE WANJIA SHARE OPTION SCHEME;  
(3) CONNECTED TRANSACTION INVOLVING THE ISSUE OF  
NON-REDEEMABLE CONVERTIBLE PREFERENCE SHARES;  
AND  
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**1. INTRODUCTION**

References are made to the announcements of the Company dated 16 July 2012, 18 September 2012, 10 April 2013 and 16 August 2013 respectively in relation to the Proposed Spin-off and the CPS Subscription.

\* For identification purpose only

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## LETTER FROM THE BOARD

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On 17 September 2012, the Stock Exchange granted the approval in relation to the Proposed Spin-off to the Company as required under PN3.

On 18 September 2012, Wanjia submitted a listing application to the Stock Exchange for the separate listing of, and permission to deal in, the Wanjia Shares (including the Wanjia Shares to be issued upon the exercise of the share options that granted under the Wanjia Share Option Scheme) in issue pursuant to the Proposed Spin-off on the Main Board.

The Proposed Spin-off is expected to be effected by way of introduction through the Distribution whereby, subject to the number of Hua Xia Shares on the Record Date, a total of not less than approximately 36.47% and not more than 40% of the issued share capital of Wanjia will be distributed to the Qualifying Shareholders. Upon completion of the Distribution, the Company will retain not less than 60% and not more than approximately 63.53% equity interest in Wanjia and Wanjia will become a non-wholly owned subsidiary of the Company. The assets and liabilities, the financial results and the cash flow contribution of the Wanjia Group will continue to be consolidated into the financial statement of the Company.

Completion of the Proposed Spin-off will not affect the listing of the Hua Xia Shares on GEM, the Hua Xia Shares will continue to be listed and traded on GEM upon completion of the Proposed Spin-off while Wanjia Shares will be separately listed on the Main Board.

The Hua Xia Directors confirm that the Company will comply with all the requirements of GEM Listing Rules in respect of the Proposed Spin-off, subject to the Hua Xia Shareholders passing ordinary resolution(s) at the EGM to approve the Proposed Spin-off.

On 10 April 2013, the Company entered into the CPS Subscription Agreement with Mr. Yung, pursuant to which Mr. Yung has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Second Batch CPS at the total subscription price of HK\$120 million which will be satisfied by setting off against HK\$120 million principal amount of the Promissory Note. The CPS Subscription is a connected transaction of the Company.

The purposes of this circular are, to provide you with, among other things:

- (1) the information on (i) the reasons for, and the benefits of, the Proposed Spin-off (together with such other information relating to the Proposed Spin-off as required by GEM Listing Rules on the part of the Company); (ii) the Wanjia Share Option Scheme; and (iii) the CPS Subscription;
- (2) the general information of the Hospital Business carried out by the Remaining Group;

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## LETTER FROM THE BOARD

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- (3) the recommendations of the Independent Board Committee to the Independent Shareholders regarding the Proposed Spin-off and the CPS Subscription;
- (4) the letter of advice from Veda Capital containing its recommendation to the Independent Board Committee and the Independent Shareholders regarding the terms of the Proposed Spin-off and the CPS Subscription Agreement and its recommendation to the Hua Xia Shareholders regarding voting on the Proposed Spin-off and the CPS Subscription; and
- (5) the notice of EGM.

**Hua Xia Shareholders and potential investors of the Company should note that the Proposed Spin-off (including the Distribution) is subject to, among others, the final decision of the Hua Xia Board and the Wanjia Board and the approvals from the Hua Xia Shareholders and the Stock Exchange, and may or may not proceed. Accordingly, Hua Xia Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the Hua Xia Shares.**

## **2. THE PROPOSED SPIN-OFF**

### **The Distribution**

The Hua Xia Board proposed to declare a conditional special dividend by way of a distribution in specie of not less than 236,487,652 Wanjia Shares representing approximately 36.47% of the then entire issued share capital of Wanjia and not more than 259,362,116 Wanjia Shares representing 40% of the then issued share capital of Wanjia held by the Company (subject to the number of Hua Xia Shares on the Record Date) to the Qualifying Shareholders, being registered holders of the Hua Xia Shares whose names appear on the register of members of the Company on the Record Date. Each Qualifying Shareholder will be entitled to one (1) Wanjia Share for every five (5) Hua Xia Shares on the Record Date. All entitlements will be rounded down to a whole number of Wanjia Shares, and fractional entitlements will be disregarded. For the avoidance of doubt, registered holders of less than five (5) Hua Xia Shares on the Record Date will not be entitled to any Wanjia Shares. The details of the Distribution are subject to the final decision of the Hua Xia Board.

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## LETTER FROM THE BOARD

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### ***Overseas Shareholders***

If there exists any Overseas Shareholder(s) on the Record Date, the Company will make enquiries regarding the feasibility of extending the Distribution to the Overseas Shareholder(s). If based on legal opinions provided by the legal advisers, the Hua Xia Directors consider that it is necessary or expedient not to extend the Distribution to particular Overseas Shareholder(s) on account either of the legal restrictions under the laws of the place(s) of its/his/their registered addresses or the requirements of the relevant regulatory bodies or stock exchanges in those places outside Hong Kong, the assured entitlement to Wanjia Shares will not be available to such Overseas Shareholder(s). Instead, the Excluded Shareholders will receive a cash amount representing the net proceeds of the sale by the Company on their behalf of the Wanjia Shares to which it/he/they would otherwise be entitled pursuant to the Distribution after dealings in the Wanjia Shares commence on the Stock Exchange at the prevailing market price. The Company will ensure that the purchaser(s) of such Wanjia Shares is/are Independent Third Party(ies). The proceeds of such sale, net of expenses, of more than HK\$100 will be paid to the relevant Excluded Shareholders in Hong Kong dollars. The Company will retain individual amounts of HK\$100 or less for its own benefit.

Based on the register of members as at the Latest Practicable Date, there were Overseas Shareholders with their addresses in the PRC.

### ***Closure of register of members***

For the purpose of determining the entitlement of the Hua Xia Shareholders to the Distribution, the register of members of the Company will be closed during which no transfer of Hua Xia Shares will be effected. Hua Xia will make a separate announcement when the timetable of the Distribution is determined.

### ***No proceeds from the Proposed Spin-off***

The Proposed Spin-off does not involve an offering of new Wanjia Shares or any other securities and no new proceeds will be raised pursuant to the Proposed Spin-off.

### ***Fraction of Wanjia Shares***

The total number of Wanjia Shares to be transferred to any Hua Xia Shareholders will be rounded down to a whole number. If there are any fractional entitlements of the Wanjia Shares, such fractional entitlements will not be transferred to the Hua Xia Shareholders, but will be aggregated and sold by the Company for the benefit of the Company.

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## LETTER FROM THE BOARD

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### *CCASS Arrangement*

Subject to the granting of the listing of, and permission to deal in, the Wanjia Shares on the Main Board as well as compliance with the stock admission requirements of HKSCC, the Wanjia Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of Listing or, under contingent situation, such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Further announcement(s) will be made by the Company to update the Hua Xia Shareholders and prospective investors of the Company of any significant development in relation to the Proposed Spin-off as and when appropriate.

### *Conditions precedent for the Proposed Spin-off and the Distribution*

The Proposed Spin-off and the Distribution will be conditional on the following:

- (i) the obtaining of the approval from the Stock Exchange for the Proposed Spin-off;
- (ii) the Listing Committee having granted listing of, and permission to deal in the Wanjia Shares (including the Wanjia Shares to be issued upon the exercise of the share options granted under the Wanjia Share Option Scheme) in issue on the Main Board;
- (iii) the Independent Shareholders passing an ordinary resolution at the EGM approving the Proposed Spin-off; and
- (iv) the CPS Subscription Agreement having becoming unconditional (save for the Proposed Spin-off having becoming unconditional).

None of the above conditions are waivable. If any of these conditions are not fulfilled on or before 31 December 2013 (or such other date(s) as the Hua Xia Board may determine), the Proposed Spin-off will not proceed and the Stock Exchange will be notified immediately and an announcement will be published by the Company as soon as practicable thereafter.

As at the Latest Practicable Date, none of the above conditions had been satisfied.

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## LETTER FROM THE BOARD

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### Information of the Remaining Group

Upon the completion of the Distribution, the Company's equity interest in Wanjia will be reduced from 100% to not less than 60% and not more than approximately 63.53%. Wanjia will become a non wholly-owned subsidiary of the Company. The Remaining Group will focus on the Hospital Business. For the detailed description of the Pharmaceutical Business, please refer to "INFORMATION ON THE WANJIA GROUP" below:

#### *(A) Regulatory overview of the China medical healthcare sector*

The Administrative Provisions of Medical Institutions<sup>#</sup> (《醫療機構管理條例》) published by the State Council of the PRC (國務院) on 26 February 1994 and effective from 1 September 1994 and the Implementation Details of Administrative Provisions of Medical Institutions<sup>#</sup> (《醫療機構管理條例實施細則》) published by the Ministry of Health, the PRC (中華人民共和國衛生部) on 29 August 1994 and effective from 1 September 1994 are applicable to medical institutions engaged in medical diagnosis and medical activities, such as hospitals, community hospitals, sanatoriums, outpatient clinics, dispensaries, health centres and first-aid stations. The government supports the development of the medical institutions and encourages the establishment of medical institutions in various forms. The administrative department of public health under the State Council is responsible for the supervision and administration of nationwide medical institutions. The administrative departments of public health of the local people's governments at county level or above are responsible for the supervision and administration of medical institutions within their respective jurisdictions.

The establishment of a medical institution shall comply with the establishment planning for medical institutions and basic standards for medical institutions. The establishment of a medical institution by organizations or individuals is subject to the review and approval from the administrative departments of public health of the local people's governments at county level or above, and could proceed to further procedures with the relevant authorities only after the issuance of the written approval for the establishment of medical institution. The establishment of a medical institution under a unified national planning will be determined by the administrative department of public health under the State Council. The establishment of outpatient clinics, dispensaries and health centres for internal staff by authorities, enterprises and business units in accordance with the national basic standards for medical institutions must be filed with the administrative departments of public health of the local people's governments at county level for registration.



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## LETTER FROM THE BOARD

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Apart from obtaining the business licenses which is mandatory to run business in the PRC, hospital operators are required to obtain the Practice License of Medical Institution# (《醫療機構執業許可證》) for the commencement of the healthcare business in the PRC in accordance with the Administrative Provisions of Medical Institutions# 《醫療機構管理條例》, and the Implementation Details of Administrative Provisions of Medical Institutions# (《醫療機構管理條例實施細則》).

The application of a practice license for a medical institution must fulfil the following conditions: (1) having obtained the written approval for the establishment of a medical institution; (2) complied with the basic standards for medical institutions; (3) having a appropriate name, organization and premises; (4) having appropriate funds, facilities, equipment and professional medical staff required for commencement of business operation; (5) having formulated appropriate rules and regulations; (6) being capable of bearing civil liabilities independently. The practice license for a medical institution shall be applied with the administrative department of public health of the local people's government which issued the approval for its establishment. The administrative department of public health of the local people's government at county level or above shall be responsible for the registration and the issuance of practice license for medical institutions. The inspection period of practice licenses for general hospitals, hospitals of traditional Chinese medicine, hospitals of integrated traditional Chinese and western medicine, hospitals of ethical medicine and specialist hospitals, sanatoriums, rehabilitation hospitals, maternal and child health hospitals, first aid centres, centres for clinical laboratory and specialized disease prevention & treatment institutions with more than 100 beds is three years.

All the existing hospitals the Remaining Group owned or managed has obtained the business license and the Practice License of Medical Institution for the business.

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## LETTER FROM THE BOARD

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***(B) Industry overview of the clinical and hospital sector***

The trend of continuous growth in the spending on health, increasing health awareness and disposable income of the PRC citizen and the aging population contributed to the increase in demand and spending for high quality of clinical and hospital services. There is great market potential for clinical and hospital operators in the PRC:

*i. Increasing spending on the healthcare sector*

According to China Statistical Yearbook 2012 compiled by National Bureau of Statistics of China (中華人民共和國國家統計局), the PRC's spending on health as a percentage to the GDP has been growing steadily from that of 4.62% in 2000 to approximately 5.15% in 2011. However, this percentage is relatively low as compared to the global figure. According to the World Health Statistic 2013 issued by the World Health Organization, the global total expenditure on health as a percentage to the GDP was 8.2% in 2000 and it grew to 9.2% in 2010. For the regions of the Americas, this figure has grown from 11.4% in 2000 to 14.3% in 2010. These global figures indicated that there is much potential for growth in the health sector in the PRC as its economy and people's spending power is expected to grow continuously.

*ii. Increasing healthcare awareness and disposable income*

The PRC economy has grown significantly since late 1970s when the economic reform took place in China. According to China Statistical Yearbook 2012, China's GDP grew from RMB21,631 billion in 2006 to RMB47,288 billion in 2011, representing a CAGR of approximately 16.93%. As a result of the rapid economic growth and urbanization in China, disposable income has also grown substantially. China's per capita disposable income of urban households grew from RMB11,760 in 2006 to RMB21,810 in 2011, representing a CAGR of approximately 13.15%. Meanwhile the China's per capita disposable income of rural households also grew from RMB3,587 in 2006 to RMB6,977 in 2011, representing a CAGR of approximately 14.23%.

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## LETTER FROM THE BOARD

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### *iii. Aging population*

Since the implementation of the one-child policy in the 1980s together with the lower death rate and longer life expectancy, China's population is aging at a steady rate in the past 30 years. According to the China Statistical Yearbook 2012, in the year 2011, there was approximately 122.88 million people aged 65 or above. The percentage of population aged 65 or above is approximately 9.1% in 2011, increased significantly from that of approximately 4.9% in year 1982. According to the China's Financial Policy Report 《中國財政政策報告2010/2011》 published by Institute of Finance and Trade Economics (IFTE) of the Chinese Academy of Social Sciences# (中國社會科學院財政與貿易經濟研究所) on 10 September 2010, senior citizens aged 60 or above will account for more than 30% of the total population by 2050.

As the percentage of senior population is expected to grow in near future, there is expected to be an increasing demand for clinical and hospital medication.

### ***(C) Supportive government attitude***

China government have shown a supportive attitude for the betterment of the medical and healthcare sector in order to improve the efficiency and quality of medical service, including the hospital service assessable to public nationwide. The reform on the public hospitals has fundamentally changed the services model, more business opportunities are now available for private hospitals sectors as the general public are becoming more willing to use the services provided by non-public hospitals while the government are also inclined to encourage the private hospitals to expand their businesses. As such, the Group's hospitals will benefit from the reform.

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## LETTER FROM THE BOARD

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Under the Opinions on Further Encouraging and Guiding the Establishment of Medical Institutions by Social Capital (the “**Opinion**”)<sup>#</sup> (關於進一步鼓勵和引導社會資本舉辦醫療機構的意見) jointly published by National Development and Reform Commission (發展改革委), Ministry of Health (衛生部), Ministry of Finance (財政部), Ministry of Commerce (商務部) and Ministry of Human Resources and Social Security (人力資源社會保障部) on 26 November 2010, the government supports the participation of social capital in the medical sector. The Opinion sets out three major opinion for the development of social funded medical institutions, they are the easing of the entry requirement for social fund to set up medical institution, further improving the operation environment and fostering the continued development of the non-public medical institutions in the PRC. It put forward the following directions to support and encourage the establishment of medical institutions by social capital:

1. Encouraging and supporting the establishment of various medical institutions by social capital. Social capital investors may apply for the establishment of for-profit or non-profit medical institutions according to their business purposes.
2. Giving priority to social capital for the medical and hygiene resources. Each locality shall give priority to social capital when preparing its regional health care plan and allocation of other medical and healthcare resources. It ensures that the non-public medical institutions can play a role in the industry.
3. The Ministry of Health reasonably determines the scope of practice of non-public medical institutions and approves the corresponding license.
4. Encouraging the participation of social capital in transforming some public hospitals to non-public hospitals.
5. Allowing the establishment of medical institutions by overseas capital who meet the approval requirements.
6. Simplifying the procedures for the examination and approval of foreign-invested hospitals which meet the approval requirements.

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## LETTER FROM THE BOARD

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Under The Twelfth Five-year Plan of the PRC, there are three sectors that will receive major boost, namely healthcare, energy and technology. The Twelfth Five-year Plan is expected to support these healthcare system reforms with specific policies and funding, including broader basic healthcare coverage, expanded infrastructure for grassroots medical networks, public awareness in disease prevention, improved healthcare administration, creation of national healthcare benchmarks and standards and heavy investments in information technology for healthcare.

According to the Recitation of Planning of Deepening the Reform of Medical and Health System During The Twelfth Five-year Plan# 《「十二五」期間深化醫藥衛生體制改革規劃暨實施方案》 published by State Council of the People's Republic of China (國務院) on 14 March 2012, it reinforces the continuous supportive attitude in the development of private medical operators, and plan that in the year 2015, the number of bed and service usage for non-public hospitals will reach 20% of the total market share.

With the deepening of China medical reform and opening up of medical market for private investors, the Hua Xia Board is optimistic that the hospital business in Chongqing City and Zhejiang Province, the PRC and the new business opportunity in specialty service in renal dialysis will contribute positively to the future business of the Remaining Group and the Remaining Group will benefit from the supportive government policy in The Twelfth Five-year Plan, raising healthcare awareness, and the aging population in the PRC.

### ***(D) Business***

The Remaining Group is principally engaged in the Hospital Business comprising operation of two privately-run general hospitals in Chongqing City and Zhejiang Province, the PRC and managing one privately-run hospital in Guangdong Province, the PRC.

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## LETTER FROM THE BOARD

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According to the China Statistical Yearbook 2012, the average spending on the medical and healthcare in the PRC was approximately RMB968.98 per capita in 2011. The average spending on the medical and healthcare in Zhejiang and Chongqing are approximately RMB1,248.9 per capita and approximately RMB1,050.62 per capita respectively and are higher than the average spending on the medical and healthcare per capita in the PRC. The higher average spending on medical and healthcare per capita in each of Zhejiang and Chongqing shows that the demand and spending on the medical and healthcare in these provinces/cities are of greater business potential.

For the financial year ended 31 March 2013, the total revenue generated from the operation of hospitals and provision of healthcare and hospital consultancy services amount to approximately HK\$141.53 million, representing a growth of approximately 5.23% as compared to that of approximately HK\$134.50 million for the financial year ended 31 March 2012.

Set out below is the further information on the business model, customer base, revenue and profit contribution and competitive advantages of the Hospital Business.

1) *Chongqing Edward Hospital*

Edward Hospital Company Limited# (重慶愛德華醫院有限公司) (“**Chongqing Edward Hospital**”) is a privately-run general hospital established in Chongqing City, the PRC on 25 February 2005, formerly named as Chongqing Zhongyu Edward Hospital Company Limited# (重慶中嶼愛德華醫院有限公司). The Remaining Group acquired 55% equity interest in Chongqing Edward Hospital in May 2007 and the results of which has been consolidated with the Remaining Group since the acquisition. At as the Latest Practicable Date, the Chongqing Edward Hospital was a non wholly-owned subsidiary of the Remaining Group, which was owned as to 55% by the Remaining Group and the remaining interest by Independent Third Parties.

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## LETTER FROM THE BOARD

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Chongqing Edward Hospital is located at Shapingba District# (沙坪壩區) which is one of the most densely populated areas in Chongqing City, the PRC. Chongqing Edward Hospital occupies a gross floor area of approximately 10,392.72 sq.m.. Chongqing Edward Hospital has approximately 120 beds. As at 31 December 2012, there are approximately 379 employees, including 63 doctors, 67 nurses, 85 professional medical supporting staff and 164 administrative staff of Chongqing Edward Hospital. Chongqing Edward Hospital is one of the largest municipal private hospitals in Chongqing.

Chongqing Edward Hospital provides medical services including but not limited to:

- Out-patient services (including but not limited to paediatrics, urology, obstetrics and gynaecology, infertility medicine, anorectal medicine, hepatology and dental etc.)
- In-patient services (including but not limited to internal medicine, urology, anorectal medicine, general surgery, obstetrics and gynaecology)

In the financial year ended 31 March 2013, Chongqing Edward Hospital served more than 40,000 out-patients and 4,300 in-patients. The in-patient bed occupancy rate was around 72%.

For the financial year ended 31 March 2013, Chongqing Edward Hospital generated revenue of approximately HK\$94.40 million, represented an increase of approximately 7.05% when compared to approximately HK\$88.18 million for the financial year ended 31 March 2012. The revenue for the years ended 31 March 2013 and 31 March 2012 was approximately 66.70% and 65.56% of the total revenue of the Remaining Group respectively. Chongqing Edward Hospital generated a net profit after tax of approximately HK\$12.46 million for the year ended 31 March 2013, represented a decrease of approximately 14.66% when compared to approximately HK\$14.60 million for the year ended 31 March 2012.

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## LETTER FROM THE BOARD

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As confirmed by the Company, Chongqing Edward Hospital has obtained all the necessary licenses in relation to its hospital operation including (i) the Practice License of Medical Institution# (醫療機構執業許可證), (ii) designated medical institutions for maternity insurance for employees in Chongqing# (重慶市職工生育保險醫療定點醫院); (iii) designated medical institutions for basic medical insurance for urban employee# (城鎮職工基本醫療保險定點醫療機構); and (iv) designated medical institutions for medical insurance for urban and rural residents in Shapingba District, Chongqing City#. (重慶市沙坪壩區域鄉居民合作醫療保險定點醫療機構).

### 2) *Jiaying Shuguang Hospital*

Jiaying City Shuguang Western and Chinese Composite Hospital Company Limited# (嘉興曙光中西醫結合醫院有限公司) (“**Jiaying Shuguang Hospital**”) is a privately-run general hospital which was established in Jiaying City of Zhejiang Province in the PRC on 3 June 2004. The Remaining Group acquired 55% equity interest in Jiaying Shuguang Hospital in October 2007 and its financial results have been consolidated into the account of the Remaining Group since the acquisition. At as the Latest Practicable Date, Jiaying Shuguang Hospital was a non wholly-owned subsidiary of the Remaining Group, which was owned as to 55% by the Remaining Group and the remaining interest by Independent Third Parties.

Jiaying Shuguang Hospital is located at Jiaying City of Zhejiang Province which is close to the area where major government offices and educational entities are located. Jiaying Shuguang Hospital occupies a gross floor area of 7,400 sq.m.. Jiaying Shuguang Hospital has 100 beds. As at 31 December 2012, there was approximately 216 employees, including approximately 24 doctors, 66 nursing staff and 51 professional medical supporting staff and 75 administrative staff.



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## LETTER FROM THE BOARD

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Jiaying Shuguang Hospital provides medical services including but not limited to internal medicine, respiratory medicine, gastrointestinal medicine, cardiovascular, general surgery, orthopaedics, urology, plastic surgery, paediatrics, ophthalmology, otolaryngology, dental and maxillofacial surgery, dermatology, anesthesiology, radiology, Chinese medicine, anorectal medicine, obstetrics and gynaecology.

In the financial year ended 31 March 2013, Jiaying Shuguang Hospital served more than 60,000 out-patients and 1,300 in-patients. The in-patient bed occupancy rate was approximately 37%.

Jiaying Shuguang Hospital generated revenue of approximately HK\$46.52 million for the year ended 31 March 2013, represented an increase of approximately 1.59% compared to HK\$45.79 million for the year ended 31 March 2012. The revenue for the years ended 31 March 2013 and 31 March 2012 was approximately 32.87% and 34.05% respectively of the total revenue of the Remaining Group.

Jiaying Shuguang Hospital generated net profit after tax of approximately HK\$4.82 million for the year ended 31 March 2013, represented an increase of approximately 28.19% compared to approximately HK\$3.76 million for the year ended 31 March 2012.

Jiaying Shuguang Hospital has obtained all the necessary licenses in relation to its hospital operation including (i) the Practice License of Medical Institution# (《醫療機構執業許可證》) and (ii) designated medical institutions for basic medical insurance for urban employees# (城鎮職工基本醫療保險定點醫療機構).

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## LETTER FROM THE BOARD

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### 3) *Joint-Venture Renal Diagnosis Services*

On 4 June 2012, the Company announced that Hua Xia Renal Diagnosis Healthcare Investments Limited (華夏腎析醫療投資有限公司) (“**Hua Xia Renal**”), a wholly-owned subsidiary of the Remaining Group, entered into a joint venture agreement with Taiwan Renal Care Limited (台灣腎臟照護有限公司) (“**Taiwan Renal**”) and Mr. Chen Hong Ling, pursuant to which Hua Xia Renal and Taiwan Renal agreed to establish a joint venture company which is owned as to 60% by Hua Xia Renal and 40% by Taiwan Renal. As at the Latest Practicable Date, the joint venture company had been established and is a subsidiary of the Remaining Group. The joint venture company will be a vehicle for investment in majority interest in relation to development and operation of renal dialysis centers and provision of related services in the PRC. The Remaining Group plans to introduce the hemodialysis services in the three existing hospitals owned or managed by the Remaining Group and/or explore other cooperation with other potential partners, such as Class 2 or above hospitals in the PRC to set up renal dialysis centers. As at the Latest Practicable Date, the set up of the operating subsidiaries and obtaining of the necessary licenses are still in process. The Remaining Group will try to capture market share through reasonable pricing and effective marketing strategy. This will become a new source of revenue for the Remaining Group. The Remaining Group expects that such strategic cooperation will enable the Remaining Group to benefit from the growing healthcare market in the PRC.

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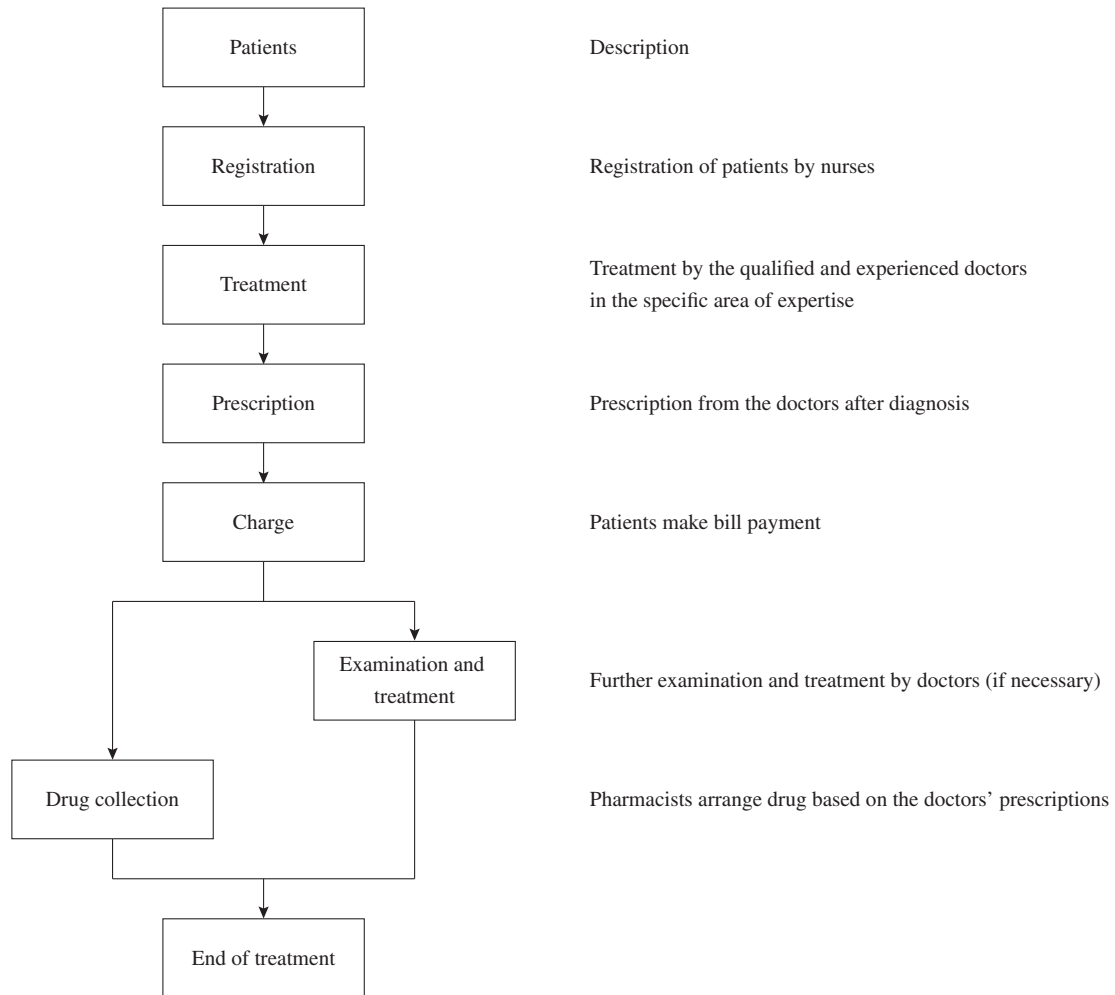
## LETTER FROM THE BOARD

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***(E) Business model***

Set out below is a simplified operation model of the healthcare and hospital business.

*Out patient services/clinic*

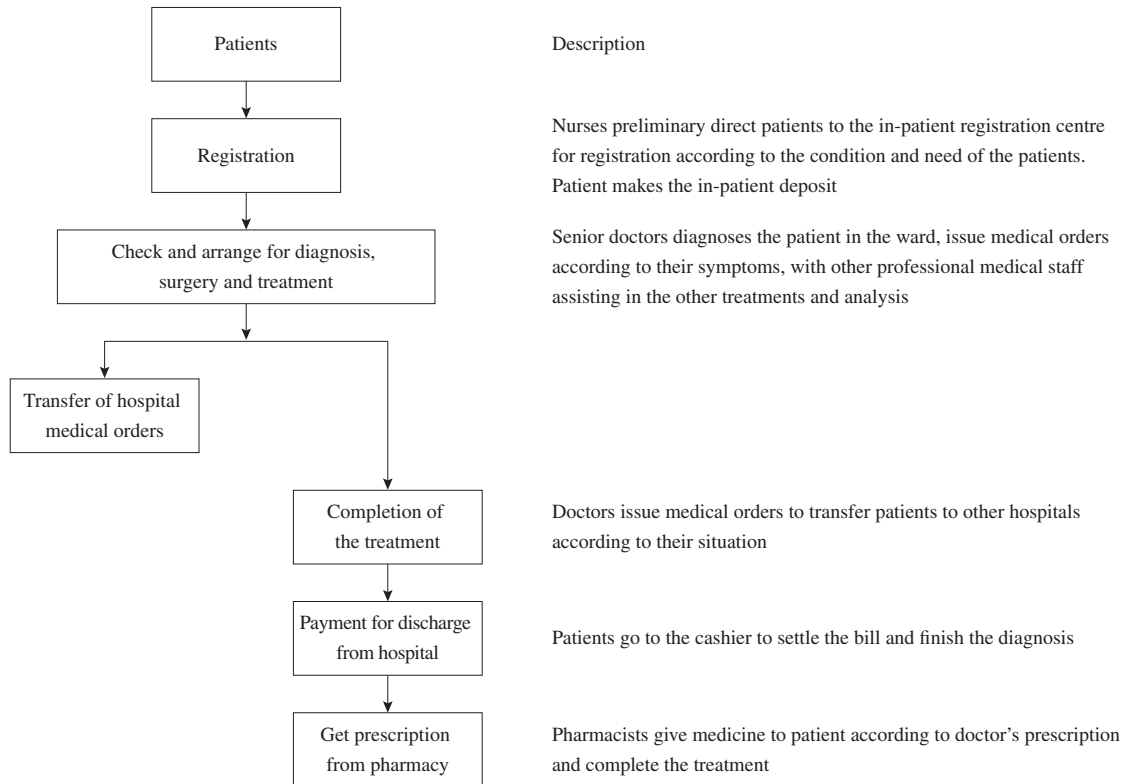


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## LETTER FROM THE BOARD

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### *In-patient services*



### *Customers*

Under the hospital services business, the major customers of the two hospitals are mainly the nearby communities in Zhejiang Province, the PRC and Chongqing Municipal, the PRC respectively.

### *Competitive advantages*

The Hua Xia Board believes that the competitive strengths of the Remaining Group are as follows:

1. Long year of establishment

Chongqing Edward Hospital and Jiaying Shuguang Hospital have been established for more than 8 years and 9 years respectively. With the proven history of providing high quality of clinical and hospital services at a reasonable price affordable to general public, the hospitals have gained the recognition from the local community and local government. Nowadays, Chongqing Edward Hospital is one of the largest municipal private hospitals in Chongqing and Jiaying Shuguang Hospital is one of the largest municipal private hospitals in Jiaying.

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## LETTER FROM THE BOARD

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2. Experienced management team and professional medical staff

The day-to-day hospital operation are overseen by a team of experienced management in the hospital sector, this together with a team of experienced medical specialists and experts, the Remaining Group is able to provide high quality of services and meet the rising demand of patients' demand for quality services. With the continuous advancement of modern medical technology, the Remaining Group is committed to improve the hospital facilities and medical devices and to provide ongoing training to doctors and other medical professionals with a view to provide quality healthcare and medication to customers. To ensure the services quality, the Remaining Group will also continue to retain and attract professionals to join the Remaining Group to provide customers with high standard of medical and healthcare services that sustains the development of the operation of its Hospital Business and excellence in healthcare services.

3. Supportive government policy and favorable business environment

There is favorable environment for the Hospital Business in the PRC, such as i) the supportive government policy of the healthcare industry for private investors and foreign investors in the PRC (as discussed in the previous section); and ii) the increasing demand of healthcare services, driven by the increasing awareness of importance of healthcare, increase in income of the general PRC citizen and aging population. There is also preferential tax benefit to hospital business such as the waiver of business tax in the PRC.

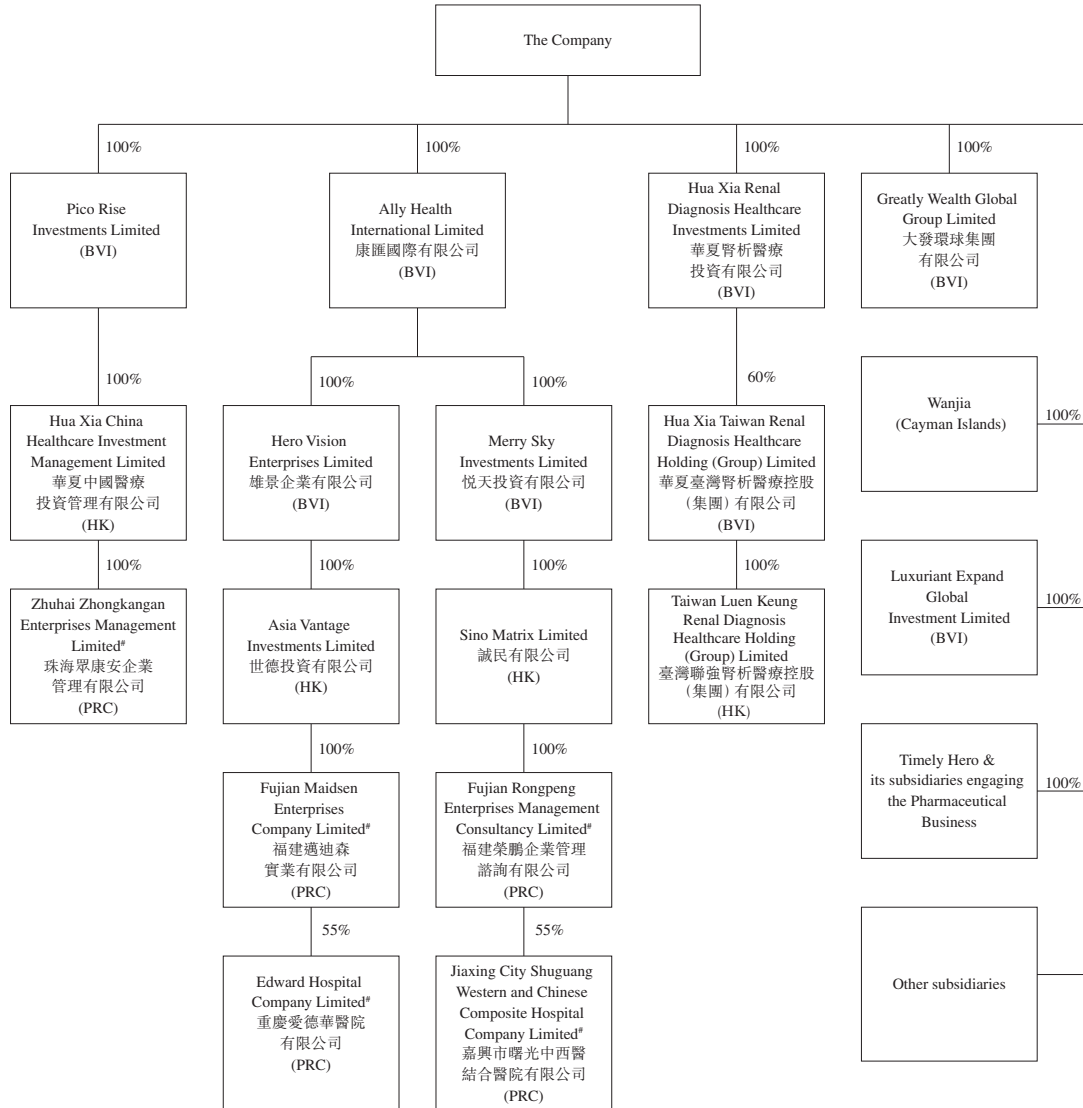
4. Convenient location

The two hospitals are located in convenient location near the major transportation junction and train stations. They are easily accessible by general public for clinics and hospital services.

# LETTER FROM THE BOARD

## (F) Structure of the Group

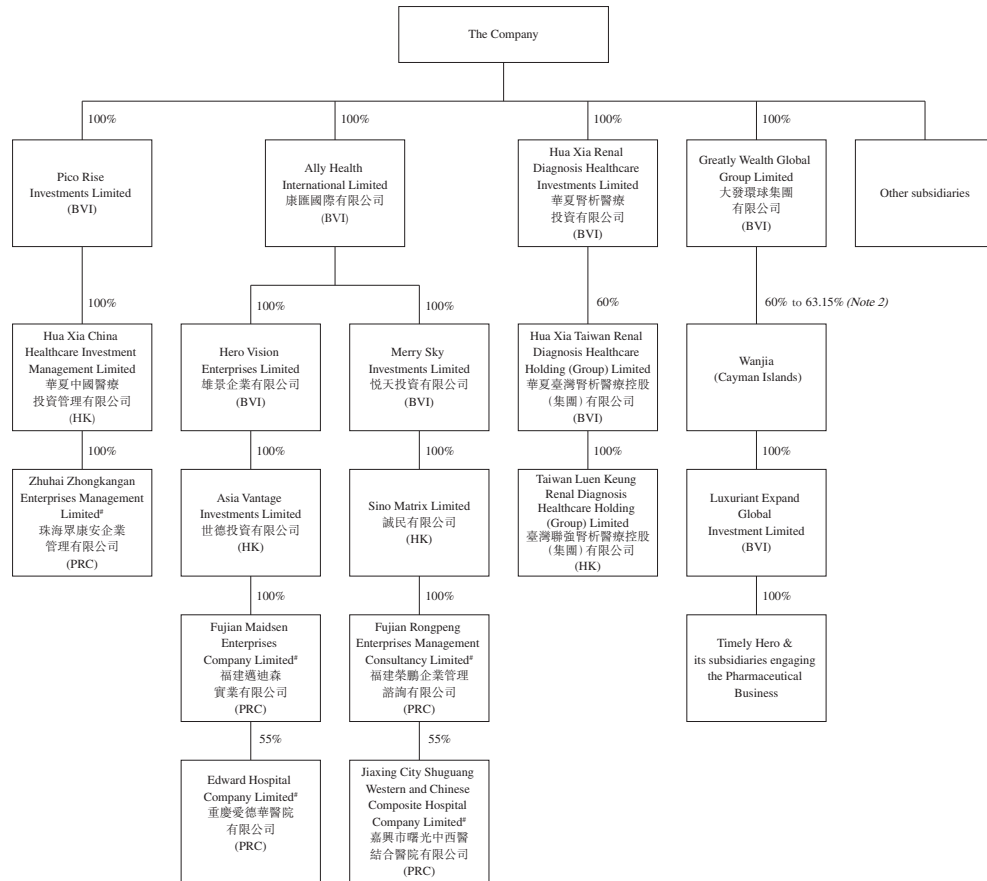
Set out below is the group chart of the Group as at the Latest Practicable Date.



*Note: The above chart is a simplified chart which include the principal subsidiaries operating the Hospital Business and the subsidiaries operating the Pharmaceutical Business.*

# LETTER FROM THE BOARD

Set out below is the group chart of the Remaining Group immediately after completion of the Proposed Spin-off.



Note: 1. The above chart is a simplified chart which include the principal subsidiaries operating the Hospital Business and the subsidiaries operating the Pharmaceutical Business.

2. The percentage of interest in Wanjia after completion is dependent on the number of Hua Xia Shares in issue on the Record Date.

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## LETTER FROM THE BOARD

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### *(G) Historical investments in the healthcare sector*

Hua Xia Group has invested in the healthcare sector since 2006. When the PRC government planned to open up the healthcare industry in the PRC, the Hua Xia Directors believed that driven by (i) the fast economic growth in the PRC, (ii) the increase in the awareness of the importance of healthcare by the general public; and (iii) the opening up of the healthcare market in the PRC, the acquisitions of interest in hospitals and other healthcare related services would provide abundant business opportunities for and would generate stable income source to Hua Xia Group. In light of general increase in the health concern of individuals and the large and aging population in the PRC, the Hua Xia Directors also considered that the PRC healthcare sector would have good prospect in the long run.

During the two years in 2007 and 2008, Hua Xia Group acquired five hospitals in the PRC. Subsequent to the acquisitions of the hospitals, in late 2008, due to the introduction of medical reform policy and downturn of global economy, the performance of the healthcare sector of Hua Xia had been adversely affected. The Company had recorded loss which was attributable to the provision for impairment of goodwill arising from the acquisition of the hospitals in 2007 and 2008. As such, the Group had disposed of three non-performing hospitals and other subsidiaries which were engaged in provision of healthcare management. As at the Latest Practicable Date, the Hospital Business of the Group consisted of two hospitals, namely Chongqing Edward Hospital and Jiaxing Shuguang Hospital. Set out below is information on acquisitions and disposals of hospitals by the Group:

Name of hospital	Date of acquisition and amount of interest acquired	Acquisition consideration <i>HK\$'000</i>	Total amount of goodwill written off <i>(note 1)</i> <i>HK\$'000</i>	Reasons for provision for impairment of goodwill	Date of disposal	Gain/(loss) on disposals (percentage of losses compared to the acquisition consideration) <i>(note 2)</i> <i>HK\$'000</i> <i>(%)</i>
Chongqing Edward Hospital	acquisition of 55% equity interest in May 2007	157,300	194,820	Increase in cost for restructuring and marketing activities	N/A	N/A
Jiaxing Shuguang Hospital	acquisition of 55% equity interest in October 2007	80,850	61,199	Global economic decline in 2008 resulted in reduction of working population in nearby location	N/A	N/A
Foshan Qide Hospital Limited <sup>#</sup> (佛山市啟德醫院有限公司)	acquisition of 70% equity interest in February 2008	49,580	38,158	Global economic decline in 2008 resulted in reduction of working population in nearby location	disposed of 70% equity interest in January 2010	(11,583) (90.92%)



## LETTER FROM THE BOARD

Name of hospital	Date of acquisition and amount of interest acquired	Acquisition consideration <i>HK\$'000</i>	Total amount of goodwill written off <i>(note 1)</i> <i>HK\$'000</i>	Reasons for provision for impairment of goodwill	Date of disposal	Gain/(loss) on disposals (percentage of losses compared to the acquisition consideration) <i>(note 2)</i> <i>HK\$'000</i> <i>(%)</i>
Bengbu City Aomeijia Female Hospital Limited* (蚌埠市澳美佳女子醫院有限公司)	acquisition of 100% equity interest in July 2008	49,000	25,824	Failure to convert the hospital from specialised hospital into general hospital as originally planned due to change in medical rules and regulations after promulgation of General Hospital Construction Standards* (《綜合醫院建設標準》) (as amended in 2008) which was issued in September 2008.	disposed of 100% equity interest in January 2010	(11,602) (95.92%)
Shangrao Shi Xiehe Hospital Limited* (上饒市協和醫院有限公司)	acquisition of 70% equity interest in May 2008	68,600	65,492	Downturn in local economy and the reduction in income due to change in promotion of reimbursement under the medical insurance	disposed of 70% equity interest in September 2010	955 (90.23%)

*Notes:*

- The total amount of goodwill written off is the aggregate total amount of goodwill impairment after their respective acquisitions. The amount of impairment was made by the Group after taking into account the business valuations conducted by an independent valuer in the course of preparing the financial result of the Group.
- The percentage of loss was calculated by comparing the consideration payable for the acquisition and consideration receivable from the disposal as stipulated under the respective agreements.

The consideration for the acquisitions of equity interest in those companies, which were engaged in hospitals, was determined after arm's length negotiation. Depending on each transaction, most of the considerations were determined with reference to profit guarantee provided by the respective vendors and price-earnings multiple of other comparable companies. Having considered the price-earnings multiple valuation approach was a simple and widely adopted method for accessing fair value of business and most of the price-earnings multiple for these acquisitions fell within the comparables identified, the then Hua Xia Board considered that the valuation by means of price-earnings multiple approach was appropriate and did not engage an independent valuer to perform another valuation.

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## LETTER FROM THE BOARD

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Notwithstanding losses were recognised on disposal of subsidiaries which were engaged in hospital business, the Hua Xia Directors are of the view that (i) the recognition of losses on disposal was only one-off in nature; and (ii) disposal of the non-performing hospitals would allow better resources allocation for alternative use and reduce the loss contributions of those non-performing hospitals to Hua Xia. The Hua Xia Directors are of the view that the past disposals were in the interest of the Company and the Hua Xia Shareholders as a whole.

### ***(H) Trading and business prospects of the Remaining Group***

As state out in the annual report of the Group for the year ended 31 March 2013, as a result of the healthcare reform and heavy investment from the government, for the last few years, the healthcare in the PRC has become the direct recipient of the economic benefits. Among all, the fast growing healthcare expenditures have surpassed the GDP of the country with an annual compound increase of 19.03% from 1990 to 2009. At the same time, the per capita healthcare expenditures have also achieved 18.01% for the same period. The experiences from the developed countries show that once the per capita GDP reaches US\$10,000, the general healthcare expenditures will begin with an exponential increase. This will fundamentally increase demands for quality healthcare services and pharmaceutical products. Those developments have certainly laid out the solid foundation for the Group to continue to grow and to improve at all levels. The management of the Group has realised the potential opportunities in the field and continued to address the needs of the market and the public through refined services and quality products. For the hospitals, the Group believe that the key to the success lies in the well-trained staff and standardised medical services.

In addition to cultivating the new services implemented at the hospitals, the management has focused on the improved delivery procedures and patient oriented care. The hospitals of the Group have well-established themselves in each of their local market both in terms of brands and competitiveness. The challenge to a steady and more profitable growth is to strengthen the brands by increasing patients' satisfaction and adapting the affordable quality service approaches. All of those will help the hospitals achieve further penetration into the fast growing healthcare market.

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## LETTER FROM THE BOARD

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The new financial year ending 31 March 2014 will reach the late part of the 12th Five Year Plan in the PRC, and the Group will begin to achieve the fruitful performances supported by the early financial and technical investments and preparation for the both the Hospital Business and the Pharmaceutical Business. Therefore, the management of the Group will make great efforts to leverage the well recognised brands of the hospitals and pharmaceutical distribution to maintain the Group's steady increase and to improve the profitability of the Group's core healthcare operations.

***(I) Business plan for the Remaining Group***

The Remaining Group will maximize the advantages and experiences accumulated over the years of operation to further enhance its operational capabilities. Based on the local healthcare needs and allocation of the resources, the major future business plan outlines are as follows:

1. As set out in the above section, the Remaining Group entered into the joint venture agreement with Taiwan Renal Care Limited# (台灣腎臟照護有限公司), to invest in the development and operation of venal dialysis centers in the PRC. The Remaining Group plans to introduce hemodialysis services to the three existing hospitals owned or managed by the Remaining Group and/or explore other cooperation with other class 2 or above hospitals in the PRC to set up renal dialysis centers where the services are mostly needed and can be accomplished in a short period of time.

Especially from 2013 onward, the PRC government has included the kidney and diabetes as disease for priority treatment and prevention, and the medical insurances are expected to cover some of the diseases. The policy change will certainly drive this new business model significantly in the near future. The Remaining Group is confident to capture a sizable market share through reasonable pricing and effective marketing strategy.

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## LETTER FROM THE BOARD

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2. The Remaining Group continues to look for opportunities for acquisition and cooperation. As the business models have refined, the management will closely monitor the fast growing market of the special services. Based on the strategies of cooperation and acquisition, the Group is looking for hospitals or business partners who have strong marketing capabilities with a reasonably large market share in a special medical service market, such as male medicine, plastic surgeries, gynecology, hemodialysis and more. At the same time, the Remaining Group continues to explore potential and suitable opportunities to acquire strategically valuable Class 1 or Class 2 hospitals. This buy-and-operate business model fits the healthcare reform market and can leverage the experiences and capabilities that the Remaining Group has accumulated. Through restructuring and improvement, the Remaining Group are able to expand its hospitals to provide more competitive services.
  
3. The Remaining Group plans to further invest or introduce new medical specialties based on the local need of the hospital and department that are considered unique to tap into the medical specialties market. For example, Chongqing Edward Hospital plans to add new medical departments for diabetes and hypertension in addition to its existing medical departments. The hospital has set up the diabetic treatment department which has utilized the present resources and manpower to provide a special medical service. New medical technologies, such as micro-surgery for obstetrics, will also be introduced to the existing specialties for better services and more effective treatment of difficulties disease. This will further strengthen the medical advantages at the Chongqing Edward Hospital. Jiaxing Shuguang Hospital will continue to invest in the orthopaedics as the hospital has core skilled physicians and advanced medical equipment and instruments. This specialty is able to meet the increasing needs for traumatic surgeries and special treatments to the patients and has become the very competitive services of the hospital in support for the further growth.

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## LETTER FROM THE BOARD

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### **Information on the Wanjia Group**

Wanjia was incorporated as an exempted company in the Cayman Islands on 9 July 2012 and as at the Latest Practicable Date was indirectly wholly-owned by the Company. The principal business of Wanjia is investment holding while the Wanjia Group mainly focuses on the Pharmaceutical Business.

Hua Xia acquired the Pharmaceutical Business from Mr. Yung, an executive Hua Xia Director and the single largest substantial Hua Xia Shareholder and the vendor to the acquisition, pursuant to a sale and purchase agreement dated 13 November 2009. Completion of the acquisition took place on 8 March 2010. Details of the acquisition have been disclosed in the circular of the Company dated 11 February 2010. The financial results of the Pharmaceutical Business have been consolidated into the Company's consolidated audited results since the completion of the acquisition.

Following the completion of the Proposed Spin-off, the Wanjia Group will continue to focus on and is principally engaged in the Pharmaceutical Business.

#### **(A) Business**

The principal business of the Wanjia Group is pharmaceutical wholesale and distribution business and pharmaceutical retail chain business in the PRC.

#### **(B) Shareholding effect upon completion of the Distribution**

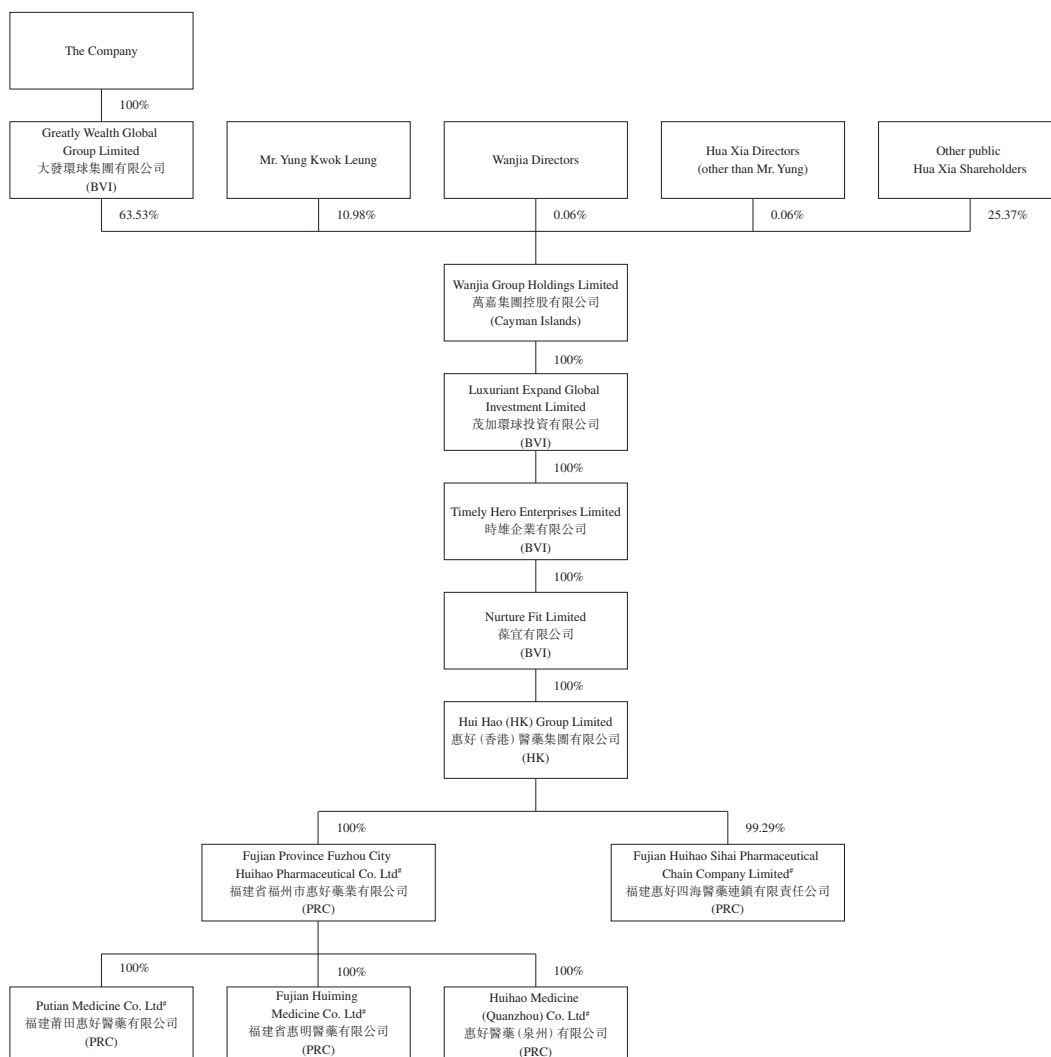
As at the Latest Practicable Date and immediately before the completion of the Proposed Spin-off, the Company is interested in the entire interest of Wanjia and the Wanjia Group. Upon completion of the Proposed Spin-off and the Distribution, the Company's interest in the Wanjia Group will reduce from 100% to not less than 60% and not more than approximately 63.53%, Wanjia will become a non-wholly owned subsidiary of the Company.

As at the Latest Practicable Date, there was one Wanjia Share held by the Company, immediately before the Distribution, the number of Wanjia Shares will be increased to 648,405,300.

As at the Latest Practicable Date, there are 1,083,938,264 Hua Xia Shares and 98,500,000 First Batch CPS in issued which are entitled to the Distribution. On the assumption that there will not be any change to the number of Hua Xia Shares before the Record Date, a total of 236,487,652 Wanjia Shares will be distributed, representing approximately 36.47% of the Wanjia Shares, in which (i) approximately 10.98% will be distributed to Mr. Yung (and his interest in controlled corporation); (ii) approximately 0.06% will be distributed to the Hua Xia Directors; (iii) approximately 0.06% will be distributed to

## LETTER FROM THE BOARD

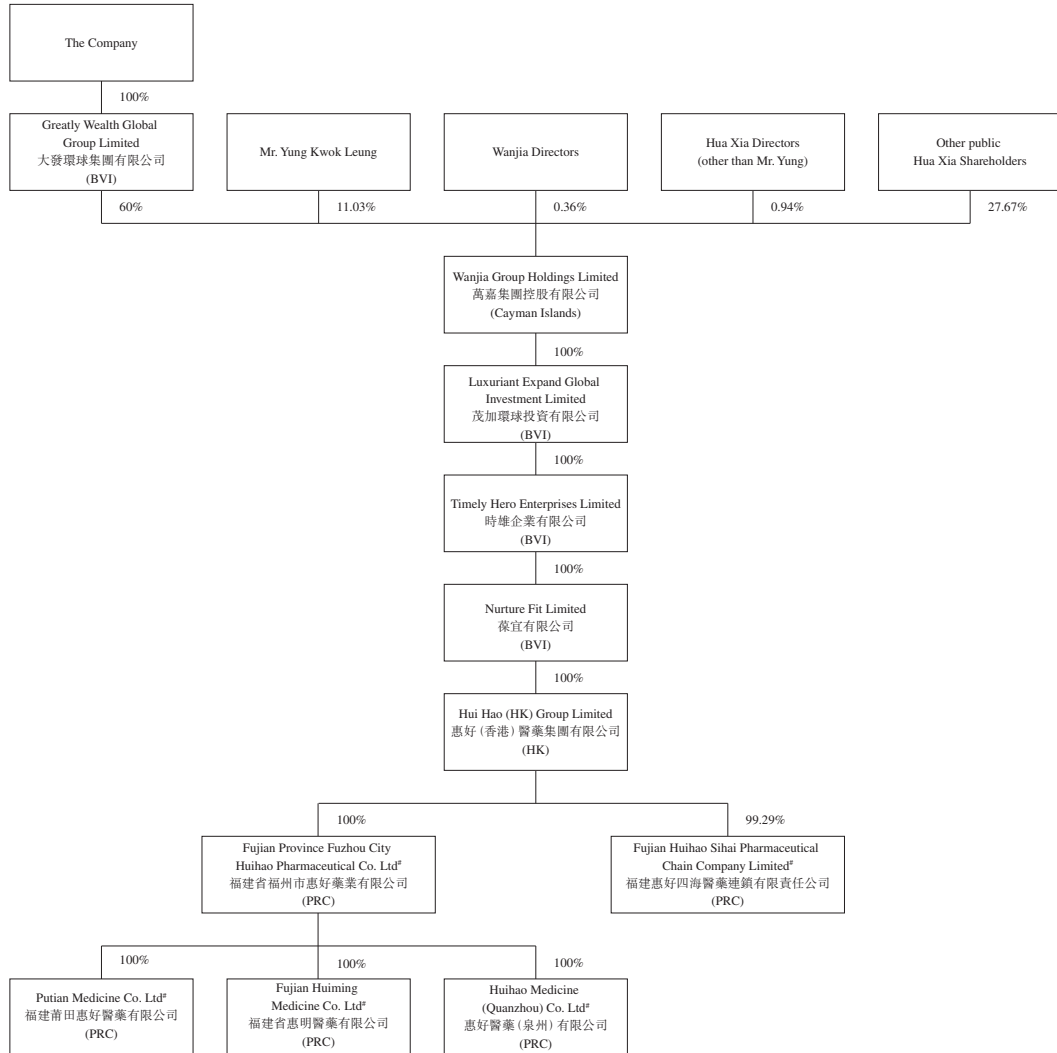
the Wanjia Directors; and (iv) approximately 25.37% will be distributed to other public Hua Xia Shareholders. The following chart sets out the corporate structure of the Wanjia Group immediately after the Distribution on this assumption:



As at the Latest Practicable Date, there are also outstanding 110,951,287 Hua Xia Share Options entitle the holders to subscribe for 110,951,287 Hua Xia Shares and outstanding Hua Xia CN in the principal amount of HK\$6,500,000, which convertible into 3,421,053 Hua Xia Shares. Assuming all these outstanding Hua Xia Share Options have been exercised and all the conversion rights attached to Hua Xia CN have been exercised in full before the Record Date and are entitled to the Distribution, a total of 259,362,116 Wanjia Shares will be distributed (excluding part of the fractional Wanjia Shares), representing approximately 40% of the Wanjia Shares, in which (i) approximately 11.03% will be distributed to Mr. Yung (and his interest in controlled corporation); (ii) approximately 0.94% will be distributed to the Hua Xia Directors; (iii) approximately 0.36% will be distributed to

## LETTER FROM THE BOARD

the Wanjia Directors and (iv) approximately 27.67% will be distributed to other public Hua Xia Shareholders. The following chart sets out the corporate structure of the Wanjia Group immediately after the Distribution on this assumption:



*Notes:*

- (i) The above percentage of equity interests in Wanjia are indicative only subject to the number of Hua Xia Shares on the Record Date.
- (ii) As at the Latest Practicable Date, Wanjia was an indirect wholly-owned subsidiary of the Company, and will be the sole shareholder of Timely Hero and its subsidiaries shortly before the Listing.

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## LETTER FROM THE BOARD

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**(C) Financial information**

Set out below is extract of financial information of the segment of the Pharmaceutical Business which has been consolidated into the Company for the three financial years ended 31 March 2011, 2012 and 2013.

	<b>Year ended 31 March 2011</b>	<b>Year ended 31 March 2012</b>	<b>Year ended 31 March 2013</b>
	(audited)	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	1,357,679	1,712,147	1,885,369
Profit before taxation	52,260	68,542	60,677
Profit after taxation	32,840	45,332	41,905
Profit attributable to the owners of Wanjia	32,765	45,228	41,763
	<b>As at</b>	<b>As at</b>	<b>As at</b>
	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	(audited)	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	1,206,595	1,293,698	1,390,923
Total liabilities	1,168,247	1,203,905	1,257,722
Net asset value	38,348	89,793	133,201

Upon completion of the Distribution, Wanjia will become a non wholly-owned subsidiary of the Company with the assets and liabilities, the financial results and the cash flow contribution of the Wanjia Group continues to be consolidated into the financial statements of the Company.



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## LETTER FROM THE BOARD

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### ***(D) Directorship and management***

As at the Latest Practicable Date, the Wanjia Board comprised 5 members. There were 2 executive directors (namely Mr. Weng Jiaxing and Mr. Chen Yong) and 3 independent non-executive directors, namely Mr. Wong Hon Kit, Mr. Liang Yichi and Mr. Zhu Donghai.)

None of the members of the Hua Xia Board are director or senior management of the Wanjia Group. After completion of the Proposed Spin-off, the Hua Xia Director who is also a director of the Wanjia Group (if any) will abstain from voting on any relevant board resolution(s) in the Remaining Group which he/she and/or the Wanjia Group has a material interest which is different from the other shareholders of Wanjia.

Apart from the above, the senior management and employees of the Wanjia Group are employed by the Wanjia Group separately from the Hua Xia Group, the senior management of the Wanjia Group is distinct from the senior management of the Hua Xia Group.

Therefore, the Hua Xia Directors consider that the Wanjia Group will (i) maintain sufficient level of independence of directorship and management from the Remaining Group; and (ii) operate independently and in the interests of the shareholders of Wanjia as a whole in general and not in the interests of the Remaining Group only, in case where the interests of the Wanjia Group and the Remaining Group are actually or potentially in conflict.

### **Reasons for and benefits of the Proposed Spin-off**

The Hua Xia Directors are in the opinion that the separate listing of the Wanjia Group will be beneficial to both the Hua Xia Group and the Wanjia Group for the following reasons:

- (a) at present, the Hospital Business is mainly conducted and confined in Chongqing Municipal and Zhejiang Province, the PRC, while majority of the Pharmaceutical Business is conducted in Fujian Province, the PRC, and the expected synergy effect in the business operation between the two groups in terms of minimisation of logistics costs and revenue growth, etc. are not prominently demonstrated. On the other hand, there is a clear delineation between the Hospital Business and the Pharmaceutical Business in terms of their respective operation, management, client base, as well as geographical market. Further, the Remaining Group and the Wanjia Group are believed to have different growth paths and different business strategies and the Proposed Spin-off will allow separate platforms for the development of the businesses of the two groups;

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## LETTER FROM THE BOARD

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- (b) the Proposed Spin-off could unlock the value of Hua Xia's investment in the Wanjia Group (the unaudited adjusted net asset value of the Wanjia Group was approximately HK\$1,023.24 million as at 31 March 2013 while the market capitalisation of the Hua Xia was approximately HK\$231.96 million as at 28 March 2013, being the last trading day before 31 March 2013), and the Proposed Spin-off will unlock the Wanjia Group from the GEM listing umbrella of Hua Xia so that investors would be able to appraise and assess the performance and potential of the Wanjia Group separately and distinct from that of the Remaining Group;
- (c) the Proposed Spin-off will enable future funds raised by the Remaining Group to be focused on the development of the Hospital Business;
- (d) the Proposed Spin-off will streamline the operation of both the Remaining Group and the Wanjia Group and increase the transparency of business performance and the financial status of both the Remaining Group and the Wanjia Group, which, in turn, will strengthen support from business partners, banks and financial institutions and enable investors to better assess the respective performance and potential of the Remaining Group and the Wanjia Group;
- (e) the separation of the two distinct businesses will allow each of the Remaining Group and the Wanjia Group to attract focused strategic investors who can produce synergy for each of such businesses to invest in or form strategic partnerships with each of such businesses;
- (f) the Wanjia Group will have greater flexibility to grow and expand its business free of actual or perceived constraints as a non-listed subsidiary, as well as an increased ability to make acquisitions, where appropriate, by using its shares as an acquisition currency; and
- (g) it allows the Wanjia Group to position itself as an independent listed group with direct access to the debt and equity capital markets to finance its further developments for future growth without relying on the Remaining Group's financial support.

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## LETTER FROM THE BOARD

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Given that the Hua Xia Group is currently engaged in two distinctive businesses, namely the Hospital Business and the Pharmaceutical Business, the Hua Xia Directors believe that the Proposed Spin-off would better reflect the value of its provision of the Pharmaceutical Business for the reasons as stated above, and that the listing by way of introduction would give a clearer corporate identity to the Wanjia Group and would enhance the image of the Wanjia Group for its future growth, while the Remaining Group can focus on the operation of the Hospital Business with its resources, and therefore the Hua Xia Directors believe that the Proposed Spin-off will be beneficial to both the Remaining Group and the Wanjia Group and their respective existing and future shareholders.

### 3. ADOPTION OF THE WANJIA SHARE OPTION SCHEME

In connection with the Proposed Spin-off, it is proposed that the Wanjia Share Option Scheme be adopted by Wanjia. As at the Latest Practicable Date, the Hua Xia Board has resolved to conditionally adopt the Wanjia Share Option Scheme subject to (i) the Hua Xia Shareholders passing an ordinary resolution at the EGM to approve and adopt the Wanjia Share Option Scheme; (ii) the passing by the shareholder of Wanjia to approve and adopt the Wanjia Share Option Scheme; (iii) the Listing Committee granting the listing of, and permission to deal in, such number of the Wanjia Shares to be issued pursuant to the exercise of any options which may be granted under the Wanjia Share Option Scheme; and (iv) the commencement of dealings in the Wanjia Shares on the Main Board. The Wanjia Share Option Scheme will become effective on the commencement of dealings in the Wanjia Shares on the Main Board.

The total number of Wanjia Shares which may be issued upon exercise of all options to be granted under the Wanjia Share Option Scheme and any other schemes must not in aggregate exceed 10% of the total issued capital of Wanjia as at the date of approval unless Wanjia obtains a fresh approval from the shareholders of Wanjia to renew the 10% limit on the basis that the maximum number of Shares in respect of which options may be granted under the Wanjia Share Option Scheme together with any options outstanding and yet to be exercised under the Wanjia Share Option Scheme and any other schemes must not exceed 30% of the issued share capital of Wanjia from time to time.

As at the Latest Practicable Date, there was 1 Wanjia Share in issue. It is expected Wanjia will allot and issue new Wanjia Shares so that on the date of the EGM, the total number of Wanjia Shares in issue would be 648,405,300 (or such other number of Wanjia Shares which is actually in issue). Assuming 648,405,300 Wanjia Shares are in issue on the date of the EGM, the number of Wanjia Shares which may fall to be allotted and issued upon exercise in full of Wanjia Share Option would be 64,840,530.

A summary of the principal terms of the Wanjia Share Option Scheme is set out in Appendix III to this circular.

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## LETTER FROM THE BOARD

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The purpose of the Wanjia Share Option Scheme is to provide incentive or reward to eligible persons for their contribution to the Wanjia Group and/or to enable the Wanjia Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Wanjia Group or any entity in which the Wanjia Group holds any equity interest.

The Wanjia Share Option Scheme constitutes share option scheme governed by Chapter 17 of the Main Board Listing Rules. There is no performance target specified in the Wanjia Share Option Scheme. The Wanjia Directors are entitled to determine the minimum holding period which apply to an option on a case by case basis, and fix the subscription price, it is expected that grantees of an option will have an incentive to contribute to the development of the Wanjia Group.

The rules of the Wanjia Share Option Scheme provide that Wanjia may specify the eligible participants to whom share options shall be granted under the Wanjia Share Option Scheme, the number of Wanjia Shares subject to each option and the date on which the options shall be granted. The basis for determining the subscription price is also specified precisely in the rules of the Wanjia Share Option Scheme. The Hua Xia Directors consider that the aforesaid criteria and rules will serve to preserve the value of Wanjia and encourage eligible participants to acquire proprietary interests in Wanjia.

### **GEM Listing Rules implications**

The Stock Exchange has granted the approval in relation to the Proposed Spin-off to the Hua Xia Group as required under the PN3.

The Distribution and the Wanjia Shares to be issued upon the exercise of the share options to be granted under the Wanjia Share Option Scheme, will result in a reduction of the Company's percentage holding in the issued share capital of Wanjia although it is intended that Wanjia will remain as a non wholly-owned subsidiary of the Company. Under the current structure of the Proposed Spin-off, immediately upon completion of the Distribution, the Company will be interested in not less than 60% and not more than approximately 63.53% equity interest in the then issued share capital of Wanjia.

Given the CPS Subscription (details of which are disclosed in the following section) is conditional upon the completion of the Proposed Spin-off and Mr. Yung has indirect interest in the Proposed Spin-off, Mr. Yung and his associates who together held 257,507,375 Hua Xia Shares representing approximately 23.76% of the entire issue share capital of Hua Xia as at the Latest Practicable Date will abstain from voting for the resolution to approve the Proposed Spin-off.

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## LETTER FROM THE BOARD

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As no Hua Xia Shareholder has a material interest in the Wanjia Share Option Scheme which is different from that of other Hua Xia Shareholders, no Hua Xia Shareholders is required to be abstain from voting on the resolution to approve the adoption of the Wanjia Share Option Scheme.

#### 4. CPS SUBSCRIPTION AGREEMENT

On 10 April 2013, the Company entered into the CPS Subscription Agreement with Mr. Yung. Details of which are set out below:

Date: 10 April 2013

Parties: (i) The Company (as issuer); and  
(ii) Mr. Yung (as subscriber)

Pursuant to the CPS Subscription Agreement, Mr. Yung has conditionally agreed to subscribe for and the Company has conditionally agreed to issue 504,201,680 Second Batch CPS at the total Issue Price of HK\$120 million which will be satisfied by setting off against HK\$120 million principal amount of the Promissory Note.

Mr. Yung is an executive Hua Xia Director and a substantial Hua Xia Shareholder who together with his associates are interested in aggregate 257,507,375 Hua Xia Shares, representing approximately 23.76% of the issued share capital of the Company as at the Latest Practicable Date. Mr. Yung is therefore a connected person of the Company as defined under the GEM Listing Rules.

#### **The Second Batch CPS**

The 504,201,680 Second Batch CPSs represent approximately 511.88% of the existing issued CPS capital of the Company and represent approximately 83.66% of the issued CPS capital of the Company as enlarged by the allotment and issue of the Second Batch CPSs.

#### **The Conversion CPS**

The 504,201,680 Conversion CPSs (to be allotted and issued upon full conversion of the Second Batch CPSs) represent approximately 46.52% of the existing ordinary issued share capital of the Company and represent approximately 31.75% of the ordinary issued share capital of the Company as enlarged by the allotment and issue of the 504,201,680 Conversion CPSs.

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## LETTER FROM THE BOARD

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### The Issue Price

The Issue Price of not less than HK\$0.238 per Second Batch CPS represents (i) a premium of approximately 13.33% over the closing price of HK\$0.21 per Hua Xia Share as quoted on the Stock Exchange on the date of the CPS subscription agreement; and (ii) a premium of approximately 11.01% over the average of the closing prices per Hua Xia Share of HK\$0.2144 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the CPS Subscription Agreement; (iii) a premium of approximately 10.39% over the average of the closing prices per Hua Xia Share of HK\$0.2156 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the CPS Subscription Agreement; and (iv) a premium of approximately 6.25% over the closing price per Hua Xia Share of HK\$0.224 as quoted on the Stock Exchange on the Latest Practicable Date.

The net total issue price, (after deduction of relevant expenses including but not limited to legal expenses and disbursements of approximately HK\$750,000), is estimated to be approximately HK\$119.25 million and the net issue price per Second Batch CPS is approximately HK\$0.237.

The Issue Price of HK\$0.238 per Second Batch CPS was arrived at after arm's length negotiations between the Company and Mr. Yung which represents a premium of over 10% over the average of the closing prices per Hua Xia Share of HK\$0.2156 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the CPS Subscription Agreement, rounding up to the nearest third decimal point. The total Issue Price of HK\$120 million will be satisfied by setting off against HK\$120 million principal amount of the Promissory Note.

The Hua Xia Directors (including the independent non-executive Hua Xia Directors after taking into account the advice from Veda Capital, the independent financial adviser, and Mr. Yung who had abstained from voting at the Board meeting to approve the CPS Subscription Agreement and the transactions contemplated thereunder) consider that the Issue Price and the terms of the CPS Subscription Agreement are fair and reasonable and are in the interests of the Company and the Hua Xia Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Conditions precedent

Completion of the CPS Subscription is conditional upon:

- (i) the Listing Committee having granted the listing of, and the permission to deal in the Conversion CPSs upon exercise of the conversion rights attached to the Second Batch CPS;
- (ii) the Proposed Spin-off having becoming unconditional (save for the condition the CPS Subscription Agreement having becoming unconditional);
- (iii) the Independent Shareholders passing an ordinary resolution at the EGM approving the CPS Subscription Agreement and the transactions contemplated thereunder;
- (iv) the obtaining of all necessary consents, approvals and authorisations on the part of the Company in respect of the CPS Subscription Agreement and the transactions contemplated thereunder; and
- (v) the obtaining of all necessary consents, approvals and authorisations on the part of Mr. Yung in respect of the CPS Subscription Agreement and the transactions contemplated thereunder.

None of the above conditions precedent are waivable. If the above conditions precedent have not been satisfied (or as the case may be, waived) on or before 5:00 p.m. on 31 December 2013 (or such other date as agreed by the parties to the CPS Subscription Agreement), the CPS Subscription Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder save for antecedent breaches of the terms of the CPS Subscription Agreement.

As at the Latest Practicable Date, none of the above conditions had been satisfied.

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## LETTER FROM THE BOARD

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### Completion

Completion of the CPS Subscription Agreement is subject to the fulfillment of the conditions precedent set out in the CPS Subscription Agreement. The Hua Xia Directors (including the independent non-executive Directors after taken into consideration the opinion from Veda Capital and Mr. Yung who had abstained from voting at the Board meeting to approve the CPS Subscription Agreement and the transactions contemplated thereunder) are of the view that the terms of the CPS Subscription Agreement are fair and reasonable and the CPS Subscription is in the interests of the Company and the Hua Xia Shareholders as a whole.

### Principal terms

Pursuant to the instrument of the Second Batch CPS, the principal terms of the Second Batch CPS are as follows:

Notional value	the value of HK\$0.01 per Second Batch CPS
Issue Price	HK\$0.238 per Second Batch CPS
Conversion period	Perpetual
Number of Second Batch CPS	504,201,680 Second Batch CPSs
Conversion price	Initially, the Issue Price per Second Batch CPS (subject to standard adjustments)

The conversion price of the Second Batch CPS is subject to adjustments upon the occurrence of consolidation or subdivision of Hua Xia Shares, capitalisation issues, capital distribution, rights issues and issue of new Hua Xia Shares or convertible securities at issue or conversion price at more than 20% discount to the then market price per Hua Xia Share (being the current market price at the date of the announcement of the terms of such issue).



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## LETTER FROM THE BOARD

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Limitations on conversion	No conversion of the Second Batch CPS is allowed provided that (i) any conversion of the Second Batch CPS triggers a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the Second Batch CPS and parties acting in concert with any of them who exercised the conversion rights and the number of Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Second Batch CPS (if applicable, including any Hua Xia Shares acquired by the parties acting in concert with the holder(s) of the Second Batch CPS), together with the Hua Xia Shares and Conversion Second Batch CPS in issue, represents 30% or more of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code or (ii) if immediately after such conversion, the public float of the Hua Xia Shares falls below the minimum public float requirements stipulated under the GEM Listing Rules or as required by the Stock Exchange.
Redemption	Neither the holder(s) of the Second Batch CPS nor the Company shall have the right to redeem or request for the redemption of the Second Batch CPS.
Ranking	<p>The Second Batch CPS ranks: (i) in priority to the Hua Xia Shares and any other shares of the Company as to return of capital, and (ii) pari passu with Hua Xia Shares as to dividends.</p> <p>The Conversion CPS, when allotted and issued, will rank pari passu in all respects with the Hua Xia Shares in issue on date of allotment and issue of such Conversion CPS.</p>

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## LETTER FROM THE BOARD

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Voting rights	Holder(s) of the Second Batch CPS (in their capacity as such) will not be permitted to attend or vote at meetings of the Company, unless a resolution is proposed to vary the rights of holders of the Second Batch CPS or a resolution is proposed for the winding up of the Company. The holder of one Second Batch CPS is entitled to one vote at the general meeting of the Company when he/she/it is permitted to vote at the above resolution.
Dividends	Holder(s) of each Second Batch CPS shall have the same entitlement to dividend as holder of the number of Hua Xia Share(s) into which such Second Batch CPS may be converted upon exercise of conversion rights attached thereto.
Transferability	The Second Batch CPS may be assigned or transferred to any transferee provided that such transferee is not a connected person of the Company, unless the necessary approval (if any) be obtained from the Stock Exchange and from the independent shareholders of the Company.
Rights upon liquidation	On winding up of the Company, the holder(s) of the Second Batch CPS shall be entitled to the return of capital on the basis of the notional value of Second Batch CPS.
Governing law	The Second Batch CPS shall be governed by and construed in accordance with the laws of the Cayman Islands.
Listing	No application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of the Second Batch CPSs.

The terms of the CPS Subscription Agreement, including the Issue Price which was determined after arm's length negotiations between the parties to the CPS Subscription Agreement.

The Second Batch CPS and the Conversion CPS (to be allotted and issued upon full conversion of the Second Batch CPS) will be issued under a specific mandate to be sought at the EGM. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion CPSs to be issued under the Second Batch CPS.

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## LETTER FROM THE BOARD

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### *Fund Raising Activities in the Past Twelve-Month Period*

Save for the CPS Subscription, the Company has not conducted any equity fund raising activities in the previous 12 months immediately preceding the Latest Practicable Date.

### *Reasons for the CPS Subscription*

In order to demonstrate that each of the Remaining Group and the Wanjia Group can operate independently to each other, the Hua Xia Directors have assessed the financial position of the Remaining Group on a standalone basis (without consolidating profit and loss, the assets and liabilities of the Wanjia Group). The Company has reviewed the profit and loss, assets and liabilities contribution to the Remaining Group, based on the audited account of the Group as at 31 March 2012, it is expected that there will be net liabilities position of the Remaining Group upon completion of the Proposed Spin-off and was mainly due to the liabilities from the Promissory Note issued by Hua Xia in connection with the acquisition of the Pharmaceutical Business completed on 8 March 2010. Accordingly, in order to restore the net asset position of the Remaining Group, it is proposed that part of the Promissory Note will be used to set off the total issue price of the Second Batch CPS. The main reason for the issuance of the Second Batch CPS and the set off against the Promissory Note is for the purpose of enhancing the financial position of the Remaining Group upon completion of the Proposed Spin-off.

The Company has explored other possible ways to improve the financial position of the Remaining Group upon completion of the Proposed Spin-off and has assessed the cost and benefit of each possible option. The Company considered that the financial position of the Group may be effectively improved by reducing the liabilities of the Remaining Group, mainly attributable to the Promissory Note, or by the equity financing which will strengthen the capital base of the Remaining Group. The Company has considered several methods of equity fund raising such as rights issue, open offer and placing.

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## LETTER FROM THE BOARD

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The fund raising by means of rights issue or open offer usually involves a deep discount to the existing market price so as to attract Hua Xia Shareholders to participate in the rights issue or open offer, this will lower theoretical share price. Furthermore, these fund raising methods may incur more expenses such as underwriting commission, printing expense, etc. and usually take longer time to complete.

The fund raising by means of placing of new Hua Xia Shares is also unavoidably at a discounted offer, incur expenses such as placing commission, and causes dilution to the existing Hua Xia Shareholder's interest.

In light of (i) the recent low trading volume and low trading price of the Hua Xia Shares, (ii) substantial amount of equity to be issued; and (iii) the possible net liability position of the Remaining Group, the Company encountered difficulties in finding new investors, the Company and Mr. Yung therefore entered into negotiation in respect of capitalising part of the Promissory Note which will reduce the liabilities and increase the equity of the Remaining Group.

Under the CPS Subscription, completion of the CPS Subscription Agreement is subject to the Independent Shareholder's approval and it requires less time to complete as compare with rights issue or open offer. The cost of this fund raising is also lower as there is no underwriting commission or placing commission to be borne by Hua Xia. Even the CPS Subscription will cause dilution to the shareholding, the Issue Price is issued at a premium of approximately 10% over the average of the closing prices per Hua Xia Share of HK\$0.2156 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of CPS Subscription Agreement rather than a discount offered in other fund raising exercise, accordingly, it will indirectly reserve more financial resources of the Remaining Group for its future business plan and development.

Having considered that (i) the Issue Price represents a premium over the closing price of the Hua Xia Shares as at the date of the CPS Subscription Agreement; (ii) the CPS Subscription will enhance the financial position of the Remaining Group; (iii) the reduction of the interest on the Promissory Note for the part set off for the remaining term of the Promissory Note; (iv) the cost of subscription is much cheaper than placing of securities as there is no placing commission incurred; and (v) the CPS Subscription will strengthen the financial position of the Remaining Group, the Hua Xia Directors (including the independent non-executive Hua Xia Directors after taking into account the advice from Veda Capital, the independent financial adviser, and Mr. Yung who had abstained from voting at the Board meeting to approve the CPS Subscription Agreement and the transactions contemplated thereunder) consider that the terms of the CPS Subscription Agreement are fair and reasonable and in the interests of the Company and the Hua Xia Shareholders as a whole.

## LETTER FROM THE BOARD

At the request of the Company, Mr. Yung agreed to facilitate the Company to improve the financial position of the Remaining Group. Given that the purpose of the CPS Subscription is to enhance the financial position of the Remaining Group after the Proposed Spin-off, Mr. Yung only agreed to capitalise part of the Promissory Note on the condition that the Proposed Spin-off can proceed. If the Proposed Spin-off does not proceed, the CPS Subscription Agreement will be terminated. After the arm's length negotiation between the Company and Mr. Yung, it was agreed that the CSP Subscription Agreement and the Proposed Spin-off shall be conditionally upon each other.

### *Shareholding structure of the Company*

The following table shows the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon full conversion of the Second Batch CPS but before full conversion of the all First Batch CPS and all outstanding convertible securities (for illustration purpose only); and (iii) upon full conversion of the all First Batch CPS, the Second Batch CPS the Hua Xia CN and the Hua Xia share options (for illustration purpose only).

	As at the Latest Practicable Date		Assuming that all the Second Batch CPSs have been converted but before the conversion of the First Batch CPS and all outstanding convertible securities and none of the outstanding Hua Xia Share Option have been exercised (note 5)		Assuming that all the First Batch CPSs, the Second Batch CPSs and CPS the Hua Xia CN and the Hua Xia share options (note 5)	
	No. of Hua Xia Shares	approximately %	No. of Hua Xia Shares	approximately %	No. of Hua Xia Shares	approximately %
<b>Hua Xia Directors</b>						
Mr. Yung (notes 1 and 2)	136,546,875	12.60%	640,748,555	40.35%	740,948,555	41.14%
Easeglory (note 1)	120,960,500	11.16%	120,960,500	7.62%	120,960,500	6.72%
Sub-total	257,507,375	23.76%	761,709,055	47.97%	861,909,055	47.86%
Mr. Zheng Gang (note 2)	2,000,000	0.18%	2,000,000	0.13%	12,314,084	0.68%
Other Hua Xia Directors (note 3)	-	-	-	-	18,160,563	1.01%
Wanjia Directors	1,806,250	0.17%	1,806,250	0.11%	11,737,236	0.65%
<b>Public Shareholders (note 4)</b>						
	822,624,639	75.89%	822,624,639	51.79%	896,891,346	49.80%
<b>Total</b>	<b>1,083,938,264</b>	<b>100.00%</b>	<b>1,588,139,944</b>	<b>100.00%</b>	<b>1,801,012,284</b>	<b>100.00%</b>

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## LETTER FROM THE BOARD

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*Notes:*

1. As at the Latest Practicable Date, Mr. Yung was personally beneficially interested in 136,546,875 Hua Xia Shares and the holder of 98,500,000 First Batch CPS. Through his controlled corporations, namely Marshal which in turn holds the entire issued capital of Easeglory which is the beneficial owner of 120,960,500 Hua Xia Shares, Mr. Yung is also deemed to be interested in those 120,960,500 Hua Xia Shares held by Easeglory.
2. Each of Mr. Yung and Mr. Zheng Gang is an executive Hua Xia Director, and holds Hua Xia Share Options to subscribe for 1,700,000 and 10,314,084 Hua Xia Shares respectively.
3. Each of Dr. Jiang Tao, Dr. Huang Jiaqing, Mr. Chen Jin Shan, Dr. Wong Yu Man, James, is a Hua Xia Director, each of them holds Hua Xia Share Options to subscribe for 4,363,380, 2,312,676, 10,484,507 and 1,000,000 Hua Xia Shares respectively.
4. It includes the Hua Xia CN which entitle the holder to convert into 3,421,053 Hua Xia Shares upon exercise the conversion right attached to the Hua Xia CN in full.
5. The two scenarios are for illustration purpose only. Pursuant to the terms and conditions of the First Batch CPS and the Second Batch CPS, holder(s) of the CPS shall have the right to convert the Second Batch CPS provided that any conversion of the CPS (i) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the CPS and parties acting in concert with any of them; and (ii) the public float of the Hua Xia Shares does not fall below the minimum public float requirements stipulated under the GEM Listing Rules or as required by the Stock Exchange.

### ***GEM Listing Rules implications***

Mr. Yung is an executive Hua Xia Director and a substantial Shareholder who together with his associates are interested in aggregate of 257,507,375 Hua Xia Shares, representing approximately 23.76% of the entire issued share capital of the Company as at the Latest Practicable Date. Mr. Yung is therefore a connected person of the Company as defined under the GEM Listing Rules. The CPS Subscription constitutes a connected transaction on the part of the Company and is subject to reporting, announcement and approval of the Independent Shareholders requirement under Chapter 20 of the GEM Listing Rules.

None of the controllers of the Company have any relation with Mr. Yung. As Mr. Yung is a party to the CPS Subscription Agreement, he has a material interest in the CPS Subscription and he had abstained from voting on the board resolution approving the CPS Subscription and the transactions contemplated thereunder. Save for Mr. Yung, no other Hua Xia Directors have material interest in the CPS Subscription and are required to abstain from voting on the board resolution approving the CPS Subscription.

Mr. Yung together with his associates, who are interested in aggregate of 257,507,375 Hua Xia Shares, are required to and shall abstain from voting at the EGM on the ordinary resolution approving the CPS Subscription and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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### **Financial effect on the Proposed Spin-off and the CPS Subscription**

It is expected that no impact gain or loss will be recognized by the Remaining Group in respect of the Proposed Spin-off. Financial effects of the Proposed Spin-off and the CPS Subscription are as follows:

#### ***Effect on net assets value***

Based on the unaudited pro forma financial information of the Remaining Group as set out in appendix II to this circular, on the assumption that the Proposed Spin-off and the redemption of the Promissory Note with the principal amount of HK\$120 million by way of the CPS Subscription could have taken place as at 31 March 2013, (i) the consolidated total assets of the Group would remain at approximately HK\$1,578.54 million; (ii) the consolidated total liabilities of the Group could be decreased from approximately HK\$592.50 million to approximately HK\$487.43 million; and (iii) the consolidated net assets of the Group could be increased from approximately HK\$986.04 million to approximately HK\$1,091.11 million.

The increase in the net asset value of approximately HK\$105.07 million is attributable to: (i) increase in share capital of HK\$5.04 million attributable to the CPS Subscription (504,201,680 Hua Xia Shares will be issued at the Issue Price of HK\$0.238); (ii) the increase in non-controlling interest under the Distribution of approximately HK\$409.29 million; and (iii) the reduction in reserve of approximately HK\$309.26 million.

The reduction of reserves of the Group by approximately HK\$309.26 million from approximately HK\$933.24 million to approximately HK\$623.98 million was mainly attributable to (i) the reduction of reserves of approximately HK\$409.29 million which represents the share of the net asset amount of the Wanjia Group to the non-controlling shareholders under the Distribution; and (ii) the increase in share premium arises from the issue of the Second Batch CPS of approximately HK\$100.03 million, contributing increase in reserves.

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## LETTER FROM THE BOARD

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### 5. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprises Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian and Prof. Lu Chuazhen, being all independent non-executive Hua Xia Directors, has been formed to advise the Independent Shareholders in relation to the Proposed Spin-off and the CPS Subscription and the transactions to be contemplated thereunder. Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed Spin-off and the CPS Subscription and the transactions to be contemplated thereunder and how to vote at the EGM in relation to the resolutions in respect thereof.

The text of the letter from the Independent Board Committee is set out on pages 55 to 56 of this circular.

### 6. EGM

A notice convening the EGM to be held on Wednesday, 4 September 2013 at 11:30 a.m. or immediately following the conclusion (or adjournment) of the annual general meeting of the Company at 19/F, New Wing, 101 King's Road, Hong Kong is set out on pages 143 to 146 of this circular. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company at 19/F, New Wing, 101 King's Road, Hong Kong not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### 7. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 55 to 56 of this circular. The Independent Board Committee, having taken into account the advice of Veda Capital, the text of which is set out on pages 57 to 82 of this circular, consider that the Proposed Spin-off and the term of the CPS Subscription are fair and reasonable and in the interest of the Company and the Hua Xia Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all the ordinary resolutions approving the above matters and the respective transactions contemplated thereunder, to be proposed at the forthcoming EGM as set out in the notice of EGM on pages 143 to 146 of this circular.



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## LETTER FROM THE BOARD

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The Hua Xia Board (including the independent non-executive Hua Xia Directors) are of the view that the terms of the Proposed Spin-off and the CPS Subscription Agreement are fair and reasonable so far as the Hua Xia Shareholders and the Company are concerned and in the interest of the Company and the Hua Xia Shareholders as a whole. The Hua Xia Board also considers the adoption of the Wanjia Share Option Scheme is fair and reasonable so far as the Hua Xia Shareholders and the Company are concerned and in the interest of the Company and the Hua Xia Shareholders as a whole. Accordingly the Hua Xia Board recommends the Hua Xia Shareholders to vote in favour of the ordinary resolutions approving (i) the Proposed Spin-off; (ii) the CPS Subscription; and (iii) the adoption of the Wanjia Share Option Scheme.

### 8. GENERAL

Messis Capital Limited has been appointed as the sole sponsor of the Proposed Spin-off. The Listing Document containing, among other matters, details of the Distribution will be published by Wanjia as and when appropriate.

Your attention is drawn to the letter of advice from Veda Capital set out on pages 57 to 82 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in connection with the Proposed Spin-off and the CPS Subscription Agreement and the transactions contemplated thereunder and the letter from the Independent Board Committee set out on pages 55 to 56 of this circular which contains its recommendation to the Independent Shareholders in relation to, among other things, the Proposed Spin-off and the CPS Subscription Agreement and the transactions contemplated thereunder.

Your attention is also drawn to the additional information set out in the appendices to this circular.

**Hua Xia Shareholders and potential investors of the Company should note that the Proposed Spin-off (including the Distribution) is subject to, among others, the final decision of the Hua Xia Board and the Wanjia Board and the approvals from the Hua Xia Shareholders and the Stock Exchange, and may or may not proceed. Accordingly, Hua Xia Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the Hua Xia Shares.**

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### 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)

19 August 2013

*To the Shareholders*

Dear Sir or Madam

**(1) THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
THE PHARMACEUTICAL WHOLESALE AND DISTRIBUTION BUSINESS  
AND PHARMACEUTICAL RETAIL CHAIN BUSINESS OF THE GROUP  
ON THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED;  
AND  
(2) CONNECTED TRANSACTION INVOLVING THE ISSUE OF  
NON-REDEEMABLE CONVERTIBLE PREFERENCE SHARES**

We refer to the circular issued by the Company to its shareholders and dated 19 August 2013 (“**Circular**”) of which this letter forms part.

Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed by the Hua Xia Board as the independent board committee to consider the terms of the Proposed Spin-off and the CPS Subscription Agreement and to advise the Independent Shareholders as to whether, in our opinion, the terms of the Proposed Spin-off and the terms of the CPS Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Hua Xia Shareholders as a whole.

Veda Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in relation to the Proposed Spin-off and the CPS Subscription.

\* *For identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We wish to draw your attention to the letter from the Hua Xia Board and the letter from Veda Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Veda Capital as set out in its letter of advice, we concur with the view of Veda Capital that (i) the terms of the Proposed Spin-off are fair and reasonable and in the interest of the Company and its Shareholders as a whole; and (ii) the terms of the CPS Subscription are entered into upon normal commercial terms following arm's length negotiations between the parties thereto and that the terms of the CPS Subscription Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Hua Xia Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Proposed Spin-off and the CPS Subscription at the EGM.

Yours faithfully,

The Independent Board Committee

**Ms. Wong Ka Wai, Jeanne**

*Independent*

*non-executive Director*

**Prof. Hu Shanlian**

*Independent*

*non-executive Director*

**Prof. Lu Chuanzhen**

*Independent*

*non-executive Director*

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## LETTER FROM VEDA CAPITAL

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*The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Spin-off and the CPS Subscription prepared for the purpose of inclusion in this circular.*

**VEDA | CAPITAL**  
**智 略 資 本**

**Veda Capital Limited**  
Suite 3711, 37/F.,  
Tower Two, Times Square,  
1 Matheson Street, Causeway Bay,  
Hong Kong

19 August 2013

*To the Independent Board Committee and the Independent Shareholders of  
Hua Xia Healthcare Holdings Limited*

Dear Madam/Sir,

**(1) THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
THE PHARMACEUTICAL WHOLESALE AND DISTRIBUTION BUSINESS  
AND PHARMACEUTICAL RETAIL CHAIN BUSINESS OF THE GROUP  
ON THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED;  
(2) CONNECTED TRANSACTION INVOLVING THE ISSUE OF  
NON-REDEEMABLE CONVERTIBLE PREFERENCE SHARES**

### INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Spin-off and the CPS Subscription, details of which are set out in the letter from the Board (the “**Board Letter**”) in the Company’s circular dated 19 August 2013 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference are made to the announcements of the Company dated 16 July 2012, 18 September 2012, 10 April 2013 and 16 August 2013 in relation to the Proposed Spin-off and the CPS Subscription respectively. It is proposed of separate listing of the Wanjia Group, principally engaged in the Pharmaceutical Business, on the Main Board and the Remaining Group to remain focus on the Hospital Business and the Hua Xia Shares will continue to be listed and traded on GEM. The Proposed Spin-off is expected to be effected by way of introduction through the Distribution whereby, subject to the number of Hua Xia Shares on the Record Date, a total of not less than approximately 36.47% and not more than 40% of the issued share capital of Wanjia will be distributed to the Qualifying Shareholders. Upon completion of the Distribution, the Company

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## LETTER FROM VEDA CAPITAL

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will retain not less than 60% and not more than approximately 63.53% equity interest in Wanjia and Wanjia will become a non-wholly owned subsidiary of the Company. The assets and liabilities, the financial results and the cash flow contribution of the Winjia Group will continue to be consolidated into the financial statement of the Company. In connection with the Proposed Spin-off, it is proposed that the Wanjia Share Option Scheme be adopted by Wanjia.

Pursuant to the CPS Subscription Agreement entered between the Company and Mr. Yung on 10 April 2013, Mr. Yung has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Second Batch CPS at the total subscription price of HK\$120 million which will be satisfied by setting off against HK\$120 million principal amount of the Promissory Note.

As Mr. Yung is an executive Hua Xia Director and a substantial Hua Xia Shareholder who together with his associates are interested in aggregate of 257,507,375 Hua Xia Shares, representing approximately 23.76% of the entire issued share capital of the Company as at the Latest Practicable Date. Mr. Yung is therefore a connected person of the Company as defined under the GEM Listing Rules. The CPS Subscription constitutes a connected transaction on the part of the Company and is subject to reporting, announcement and approval of the Independent Shareholders. Mr. Yung together with his associates are required to and will abstain from voting at the EGM on the ordinary resolution approving the CPS Subscription and the transactions contemplated hereunder. Given the CPS Subscription is conditional upon the completion of the Proposed Spin-off, and Mr. Yung has indirect interest in the Proposed Spin-off, Mr. Yung and his associates will also abstain from voting for the resolution to approve the Proposed Spin-off.

The Independent Board Committee comprises Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian and Prof. Lu Chuanzhen, being all the independent non-executive Hua Xia Directors, has been formed to advise the Independent Shareholders in relation to the Proposed Spin-off and the CPS Subscription and the transactions to be contemplated thereunder. We have been appointed as the independent financial adviser by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Proposed Spin-off and the CPS Subscription and the transactions to be contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and whether the Proposed Spin-off and CPS Subscription and the transactions to be contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole. The appointment of Veda Capital has been approved by the Independent Board Committee.

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## LETTER FROM VEDA CAPITAL

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### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Hua Xia Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Hua Xia Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true as at the Latest Practicable Date and should there be any material changes to our opinion after the despatch of the Circular and up to the date of the EGM, the Hua Xia Shareholders would be notified as soon as possible.

All Hua Xia Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm in the Circular, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Proposed Spin-off and the CPS Subscription and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### BACKGROUND INFORMATION

#### A. Background information of the Group

The Group is principally engaged in the provision of general hospital services and pharmaceutical wholesale, distribution and pharmaceutical retail chain business in the PRC.

##### **1. Financial year ended 31 March 2013**

For the financial year ended 31 March 2013, the Group recorded a turnover of approximately HK\$2,020.6 million representing an increase of approximately 10.1% from that of the financial year ended 31 March 2012 of approximately HK\$1,835.8 million. According to the annual report for the year ended 31 March 2013 (the “AR 2013”) of the

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## LETTER FROM VEDA CAPITAL

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Company, the rise in turnover was mainly driven by the increase demand for the provision of general hospital services and the sales from the pharmaceutical wholesale, distribution and pharmaceutical retail chain business in the PRC.

The Group reported a decrease of approximately 13.9% in profit attributable to Hua Xia Shareholders of approximately HK\$42.7 million for the financial year ended 31 March 2013 as compared to approximately HK\$49.7 million for the financial year ended 31 March 2012. As noted from the AR 2013, the decrease was mainly contributed to (i) the loss on early redemption of the Promissory Note; (ii) the related expenses incurred for the Proposed Spin-off; and (iii) there was no gain on disposal of subsidiary during the year.

### **2. Financial year ended 31 March 2012**

For the financial year ended 31 March 2012, the Group recorded a turnover of approximately HK\$1,835.8 million, representing an increase of approximately 25.4% from that of the financial year ended 31 March 2011 of approximately HK\$1,463.7 million. As noticed from the annual report for the year ended 31 March 2012 (the “**AR 2012**”) of the Company, the improvement of revenue was mainly driven by the sales from the pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses and the increasing demand for the provision of general hospital services in the PRC.

The Group reported profit attributable to Hua Xia Shareholders for the financial year ended 31 March 2012 of approximately HK\$49.7 million, representing an increase of approximately 57.9% as compared to the financial year ended 31 March 2011 of approximately HK\$31.5 million. As advised by the Company, the increase was mainly attributable to the Group’s increased turnover that was generated from the pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses in the PRC.

### **3. Financial year ended 31 March 2011**

For the financial year ended 31 March 2011, the Group recorded a turnover of approximately HK\$1,463.7 million, representing more than a seven-fold increase as compared to the financial year ended 31 March 2010 of approximately HK\$179.8 million. As extracted from the annual report for the year ended 31 March 2011 of the Company, the increase in revenue was contributed from retail, wholesale and distribution of pharmaceutical products in the PRC which began after completion of the acquisition of the Spin-off Business in 8 March 2010.

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## LETTER FROM VEDA CAPITAL

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The Group reported profit attributable to Hua Xia Shareholders of approximately HK\$31.5 million for the financial year ended 31 March 2011 whilst it reported loss attributable to Hua Xia Shareholders of approximately HK\$211.3 million for the financial year ended 31 March 2010. As advised by the Company, the turnaround from loss was mainly attributable to the acquisition of the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses in the PRC.

As noted from the abovementioned financial information, despite of the decrease in net profit attributable to Hua Xia Shareholders for the year ended 31 March 2013 that was, mainly resulting from the effect of early redemption of the Promissory Note and the expenses on the Proposed Spin-off of approximately HK\$6.5 million, the Group's turnover and profit attributable to Hua Xia Shareholders had increased consecutively for the three years ended 31 March 2013. Throughout the years, the Group had generated positive operation revenue, sustained its growth momentum and established a healthy financial position for its businesses to continue to development.

### **B. Background information of the Remaining Group**

Following the completion of the Proposed Spin-off, the Remaining Group will continue to be principally engaged in the Hospital Business while the Wanjia Group will continue to focus on and principally engaged in the Pharmaceutical Business.

The Remaining Group is principally engaged in the Hospital Business comprising operation of two privately-run general hospitals in Chongqing City and Zhejiang Province, the PRC and managing one privately-run hospital in Guangdong Province, the PRC.

According to the AR 2013, the Group's total turnover contributed by the general hospitals services for the year ended 31 March 2013 was approximately HK\$141.5 million, representing an increase of approximately 5.2% as compared to approximately HK\$134.5 million for the year ended 31 March 2012, the Group recorded a net asset of the provision of general hospital services segment of approximately HK\$155.2 million as at 31 March 2013 and a net asset value of approximately HK\$151.8 million as at 31 March 2012, illustrating a growth of approximately 2.3% in the financial position of this segment.

As noted from the Board Letter, the management of the Group has realized the potential opportunities in the field and continued to address the needs of the market and the public through refined services and quality products. In addition to cultivating the new services implemented at the hospitals, the management has focused on the improved delivery procedures and patient oriented care. The hospitals of the Group have well-established themselves in each of their local market both in terms of brands and competitiveness. The management of the Group believes the new financial



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## LETTER FROM VEDA CAPITAL

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year ending 31 March 2014 will reach the late part of the 12<sup>th</sup> Five Year Plan in the PRC, and the Group will begin to achieve the fruitful performances supported by the early financial and technical investments and preparation for the both Hospital Business and the Pharmaceutical Business.

### C. Background information of the Wanjia Group

Wanjia was incorporated as an exempted company in the Cayman Islands on 9 July 2012 and as at the Latest Practicable Date was indirectly wholly-owned by the Company. The principal business of Wanjia is investment holding while the Wanjia Group mainly focuses on the Pharmaceutical Business.

Following the completion of the Proposed Spin-off, the Wanjia Group will continue to focus on and is principally engaged in the Pharmaceutical Business (i.e. pharmaceutical wholesale and distribution business and pharmaceutical retail chain business in the PRC).

Set out below is the extract of financial information of the segment of the Pharmaceutical Business which has been consolidated into the Company for the three financial years ended 31 March 2013:

	<b>Year ended 31 March 2011 (audited) HK\$'000</b>	<b>Year ended 31 March 2012 (audited) HK\$'000</b>	<b>Year ended 31 March 2013 (audited) HK\$'000</b>
Turnover	1,357,679	1,712,147	1,885,369
Profit before taxation	52,260	68,542	60,677
Profit after taxation	32,840	45,332	41,905
Profit attributable to the owners of the Company	32,765	45,228	41,763
	<b>As at 31 March 2011 (audited) HK\$'000</b>	<b>As at 31 March 2012 (audited) HK\$'000</b>	<b>As at 31 March 2013 (audited) HK\$'000</b>
Total assets	1,206,595	1,293,698	1,390,923
Total liabilities	1,168,247	1,203,905	1,257,722
Net asset value	38,348	89,793	133,201

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## LETTER FROM VEDA CAPITAL

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As seen from above, the Pharmaceutical Business recorded a turnover of approximately HK\$1,885.4 million for the year ended 31 March 2013, representing an increase in turnover by approximately 10.1% as compared to approximately HK\$1,712.1 million for the year ended 31 March 2012. As advised by the Company, the increase in turnover over the years was mainly contributed by the sales from the pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses in the Fujian province and the PRC.

The Pharmaceutical Business recorded a slight decrease in profit attributable to the shareholders for the year ended 31 March 2013 of approximately HK\$41.8 million by approximately 7.7% as compared to the year ended 31 March 2012 of approximately HK\$45.2 million. In addition, the net asset value of the Pharmaceutical Business for the year ended 31 March 2013 of approximately HK\$133.2 million, illustrating an improvement by approximately 48.3% and approximately 247.3% as compared to the year ended 31 March 2012 and 2011 in respectively.

### **THE PROPOSED SPIN-OFF**

#### **A. The Distribution**

The Hua Xia Board proposed to declare a conditional special dividend by way of a distribution in specie of not less than 236,487,652 Wanjia Shares representing approximately 36.47% of the entire issued share capital of Wanjia and not more than 259,362,116 Wanjia Shares representing 40% of the then issued share capital of Wanjia held by the Company (subject to the number of Hua Xia Shares on the Record Date) to the Quality Shareholders, being registered holders of the Hua Xia Shares whose names appear on the register of members of the Company on the Record Date. Each Qualifying Shareholder will be entitled to one (1) Wanjia Share for every five (5) Hua Xia Shares on the Record Date. All entitlements will be rounded down to a whole number of Wanjia Shares, and fractional entitlements will be disregarded. For the avoidance of doubt, registered holders of less than five (5) Hua Xia Shares on the Record Date will not be entitled to any Wanjia Shares. As at the Latest Practicable Date and immediately before the completion of the Proposed Spin-off, the Company is interested in the entire interest of Wanjia and the Wanjia Group. Upon completion of the Proposed Spin-off and the Distribution, the Company's interest in the Wanjia Group will reduce from 100% to not less than 60% and not more than approximately 63.53%, and Wanjia will become a non-wholly owned subsidiary of the Company. The Proposed Spin-off and the Distribution will be conditional on, among others, (i) the Stock Exchange approving the Proposed Spin-off; (ii) the Listing Committee having granted listing of, and permission to deal in the Wanjia Shares (including the Wanjia Shares to be issued upon the exercise of the share options granted under the Wanjia Share Option Scheme) in issue on the Main Board; (iii) the Independent Shareholders approving the Proposed Spin-off at the EGM; and (iv) the CPS Subscription Agreement having becoming unconditional.

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## LETTER FROM VEDA CAPITAL

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In view that (i) the Qualifying Shareholders could obtain the Wanjia Shares at nil consideration; (ii) upon the completion of the Proposed Spin-off, although Wanjia would become a non-wholly owned subsidiary of the Company, the Qualifying Shareholders could retain their interests in the Pharmaceutical Business via the Wanjia Shares; and (iii) alternatively the Qualifying Shareholders could realize their holdings of Wanjia Shares for an all-cash consideration since the listing date of the Wanjia Shares, we consider the Distribution is in the interests of the Company and Shareholders as a whole.

### **B. Business development of the Remaining Group**

The Remaining Group is principally engaged in the Hospital Business comprising operation of two privately-run general hospitals in Chongqing City and Zhejiang Province, the PRC and managing one privately-run hospital in Guangdong Province, the PRC.

#### ***1. Industry overview of the Hospital Business***

We have researched that according to the “Report on China’s economic, social development plan (2012)” (the “**Social Development Plan**”) published on 5 March 2012, urban per capita disposable income and rural per capita net income increased, respectively, by approximately 8.4% and approximately 11.4% in 2011, approximately 7.8% and approximately 10.9% in 2010, and approximately 9.8% and approximately 8.5% in 2009, all in real terms after adjusting for inflation. Awareness of personal health as well as the demand for more sophisticated health care services and treatments has also increased significantly corresponding to the improvement in living standards.

The Social Development Plan also stated that the government will continue to deepen reforms in the pharmaceutical and health care system and improve the system by increasing the capacity (i.e. number of hospital and clinic beds and general practitioners) in China. According to China’s Twelfth-Five Year Plan, the Twelfth-Five period is a critical period to accelerate the building of and enhance the level of the basic service systems (i.e. education and medical health care) to promote and co-ordinate economic and social development and ensure to improve its citizen’s well being.

According to the China Statistical Yearbook 2011 published by the National Bureau of Statistics of China, total health expenditure in China had increased extensively from approximately RMB984,334 million accounting for approximately 4.55% of the year’s GDP in 2006 to approximately RMB1,754,190 million accounting for approximately 5.15% of the year’s GDP in 2009, representing an average annual growth of approximately 19.6%. The number of visits and inpatients in hospitals was estimated to be approximately 192.2 million times in 2009 as compared to approximately 204.0 million times in 2010, representing a growth of approximately 6.1%.

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## LETTER FROM VEDA CAPITAL

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According to the report titled “China in focus: Lessons and Challenges” published by the Organisation for Economic Co-operation and Development (“OECD”) on 16 March 2012, China had made considerable progress in improving the health outcomes. Sustained growth in health spending has accompanied China’s economic growth over the past decade and that its total health expenditures are now over 5% of its GDP, given China’s national income, is in line with the international standards.

As pointed out by the OECD, hospital reform ranks high in China’s agenda, in particularly, tackling the increasing problems with financing and managing public hospitals. Hospital capacity and the number and skill level of doctors are said to have increased in the past five years. According to the China Healthcare Statistic Summary 2012 published by the Ministry of Health (the “China Healthcare Summary”), the number of visits and inpatients for all kinds of hospitals in 2011 was recorded to be approximately 2,259.0 million times and 107.6 million times respectively. From that, the number of visits to general hospitals accounted for approximately 74.1% of approximately 1,674.0 million times and the number of inpatients for general hospitals accounted for approximately 78.3% of approximately 84.3 million times. Utilization rate of beds in general hospitals had increased by approximately 10.7% from approximately 78.6% in 2007 to approximately 89.3% in 2011.

The Chinese central government launched a series of ambitious reforms to improve the health of its citizens. Governments of all levels, including cities and provinces, had also increased investment in medical and health care in order to improve its medical and health care system by increasing medical assistance to both urban and rural areas and providing support on, including but not limited to, executing the objectives in the reforms introduced and regulated by the central government in relation to the health care system in China. The objectives of the reforms including, among others, to improve quality and management of health care services, to improve traditional Chinese medicines services and to strengthen health care professionals’ education.

For instance, the government in April 2009 unveiled a three year plan for the period 2009-2011 included a RMB850 billion fund for national health care reform. The fund was mainly used to build a basic medical insurance system for urban and rural residents to, among others, supply universal access to basic health insurance, introduce of the essential drugs system, improve primary health care facilities, provide equitable access to basic public health services and a pilot reforms for state-run hospitals.

China’s central government in 2010 also declared new policies to encourage private funds, including overseas capital, to be channeled to the medical sector to meet the country’s increasingly diversified demands on health care as noted on the website of the Chinese

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## LETTER FROM VEDA CAPITAL

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Government's Official Web Portal (the "**Web Portal**"). The policies encourage social funds to take part in governmental hospital reforms and convert some public hospital into non-governmental institutions to reduce the ratio of public hospitals.

China's current healthcare system is primarily composed of large public non-profit hospitals. The reform plans recognize private providers as supplemental to China's health care system. According to the Health Minister Chen Zhu, as reported on 17 September 2012, a publication found on the Web Portal, China currently has more than 6,000 private hospitals, making up one third of the country's total and that the Chinese government plans to encourage more private investment in the country's hospitals.

The reforms will greatly expand access to health services in China while improve the quality of care and enhance health outcomes for its citizens. It is believed that the reforms will also stimulate China's health care market and create opportunities for private hospital services. Private hospitals will play an important role in China by creating healthy competition with public hospitals and addressing unmet needs, especially addressing the additional needs of higher-income patients. In addition, such reforms clearly articulate the need to improve the health system's information technology capabilities.

The combination of rising incomes and expectations and greater financial coverage of health costs has driven a rapid expansion of the hospital sector and most benefited the urban areas and more developed cities. The hospital markets in developed cities such as the city of Chongqing is expected to be supported by the economic and social growth factors of China's (i.e. GDP and population) and further enhanced by the trends of urbanization and higher disposable income spending on better quality medicals and hospital services as the demand for healthcare and living standards increase.

According to the Chongqing's Statistical Yearbook 2011 published by the government of Chongqing (the "**CQ Yearbook**"), Chongqing's resident population had been increasing steadily. The resident population had increased from approximately 28,080,000 persons to approximately 28,846,200 persons in 2006 to 2010 and, according to the government website of Chongqing, had further increased by approximately 1.19% to approximately 29,190,000 in 2011 with a natural growth rate of approximately 3.17%. Chongqing's rate of urban population had increased by approximately 6.3% from approximately 46.7% to approximately 53.0% from 2006 to 2010 and, according to the government website of Chongqing, had further increased by approximately 2.0% to approximately 55.0% in 2011.

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## LETTER FROM VEDA CAPITAL

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The CQ Yearbook recorded a significant increase of the gross domestic products of the Chongqing city, from approximately RMB390,723 million to approximately RMB792,558 million from 2006 to 2010 representing an average annual growth rate of approximately 20.6% under the implementation of the 11th Five Year Plan of China.

In the Chongqing People's Government Work Report 2012 published by the People Government of Chongqing has mentioned that in the upcoming years, the city is engaged to continue to support the service industry and will accelerate the development of the medical and health industry.

With the bright economic and social settings of the PRC, the living condition and living expectancy of the growing Chinese population are expected to increase continuously. This increase will then accelerate the growth of the industries that are more aligned with the Twelve-Five Year Plan in which the health industry is included within. The growth is expected to be more significant in developed cities driven by the cities' economic and social factors such as higher income, more resources and better education level. Non-governmental for-profit hospitals industry, leveraged on the above-mentioned reasons, will be further enhanced by investors who are interested in PRC's medical industry and the higher income group of patients who demand for specialized health care services.

### ***2. Trading and business prospects of the Remaining Group***

Upon completion of the Proposed Spin-off, the Remaining Group plans to introduce the hemodialysis centre in the three existing hospitals owned or managed by the Remaining Group, and/or explore other cooperation with other potential partners such as Class 2 or above hospitals in selected area to set up hemodialysis centers. It is anticipated that the set up of the hemodialysis operation will become a new source of revenue for the Remaining Group and will enable the Remaining Group to benefit from the growing healthcare market in the PRC.

As disclosed in the annual report of the Hua Xia Group for the year ended 31 March 2012, in view that the economy continues to grow and the living standards have substantially improved in the PRC, the healthcare needs of PRC citizens is also in a growing trend and the medical care has become increasingly specialized to cater for various healthcare needs. Among the specialized healthcare services, the management considers the hemodialysis market is a fast growing and high-value medical field which can become a growth driver for the Remaining Group. After conducting market research and analysis, the Remaining Group has decided to explore the potential growth of hemodialysis services through cooperation. As the first step in this direction, on 4 June 2012, the Remaining Group, through its subsidiary Hua Xia Renal, entered into the joint venture agreement with Taiwan Renal, to establish a new joint venture company and as at the Latest Practicable Date, it is a subsidiary of the Remaining Group. This joint venture company will be a vehicle for investment in majority

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## LETTER FROM VEDA CAPITAL

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interests in relation to development and operation of renal dialysis centres and provision of related services in the PRC. This will become a new source of revenue for the Remaining Group and the new segmented market is believed to fit the growth direction and have a promising future.

The Hua Xia Directors envision more diversified hospital services to satisfy various needs of the public in the next few years, such as, from common illness treatments to the care of special and difficult disease. Therefore the Company will continue to allocate resources to develop those services either in the existing hospitals or through collaboration.

The Remaining Group will actively look for further development opportunities made available by the continuing healthcare reform and the second year of the Twelfth-Five Year Plan which promotes, inter alia, the healthcare system in the PRC. The management is optimistic towards the fast expanding market of healthcare supported by the fast economic growth in the PRC, (ii) the increase in the awareness of the importance of healthcare by the general public; and (iii) the opening up of the healthcare market and the business environment benefiting from favourable policies of the central and local governments in the PRC.

In the past years, the hospitals of the Remaining Group has benefited from the healthcare reform in the PRC with the Remaining Group's accurate market positioning, especially based on the Remaining Group's solid development of hospital management systems and well-trained professionals. At the same time, further segmented service models and medical specialties will help building brand names and enlarge market shares, while the Company will try to further raise the cost efficiency in the existing hospitals to maximize profitability, as well as to look for growth opportunities. The management considers the market for hemodialysis is fast growing and of high value for the hospital services business of the Remaining Group.

### **3. Business plan for the Remaining Group**

As mentioned in the Board Letter, the Remaining Group will maximize the advantages and experiences accumulated over the years of operation to further enhance its operational capabilities. Based on the local healthcare needs and allocation of the resources, the major future business plans outlines are as follows:

- (i) The Remaining Group entered into the joint venture agreement with Taiwan Renal Care Limited\* (台灣腎臟照護有限公司), to invest in the development and operation of renal dialysis centers in the PRC. The Remaining Group plans to introduce the hemodialysis services to the three existing hospitals owned or managed by the Remaining Group and/or explore other cooperation with other class 2 or above hospitals in the PRC to set up renal dialysis centers where the services are mostly needed and can be accomplished in a short period of time.

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## LETTER FROM VEDA CAPITAL

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Especially from 2013 onwards, the PRC government has included the kidney and diabetes as disease for priority treatment and prevention, and the medical insurances are expected to cover some of the diseases. The policy change will certainly drive this new business model significantly in the near future. The Remaining Group is confident to capture a sizable market share through reasonable pricing and effective marketing strategy.

- (ii) The Remaining Group continues to look for opportunities for acquisition and cooperation. As the business models have refined, the management will closely monitor the fast growing market of the special services. Based on the strategies of cooperation and acquisition, the Remaining Group are looking for hospitals or business partners who have strong marketing capabilities with a reasonably large market share in a special medical service market, such as male medicine, plastic surgeries, gynecology, hemodialysis and more. At the same time, the Remaining Group continues to explore potential and suitable opportunities to acquire strategically valuable class 1 or class 2 hospitals. This buy-and-operate business model fits the healthcare reform market and can leverage the experiences and capabilities that the Remaining Group has accumulated. Through restructuring and improvement, the Remaining Group are able to expand its hospitals to provide more competitive services.
  
- (iii) The Remaining Group plans to further invest or introduce new medical specialties based on the local need of the hospital and department that are considered unique to tap into the medical specialties market. For example, Chongqing Edward Hospital plans to add new medial department for diabetes and hypertension in addition to its existing medial departments. The hospital has set up the diabetic treatment department which has utilized the present resources and manpower to provide a special medical service. New medical technologies, such as micro-surgery for obstetrics, will also be introduced to the existing specialties for better services and more effective treatment of difficulties disease. This will further strengthen the medical advantages at the Chongqing Edward Hospital. Jiaxing Shuguang Hospital will continue to invest in the orthopaedics as the hospital has core skilled physicians and advanced medical equipment and instruments. This specialty is able to meet the increasing needs for traumatic surgeries and special treatments to the patients and has become the very competitive services of the hospital in support for the further growth.



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## LETTER FROM VEDA CAPITAL

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### C. Reasons for and benefits of the proposed Spin-off

As mentioned in the Board Letter, the Hua Xia Directors are in the opinion that the separate listing of the Wanjia Group will be beneficial to both the Hua Xia Group and the Wanjia Group for the following reasons:

1. at present, the Hospital Business is mainly conducted and confined in Chongqing Municipal and Zhejiang Province, the PRC, while majority of the Pharmaceutical Business is conducted in Fujian Province, the PRC, and the expected synergy effect in the business operation between the two groups in terms of minimisation of logistics costs and revenue growth, etc. are not prominently demonstrated. On the other hand, there is a clear delineation between the Hospital Business and the Pharmaceutical Business in terms of their respective operation, management, client base, as well as geographical market. Further, the Remaining Group and the Wanjia Group are believed to have different growth paths and different business strategies and the Proposed Spin-off will allow separate platforms for the development of the businesses of the two groups;
2. the Proposed Spin-off could unlock the value of Hua Xia's investment in the Wanjia Group (the unaudited adjusted net asset value of the Wanjia Group was approximately HK\$1,023.24 million as at 31 March 2013) while the market capitalisation of the Hua Xia was approximately HK\$231.96 million as at 28 March 2013, being the last trading day before 31 March 2013, and the Proposed Spin-off will unlock the Wanjia Group from the GEM listing umbrella of Hua Xia so that investors would be able to appraise and assess the performance and potential of the Wanjia Group separately and distinct from that of the Remaining Group;
3. the Proposed Spin-off will enable future funds raised by the Remaining Group to be focused on the development of the Hospital Business;
4. the Proposed Spin-off will streamline the operation of both the Remaining Group and the Wanjia Group and increase the transparency of business performance and the financial status of both the Remaining Group and the Wanjia Group, which, in turn, will strengthen support from business partners, banks and financial institutions and enable investors to better assess the respective performance and potential of the Remaining Group and the Wanjia Group;

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## LETTER FROM VEDA CAPITAL

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5. the separation of the two distinct businesses will allow each of the Remaining Group and the Wanjia Group to attract focused strategic investors who can produce synergy for each of such businesses to invest in or form strategic partnerships with each of such businesses;
6. the Wanjia Group will have greater flexibility to grow and expand its business free of actual or perceived constraints as a non-listed subsidiary, as well as an increased ability to make acquisitions, where appropriate, by using its shares as an acquisition currency; and
7. it allows the Wanjia Group to position itself as an independent listed group with direct access to the debt and equity capital markets to finance its further developments for future growth without relying on the Remaining Group's financial support.

Given that the Hua Xia Group is currently engaged in two distinctive businesses, namely the Hospital Business and the Pharmaceutical Business, the Hua Xia Directors believe that the Proposed Spin-off would better reflect the value of its provision of the Pharmaceutical Business for the reasons as stated above, and that the listing by way of introduction would give a clearer corporate identity to the Wanjia Group and would enhance the image of the Wanjia Group for its future growth, while the Remaining Group can focus on the operation of the Hospital Business with its resources, and therefore the Hua Xia Directors believe that the Proposed Spin-off will be beneficial to both the Remaining Group and the Wanjia Group and their respective existing and future shareholders.

We have conducted researches on the industry background of the Hospital Business as set out in the above section, site visits and interviews with the Company and management on, among others, business operation and development plan, we noticed that although Hospital Business and Pharmaceutical Business are vertically and closely related to one another, their business operations, target customers, target investors, etc. are different. In light of the increasing need for medical services and correspondingly increase in demand for pharmaceutical products, the Proposed Spin-off could enable both Hospital Business and Pharmaceutical Business to develop and expand with focused resources. Having considered their different target investors and funding needs, the Proposed Spin-off allows flexibility on separate fund raising activities and in different scales. Having considered the abovementioned, we concur with the Hua Xia Directors that the Proposed Spin-off will be beneficial to the Remaining Group and the Independent Shareholders as a whole.

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## LETTER FROM VEDA CAPITAL

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### **D. Adoption of the Wanjia Share Option Scheme**

As set out in the Board Letter, in connection with the Proposed Spin-off, it is proposed that the Wanjia Share Option Scheme to be adopted by Wanjia. As at the Latest Practicable Date, the Hua Xia Board has resolved to conditionally adopt the Wanjia Share Option Scheme subject to (i) the Hua Xia shareholders passing an ordinary resolution at the EGM to approve and adopt the Wanjia Share Option Scheme; (ii) the passing by the shareholders of Wanjia to approve and adopt the Wanjia Share Option Scheme; (iii) the Listing Committee granting the listing of, and permission to deal in, such number of the Wanjia Shares to be issued pursuant to the exercise of any options which may be granted under the Wanjia Share Option Scheme; and (iv) the commencement of dealings in the Wanjia Shares on the Main Board. The Wanjia Share Option Scheme will become effective on the commencement of dealings in the Wanjia Shares on the Main Board.

The purpose of the Wanjia Share Option Scheme is to provide incentive or reward to eligible persons for their contribution to the Wanjia Group and/or to enable the Wanjia Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Wanjia Group or any entity in which the Wanjia Group holds any equity interest.

In view that (i) share option scheme is a common practice to provide incentives or rewards to employees and directors and other eligible persons for their contributions; which accordingly (ii) attract, recruit and retain valuable human resources and bring positive effects to the financial performance of the Wanjia Group which is beneficial to the Company and the Qualifying Shareholders as Wanjia's shareholders, we consider the adoption of the Wanjia Share Option Scheme is fair and reasonable so far as the Company and the Shareholders are concerned.

### **CPS SUBSCRIPTION**

#### **A. Background**

As at the Latest Practicable Date, an outstanding Promissory Note of the Company at principal amount of HK\$220 million is beneficially held by Mr. Yung.

On 10 April 2013, the Company entered into the CPS Subscription Agreement with Mr. Yung, pursuant to which, Mr. Yung has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Second Batch CPS at the total Issue Price of HK\$120 million which will be satisfied by setting off against HK\$120 million principal amount of the Promissory Note.

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## LETTER FROM VEDA CAPITAL

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### **B. The Issue Price and Conversion Price**

The Issue Price of not less than HK\$0.238 per Second Batch CPS represents (i) a premium of approximately 13.33% over the closing price of HK\$0.21 per Hua Xia Share as quoted on the Stock Exchange on the date of the CPS Subscription Agreement; and (ii) a premium of approximately 11.01% over the average of the closing prices per Hua Xia Share of HK\$0.2144 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the CPS Subscription Agreement; (iii) a premium of approximately 10.39% over the average of the closing prices per Hua Xia Share of HK\$0.2156 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the CPS Subscription Agreement; and (iv) a premium of approximately 6.25% over the closing price per Hua Xia Share of HK\$0.2240 as quoted on the Stock Exchange on the Latest Practicable Date.

The Issue Price of HK\$0.238 per Second Batch CPS was arrived at after arm's length negotiations between the Company and Mr. Yung which represents a premium of over 10% over the average of the closing prices per Hua Xia Share of HK\$0.2156 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the CPS Subscription Agreement, rounding up to the nearest third decimal point. The total Issue Price of HK\$120 million will be satisfied by setting off against HK\$120 million principal amount of the Promissory Note.

The Hua Xia Directors (excluding Mr. Yung who had abstained from voting at the Board meeting to approve the CPS Subscription Agreement and the transactions contemplated thereunder) consider that the Issue Price and the terms of the CPS Subscription Agreement are fair and reasonable and are in the interests of the Company and the Hua Xia Shareholders as a whole.

Pursuant to the principal terms of the Second Batch CPS, the conversion price of the Second Batch CPS is initially the Issue Price per Second Batch CPS (subject to standard adjustments). The conversion price of the Second Batch CPS is subject to adjustments upon the occurrence of consolidation or subdivision of Hua Xia Shares, capitalisation issues, capital distribution, rights issues and issue of new Hua Xia Shares or convertible securities at issue or conversion price at more than 20% discount to the then market price per Hua Xia Share (being the current market price at the date of the announcement of the terms of such issue).

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## LETTER FROM VEDA CAPITAL

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### 1. *Historical Price Performance*

We have reviewed the movements in the trading price of the Hua Xia Shares during the period from 10 April 2012 (being the 12 calendar months period prior to the date of the Subscription Agreement) to the Latest Practicable Date (the “**Review Period**”). The closing prices of the Hua Xia Shares during the Review Period are set out below:



Source: website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

The closing prices of the Shares ranged from the lowest of HK\$0.142 on 4 June 2012 to the highest of HK\$0.250 (the “**Highest Closing Price**”) on 21 November 2012, 22 November 2012 and 27 November 2012 during the Review Period. The average closing prices of the Hua Xia Shares during the Review Period was approximately HK\$0.2117 (the “**Historical Average Closing Price**”).

Taken into account of the fluctuation of the historical closing prices of the Hua Xia Shares during the Review Period and that the Issue Price falls close to the Historical Average Closing Price, we considered the Issue Price is fair and reasonable.

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## LETTER FROM VEDA CAPITAL

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### 2. Comparison with comparables

In order to assess the fairness and reasonableness of the terms of the CPS, to the best of our knowledge, we have researched and covered all companies (the “CPS Comparables”) listed on the Main Board and GEM of the Stock Exchange which have announced the issue of non-redeemable convertible preference shares from 10 April 2011 up to and including 10 April 2013, being the date of the Subscription Agreement, for reference. As the terms of the CPS Comparables are determined under similar market conditions and sentiments as the CPS, we consider the CPS Comparables are fair and representative samples.

Company (stock code)	Date of announcement	Premium/ (discount) over/ to last five consecutive trading days <i>(approximate %)</i>	Dividend entitlements	Availability of voting rights (Yes/No)
North Asia Strategic Holdings Limited (8080)	5/4/2013	4.11	Nil	No
Norstar Founders Group Limited (2339)	22/2/2013	(38.31)	Non-cumulative preferential dividends, in priority to any payment to the holders of the shares of the company	No
Hua Yi Copper Holdings Limited (559)	23/1/2013	(36.75)	Same entitlement as ordinary shares on an as converted basis	No
FU JI Food and Catering Services Holdings Limited (1175)	21/1/2013	(98.03)	Nil	No
North Asia Resources Holdings Limited (61)	8/10/2012	(37.00)	Priority to any rights of the holders of any other class of shares of the company to receive dividends and dividend declared shall not be less than that declared in respect of any other class of shares of the company on a per share basis	No
Synergies Holdings Limited (2340)	10/9/2012	1.90	Same entitlement to dividend and other distribution as the holders of each ordinary share	No
China Oriental Culture Group Limited (2371)	9/9/2012	(8.93)	Same right as the holders of ordinary shares to participate in dividends distribution	No

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## LETTER FROM VEDA CAPITAL

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Company (stock code)	Date of announcement	Premium/ (discount) over/ to last five consecutive trading days <i>(approximate %)</i>	Dividend entitlements	Availability of voting rights (Yes/No)
China Netcom Technology Holdings Limited (8071) <i>(Note)</i>	29/8/2012	417.24	The same extent as holders of the ordinary shares	No
Xiwang Sugar Holdings Company Limited (2088)	27/1/2012	1.99	The right to receive dividend pari passu with holders of the ordinary shares on the basis of the number of the ordinary shares into which convertible preference share may be converted and on an as converted basis	No
C.P. Lotus Corporation (121)	14/10/2011	(5.58)	Same entitlement as ordinary shares on an as converted basis	No
C.P. Lotus Corporation (121)	14/10/2011	(1.29)	Same entitlement as ordinary shares on an as converted basis	No
China Grand Forestry Green Resources Group Limited (910)	30/9/2011	3.45	Entitled to the dividends that would be paid with respect to the ordinary shares on an as converted basis	No
Ever Fortune International Holdings Limited (875)	24/8/2011	(59.94)	Nil	No
TCC International Holdings Limited (1136)	7/9/2011	36.26	The right to receive dividend pari passu with holders of ordinary shares on the basis of the number of ordinary shares into which each new convertible preference share may be converted and on an as converted basis	No
Ocean Grand Holdings Limited (1220)	8/8/2011	(96.86)	Fixed cumulative preferential dividend at a rate of 4% per annum on the initial subscription price	No
China Packaging Group Company Limited (572)	4/7/2011	(94.87)	Nil	No

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## LETTER FROM VEDA CAPITAL

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Company (stock code)	Date of announcement	Premium/ (discount) over/ to last five consecutive trading days <i>(approximate %)</i>	Dividend entitlements	Availability of voting rights (Yes/No)
C.P. Pokphand Co. Ltd. (43)	30/5/2011	(4.05)	Right to receive dividend pari passu with holders of ordinary shares on the basis of the number of ordinary share(s) into which each new convertible preference share may be converted and on a converted basis	No
Semiconductor Manufacturing International Corporation (981)	5/5/2011	(25.30)	Rank pari passu in respect of entitlement to dividends and other income distribution as ordinary shares	Yes
Semiconductor Manufacturing International Corporation (981)	18/4/2011	(10.20)	Rank pari passu in respect of entitlement to dividends and other income distribution as ordinary shares	Yes
	Maximum premium	36.26		
	Minimum premium	1.90		
	Average premium	11.43		
	Maximum	36.26		
	Minimum	(98.03)		
	Average	(23.99)		
The Company	10 April 2013	11.01	Same entitlement to dividend as holder of the number of ordinary shares	No

*Note: Due to the extreme premium represented by the comparable company, China Netcom Technology Holdings Limited has been taken out from comparison.*



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## LETTER FROM VEDA CAPITAL

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In view that the premium of 11.01% represented by the Issue Price falls near to the average premium of approximately 11.43% and within the premium range from approximately 1.90% to approximately 36.26% represented by the CPS Comparables, we consider the Issue Price's premium is reasonable in the general market practice and the Issue Price is reasonable so far as the Remaining Group and Independent Shareholders are concerned.

### **C. Rights and restrictions of the Second Batch CPS**

#### ***Voting rights***

Pursuant to the CPS Subscription Agreement, holder(s) of the Second Batch CPS (in their capacity as such) will not be permitted to attend or vote at meetings of the Company, unless a resolution is proposed to vary the rights of holders of the Second Batch CPS or a resolution is proposed for the winding up of the Company. The holder of one Second Batch CPS is entitled to one vote at the general meeting of the Company when he/she/it is permitted to vote at the above resolution. We noted from the Comparables that 17 out of the 19 CPS Comparables, voting rights are not entitled to their convertible preference shares.

#### ***Dividends***

Pursuant to the CPS Subscription Agreement, holder(s) of each Second Batch CPS shall have the same entitlement to dividend as holder of the number of Hua Xia Share(s) into which such Second Batch CPS may be converted upon exercise of conversion rights attached thereto. As seen from the CPS Comparables, we noted that 12 out of the 19 CPS Comparables offer the same entitlement to dividend as ordinary shareholders.

#### ***Rights upon liquidation***

On winding up of the Company, the holder(s) of the Second Batch CPS shall be entitled to the return of capital on the basis of the notional value of Second Batch CPS. As advised by the Company, the rights upon liquidation to the Shareholder(s) and holder(s) of the Second Batch CPS are the same.

Accordingly, we consider such terms of the Second Batch CPS are in line with the general practice of the market and are in the interests of the Remaining Group and the Independent Shareholders as a whole.

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## LETTER FROM VEDA CAPITAL

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### **D. Reasons of the CPS Subscription**

The CPS Subscription and the set off against the Promissory Note with the principal amount of HK\$120 million will enhance the financial position of the Remaining Group upon completion of the Proposed Spin-off as the liability of the Promissory Note will be reduced and the equity of the Company will be increased as a result of the allotment and issue of the Second Batch CPS.

Having considered the abovementioned, and (i) the CPS Subscription will enhance the financial position of the Remaining Group; (ii) the reduction of the interest on the Promissory Note for the part set off for the remaining term of the Promissory Note; (iii) the CPS Subscription will broaden the capital base of the Remaining Group; and (iv) the cost of subscription is much cheaper than placing of securities as there is no placing commission incurred, we concur with the Hua Xia Directors that the terms of the CPS Subscription Agreement are fair and reasonable and in the interests of the Remaining Group and the Independent Shareholders as a whole.

### **E. Potential dilution effects**

For illustration purpose and based on the Issue Price of HK\$0.238 and a total of 504,201,680 Second Batch CPS will be allotted and issued under the CPS Subscription. Upon full conversion of all Second Batch CPS, 504,201,680 Conversion CPS will be issued, which represent approximately 46.52% of the issued share capital of the Company as at the Latest Practicable Date and approximately 31.75% of the issued share capital of the Company as enlarged by the issue conversion of all the Conversion CPSs upon the conversion of all the Second Batch CPS. Taken into account that the Conversion CPSs are entitled to different rights and restrictions from the ordinary shares of Hua Xia, we consider the potential benefits of the CPS Subscription overweighs the potential dilution effects (for illustration purpose only) brought by the Conversion CPSs which is acceptable so far as the Independent Shareholders and the Remaining Group are concerned.

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## LETTER FROM VEDA CAPITAL

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### FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF AND THE CPS SUBSCRIPTION

Financial effects of the Proposed Spin-off and the CPS Subscription are expected as follows:

#### **A. Net assets value**

As mentioned in the Board Letter, based on the unaudited proforma financial information of the Remaining Group as set out in appendix II of this circular, on the assumption that the Proposed Spin-off and the redemption of the Promissory Note with the principal amount of HK\$120 million by way of the CPS Subscription could have taken place as at 31 March 2013, (i) the consolidated total assets of the Group would remain at approximately HK\$1,578.54 million; (ii) the consolidated total liabilities of the Group could be decreased from approximately HK\$592.50 million to approximately HK\$487.43 million; and (iii) the consolidated net assets of the Group could be increased from approximately HK\$986.04 million to approximately HK\$1,091.11 million.

The increase in the net asset value of approximately HK\$105.07 million is attributable to: (i) increase in share capital of HK\$5.04 million attributable to the CPS Subscription (504,201,680 Hua Xia Shares will be issued at the Issue Price of HK\$0.238); (ii) the increase in non-controlling interest under the Distribution of approximately HK\$409.29 million; and (iii) the reduction in reserve of approximately HK\$309.26 million.

The reduction of reserves of the Remaining Group by approximately HK\$309.26 million from approximately HK\$933.24 million to approximately HK\$623.98 million was mainly attributable to (i) the reduction of reserves of approximately HK\$409.29 million which represents the share of the net asset amount of the Wanjia Group to the non-controlling shareholders under the Distribution; and (ii) the increase in share premium arises from the issue of the Second Batch CPS of approximately HK\$100.03 million contributing increase in reserves.

#### **B. Earnings**

Following completion of the Proposed Spin-off, the Wanjia Group's financial results will continue to be consolidated into the financial statements of the Group, accordingly there is no material effect on the earnings of the Remaining Group.

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## LETTER FROM VEDA CAPITAL

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In view of the expected improvements on net assets value and that the Wanjia Group's financial results will continue to be consolidated into the financial statements of the Remaining Group and accordingly the Proposed Spin-off shall have no material effect on the earnings of the Remaining Group, we consider the Proposed Spin-off and the CPS Subscription are beneficial to the financial position of the Remaining Group and in the interests of the Independent Shareholders and the Remaining Group as a whole.

### RECOMMENDATIONS

Taking into account the factors and reasons as mentioned above, which include but not limited to:

- (a) the Distribution enables the Qualifying Shareholders retaining their interests in the Spun-off Business via the Wanjia Shares or realize their holdings for an all-cash consideration;
- (b) government support, growing demand and future prospects of the medical industry in the PRC;
- (c) clear vision and focused business plan of the Remaining Group;
- (d) the delineation between Wanjia Group and Remaining Group;
- (e) adoption of the Wanjia Share Option Scheme being in general market practice;
- (f) the premium represented by the Issue Price falls near to the average premium represented by the CPS Comparables;
- (g) terms of the Second Batch CPS are in line with the general practice of the market;
- (h) the CPS Subscription will enhance the financial position of the Remaining Group and reduce the interest expense from the Promissory Note; and
- (i) the improvement in net assets value and that the Wanjia Group's financial results will continue to be consolidated into the financial statements of the Remaining Group and shall have no material effect on the earnings of the Remaining Group.

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## LETTER FROM VEDA CAPITAL

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We consider that, the terms of the Proposed Spin-off and the CPS Subscription Agreement are on normal commercial terms and are fair and reasonable and are in the interests of the Remaining Group and the Independent Shareholders as a whole. We would therefore advise the Independent Board Committee to recommend the Independent Shareholders and the Independent Shareholders to vote in favour of the resolutions to approve the Proposed Spin-off and the CPS Subscription to be proposed at the EGM.

Yours faithfully,  
For and on behalf of  
**Veda Capital Limited**  
**Julisa Fong**  
*Managing Director*

## 1. INDEBTEDNESS

At the close of business on 31 July 2013, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Wanjia Group and the Remaining Group had the following outstanding indebtedness:

### The Wanjia Group and the Remaining Group

	The Wanjia Group <i>HK\$'000</i>	The Remaining Group <i>HK\$'000</i>	Total <i>HK\$'000</i>
Convertible note	–	6,500	6,500
Promissory note	–	220,000	220,000
Bank borrowings	51,459	–	51,459
	<u>51,459</u>	<u>226,500</u>	<u>277,959</u>

Convertible note with principal amount of HK\$6,500,000 bear interest at a rate of 2% per annum payable annually in arrears. The maturity date of the convertible note is 9 May 2017.

The Promissory Note with principal amount of HK\$220,000,000 bear interest at a rate of 1% per annum payable semi-annually in arrears. The maturity date of the promissory note is 7 March 2020.

As at 31 July 2013, the secured bank borrowings were secured by land and buildings owned by an independent third party, the personal guarantee by Mr. Weng Jiaying, a director of the Spun-off Group and independent third parties. Secured bank borrowings of approximately HK\$51,459,000 carries fixed interest rate at 7.28% to 8.40%.

### Contingent liabilities

As at the close of business on 31 July 2013, being the latest practicable date for the purpose of this indebtedness statement, the Group had no material contingent liabilities outstanding.

**Disclaimer**

Save as aforesaid or as otherwise disclosed herein, at the close of business on 31 July 2013, the Wanjia Group and the Remaining Group did not have any other outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

**2. WORKING CAPITAL**

The Hua Xia Directors, after due and careful consideration, are of the opinion that, in the absence of unforeseen circumstances and after taking into account the Group's internal resources, cash flow from operations, present available banking facilities and the institutions providing finance have stated in writing that such facilities exist, completion of the Proposed Spin-off, the Group will have sufficient working capital for its present requirements for at least twelve months from the date of this circular.

**3. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Hua Xia Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2013, the date to which the latest audited financial statements of the Group were made up.

**4. OUTLOOK AND FUTURE PROSPECTS**

As state out in the annual report of the Group for the year ended 31 March 2013, as a result of the healthcare reform and heavy investment from the government, for the last few years, the healthcare in China has become the direct recipient of the economic benefits. Among them all, the fast growing healthcare expenditures have surpassed the GDP of the country with an annual compound increase of 19.03% from 1990 to 2009. At the same time, the per capita healthcare expenditures have also achieved 18.01% for the same period. The experiences from the developed countries show that once the per capita GDP reaches US\$10,000, the general healthcare expenditures will begin with an exponential increase.

This will fundamentally increase demands for quality healthcare services and pharmaceutical products. Those developments have certainly laid out the solid foundation for the Group to continue to grow and to improve at all levels. The management of the Group has realised the potential opportunities in the field and continued to address the needs of the market and the public through refined services and quality products. For the hospitals, we believe that the key to the success lies in the well trained staff and standardised medical services.

In addition to cultivating the new services implemented at the hospitals, the management has focused on the improved delivery procedures and patient oriented care. Our hospitals have well established themselves in each of their local market both in terms of brands and competitiveness. The challenge to a steady and more profitable growth is to strengthen the brands by increasing patients' satisfaction and adapting the affordable quality service approaches. All of those will help the hospitals achieve further penetration into the fast growing healthcare market.

The new financial year ending 31 March 2014 will reach the late part of the 12th Five Year Plan in China, and the Group will begin to achieve the fruitful performances supported by the early financial and technical investments and preparation for the both the Hospital Businesses and the Pharmaceutical Business. Therefore, the management of the Group will make great efforts to leverage the well recognised brands of the hospitals and pharmaceutical distribution to maintain our steady increase and to improve the profitability of our core healthcare operations.



*The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.*



**國衛會計師事務所有限公司**  
**Hodgson Impey Cheng Limited**

31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

19 August 2013

The Board of Directors  
Hua Xia Healthcare Holdings Limited  
19/F, New Wing  
101 King's Road  
HONG KONG

**INDEPENDENT REPORTING ACCOUNTANTS ASSURANCE REPORT  
ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION  
INCLUDED IN AN INVESTMENT CIRCULAR**

**TO THE DIRECTORS OF HUA XIA HEALTHCARE HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Hua Xia Healthcare Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) by the directors of the Company (the “Directors”) for illustrative purpose only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 31 March 2013, and related notes as set out on page 92 to Appendix II of the investment circular issued by the Company dated 19 August 2013 (the “Circular”). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in page 88 of the Appendix II to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate (i) the impact of the proposed spin-off of Wanjia Group Holdings Limited (the “Spin-off”), a directly wholly-owned subsidiary of the Company, and its subsidiaries (hereinafter collectively referred to as the “Spun-off Group”) on the Group’s financial position as at 31 March 2013 as if the Spin-off had taken place at 31 March 2013; (ii) the impact of the issuance of non-redeemable convertible preference shares pursuant to the subscription agreement dated 10 April 2013 (the “CPS Subscription Agreement”) as if the subscription taken place at 31 March 2013; and (iii) the loan capitalisation for the amount due from the Spun-off Group to the Company as if the loan

capitalisation taken place at 31 March 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 March 2013, on which an audit report has been published.

**DIRECTORS' RESPONSIBILITY FOR THE PRO FORMA FINANCIAL INFORMATION**

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to AG 7, 'Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars' issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**REPORTING ACCOUNTANTS' RESPONSIBILITIES**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3420, 'Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus', issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7, 'Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars' issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**OPINION**

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

**HLB Hodgson Impey Cheng Limited**  
*Certified Public Accountants*

**Hon Koon Fai, Alex**  
Practising Certificate Number: P05029  
Hong Kong

**(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP****Basis of preparation of the Unaudited Pro Forma Financial Information of the Group**

The Unaudited Pro Forma Financial Information of the Group is prepared in accordance with paragraph 31 of Chapter 7 of the Listing Rules to illustrate the effect of the Spin-off.

The unaudited pro forma consolidated statement of financial position of the Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2013 as set out in the annual report of the Company for the year ended 31 March 2013, after making pro forma adjustments relating to the Spin-off, CPS Subscription and the loan capitalisation for the amount due from the Spin-off Group to the Company, as if the Spin-off, CPS Subscription and the loan capitalisation for the amount due from the Spin-off Group to the Company had been completed on 31 March 2013.

The Unaudited Pro Forma Financial Information is based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. Narrative description of the pro forma adjustments that are (i) directly attributable to the transactions and (ii) factually supportable is summarised in the accompanying notes.

This Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information does not purport to predict the results, cash flows, or financial position of the Group upon the completion of the Spin-off, CPS Subscription and the loan capitalisation for the amount due from the Spun-off Group to the Company or for any future period or any future date.

(I) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL  
POSITION OF THE REMAINING GROUP AS AT 31 MARCH 2013

The following is the unaudited pro forma consolidated statement of financial position of the Group, assuming that the proposed spin-off of 40% interest in the Spun-off Group, loan capitalisation, redemption of the promissory note by the way of issue of the second batch CP Shares and the conversion of the First Batch CP Shares were taken place on 31 March 2013. The information is based on the audited consolidated financial statement of the Group for the year ended 31 March 2013.

	Audited consolidated statement of financial position of the Group as at 31 March 2013 HK\$'000	Notes	Pro forma adjustments HK\$'000	Unaudited pro forma consolidated statement of financial position of the Group as at 31 March 2013 HK\$'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	36,421			36,421
Prepaid lease payments	32,036			32,036
Investment properties	8,157			8,157
Goodwill	788,420			788,420
	<u>865,034</u>			<u>865,034</u>
<b>Current assets</b>				
Inventories	124,038			124,038
Trade and other receivables and deposits	505,807			505,807
Derivative financial instruments	69			69
Pledged bank deposits	3,609			3,609
Cash and bank balances	79,980			79,980
	<u>713,503</u>			<u>713,503</u>
<b>Total assets</b>	<u><u>1,578,537</u></u>			<u><u>1,578,537</u></u>

**APPENDIX II**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE GROUP**

	Audited consolidated statement of financial position of the Group as at 31 March 2013 <i>HK\$'000</i>	<i>Notes</i>	Pro forma adjustments <i>HK\$'000</i>	Unaudited pro forma consolidated statement of financial position of the Group as at 31 March 2013 <i>HK\$'000</i>
<b>EQUITY</b>				
<b>Capital and reserves</b>				
Share capital	11,824	<i>1</i>	5,042	16,866
Reserves	933,241	<i>1,2</i>	(309,263)	623,978
<b>Equity attributable to the owners of the Company</b>	945,065			640,844
<b>Non-controlling interest</b>	40,974	<i>2</i>	409,295	450,269
<b>Total equity</b>	986,039			1,091,113
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	331,669			331,669
Bank borrowings	50,672			50,672
Amounts due to non-controlling shareholders	1,053			1,053
Tax payable	11,352			11,352
	394,746			394,746
<b>Non-current liabilities</b>				
Promissory note	192,635	<i>1</i>	(105,074)	87,561
Convertible note	4,627			4,627
Deferred taxation	490			490
	197,752			92,678
<b>Total liabilities</b>	592,498			487,424
<b>Total equity and liabilities</b>	1,578,537			1,578,537
<b>Net current assets</b>	318,757			318,757
<b>Total assets less current liabilities</b>	1,183,791			1,183,791

*Notes:*

1. The pro forma adjustment represents the cancellation of the promissory notes with principal amount of HK\$120,000,000 and converted into ordinary shares. Pursuant to the subscription agreement dated 10 April 2013, a total of 504,201,680 convertible preference shares will be issued at an issue price of HK\$0.238 per share, therefore the share capital will be increased by approximately HK\$5,042,000. The difference between the carrying amount of the respective promissory note of approximately HK\$105,074,000 and the increase in amount of share capital of approximately HK\$5,042,000, such difference will be credited to share premium of approximately HK\$100,032,000. It is assumed that the fair value of the promissory note and convertible preference shares has taken to be its fair value as if the CPS Subscription completed.
2. The pro forma adjustment represents 40% of the interest in the adjusted net asset value of the Wanjia Group of approximately HK\$1,023,236,000. It is assume the share of the net asset amount of the Spun-off Group to the non-controlling shareholders upon the completion of the Spin-off, amounted to approximately HK\$409,295,000.
3. For the loan capitalisation for the amount due from the Spun-off Group to the Company, it will increase the investment cost on the Spun-off Group upon the capitalisation and the share capital of the Spun-off Group. Since the proposed spin-off only constitute 40% of the interest in the Spun-off Group, the Company retain the control of the Spun-off Group and such capitalisation would be eliminated through consolidation. There will be no effect to the unaudited pro forma consolidated statement of financial position of the Group.

*Set out below is the summary of principal terms of the Wanjia Share Option Scheme:*

**(A) SUMMARY OF TERMS OF THE WANJIA SHARE OPTION SCHEME**

**(i) Purpose of the Wanjia Share Option Scheme**

The purpose of the Wanjia Share Option Scheme is to provide incentive or reward to eligible persons for their contribution to the Wanjia Group and/or to enable the Wanjia Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Wanjia Group or any entity in which the Wanjia Group holds any equity interest (“**Invested Entity**”).

**(ii) Who may join**

Subject to the provisions in the Wanjia Share Option Scheme, the Wanjia Board shall be entitled at any time and from time to time within the period of 10 years after the date of adoption of the Wanjia Share Option Scheme to make an offer to any of the following classes of persons:

- (1) any employee (whether full time or part time employee, including any executive director but not the non-executive directors) of Wanjia, its subsidiaries and any Invested Entity;
- (2) any non-executive director (including independent non-executive directors) of Wanjia, any of its subsidiaries or any Invested Entity;
- (3) any supplier of goods or services to any member of the Wanjia Group or any Invested Entity;
- (4) any customer of the Wanjia Group or any Invested Entity; and
- (5) any consultant, adviser, manager, officer or entity that provides research, development or other technological support to the Wanjia Group or any Invested Entity.

**(iii) Maximum number of Wanjia Shares**

- (1) Notwithstanding anything to the contrary herein, the maximum number of Wanjia Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Wanjia Share Option Scheme and any other share option schemes of Wanjia, must not, in aggregate, exceed 30% of the total number of Wanjia Shares in issue from time to time.



- (2) The total number of Wanjia Shares in respect of which options may be granted under the Wanjia Share Option Scheme and any other share option schemes of Wanjia shall not exceed 64,840,530 Wanjia Shares, being 10% of the total number of Wanjia Shares, in issue as at the date of the EGM unless Wanjia obtains the approval of the shareholders of Wanjia (the “**Wanjia Shareholder(s)**”) in general meeting for refreshing the 10% limit (“**Scheme Mandate Limit**”) under the Wanjia Share Option Scheme provided that options lapsed in accordance with the terms of the Wanjia Share Option Scheme or any other share option schemes of Wanjia will not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded.
- (3) Wanjia may seek approval of Wanjia Shareholders in general meeting for refreshing the Scheme Mandate Limit such that the total number of Wanjia Shares in respect of which options may be granted under the Wanjia Share Option Scheme and any other share option schemes of Wanjia as “refreshed” shall not exceed 10% of the total number of Wanjia Shares in issue as at the date of the approval of the Wanjia Shareholders on the refreshment of the Scheme Mandate Limit provided that options previously granted under the Wanjia Share Option Scheme or any other share option schemes of Wanjia (including options outstanding, cancelled, lapsed in accordance with the terms of the Wanjia Share Option Scheme or any other share option scheme of Wanjia or exercised) will not be counted for the purpose of calculating the limit as “refreshed”.

For the purpose of seeking the approval of Wanjia Shareholders, a circular containing the information as required under the Main Board Listing Rules must be sent to Wanjia Shareholders.

- (4) Wanjia may seek separate approval of Wanjia Shareholders in general meeting for granting options beyond the Scheme Mandate Limit provided that the proposed grantee(s) of such option(s) must be specifically identified by Wanjia before such approval is sought. For the purpose of seeking the approval of Wanjia Shareholders, Wanjia must send a circular to Wanjia Shareholders containing a generic description of the specified proposed grantees of such options, the number and terms of the options to be granted, the purpose of granting such options to the proposed grantees with an explanation as to how the terms of options serve such purpose and the information as required under the Main Board Listing Rules.

**(iv) Maximum entitlement of each eligible person**

No option shall be granted to any eligible person if any further grant of options would result in the Wanjia Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including such further grant would exceed 1% of the total number of Wanjia Shares in issue, unless:

- (1) such further grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Main Board Listing Rules, by resolution of the Wanjia Shareholders in general meeting, at which the eligible person and his associates shall abstain from voting;
- (2) a circular regarding the further grant has been dispatched to the Wanjia Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Main Board Listing Rules (including the identity of the eligible person, the number and terms of the options to be granted and options previously granted to such eligible person); and
- (3) the number and terms (including the subscription price) of such option are fixed before the general meeting of Wanjia at which the same are approved.

**(v) Grant of options to connected persons**

- (1) The grant of options to a director, chief executive or substantial shareholder of Wanjia (“**Connected Person**”) or any of their respective associates requires the approval of all the independent non-executive Directors (excluding any independent non-executive Director who is a prospective grantee of the option) and shall comply with the relevant provisions of Chapter 17 of the Main Board Listing Rules.

- (2) Where an option is to be granted to a substantial Wanjia Shareholder or an independent non-executive Wanjia Director (or any of their respective associates), and such grant will result in the Wanjia Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (1) exceeding 0.1% of the total number of Wanjia Shares in issue at the relevant time of grant; (2) exceeding an aggregate value (based on the closing price of the Wanjia Shares on the Stock Exchange on the date of each grant) of HK\$5 million, such grant shall not be valid unless (3) a circular containing the details of the grant has been dispatched to Wanjia Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Main Board Listing Rules (including, in particular, a recommendation from the independent non-executive Wanjia Directors (excluding the independent non-executive Wanjia Director who is the prospective grantee of the option) to the independent Shareholders as to voting); and (4) the grant has been approved by Wanjia Shareholders in general meeting (taken on a poll), at which all Connected Persons of Wanjia shall abstain from voting in favour of the grant.
- (3) Where any change is to be made to the terms of any option granted to a substantial Shareholder or an independent non-executive Wanjia Director (or any of their respective associates), such change shall not be valid unless the change has been approved by Wanjia Shareholders by way of poll in general meeting.

**(vi) Time of acceptance and exercise of an option**

An offer of grant of an option may be accepted by an eligible person within the date as specified in the offer letter issued by Wanjia, being a date not later than 21 business days from the date upon which it is made, by which the eligible person must accept the offer or be deemed to have declined it, provided that such date shall not be more than ten years after the date of adoption of the Wanjia Share Option Scheme.

A consideration of HK\$1.00 is payable on acceptance of the offer of grant of an option. Such consideration shall in no circumstances be refundable. An option may be exercised in whole or in part by the grantee (or his legal personal representatives) at anytime before the expiry of the period to be determined and notified by the Wanjia Board to the grantee which in any event shall not be longer than ten years commencing on the date of the offer letter and expiring on the last day of such ten-year period subject to the provisions for early termination as contained in the Wanjia Share Option Scheme.

**(vii) Performance targets**

There is no performance target that has to be achieved before the exercise of any option.

**(viii) Subscription price for Wanjia Shares**

The subscription price of a Wanjia Share in respect of any particular option granted under the Wanjia Share Option Scheme shall be a price determined by the Wanjia Board and notified to an eligible person, and shall be at least the highest of: (1) the closing price of the Wanjia Shares as stated in the Stock Exchange's daily quotations sheet on the date (the "**Offer Date**"), which must be a trading day on which the Wanjia Board passes a resolution approving the making of an offer of grant of an option to an eligible employee; (2) the average of the closing price of the Wanjia Shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of the offer letter of the option; and (3) the nominal value of a Wanjia Share on the Offer Date.

Where an option is to be granted, the date of the Wanjia Board meeting at which the grant was proposed shall be taken to be the date of the offer of such option. For the purpose of calculating the subscription price, where an option is to be granted less than 5 business days after the listing of the Wanjia Shares on the Stock Exchange, the offer price shall be taken to be the closing price for any business day before the Listing.

**(ix) Ranking of Wanjia Shares**

The Wanjia Shares to be issued and allotted upon the exercise of an option shall be subject to Wanjia's constitutional documents for the time being in force and shall rank pari passu in all respects with the fully-paid Wanjia Shares in issue of Wanjia as at the date of allotment and will entitle the holders to participate in all dividends or other distributions declared or recommended or resolved to be paid or made in respect of a record date falling on or after the date of allotment.

**(x) Restrictions on the time of grant of options**

No option shall be granted after a price sensitive development concerning Wanjia or any subsidiary has occurred or a price sensitive matter concerning Wanjia or any subsidiary has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Main Board Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (1) the date of the meeting of the Wanjia Board (as such date is first notified to the Stock Exchange in accordance with the Main Board Listing Rules) for the approval of Wanjia's result for any year, half-year, quarterly or any other interim period (whether or not required under the Main Board Listing Rules); and (2) the deadline for Wanjia to publish an announcement of its results for any year or half-year under the Main Board Listing Rules, or quarterly or any other interim period (whether or not required under the Main Board Listing Rules), and ending on the date of the results announcement, no option shall be granted.

**(xi) Period of the Wanjia Share Option Scheme**

Subject to earlier termination by Wanjia in general meeting or by the Wanjia Board, the Wanjia Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption of the Wanjia Share Option Scheme, after which period no further option shall be granted.

**(xii) Rights on cessation of employment**

Where the grantee of an outstanding option ceases to be an employee of the Wanjia Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xxi)(5), the grantee may exercise the option up to his entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) within the period of 1 month following the date of such cessation. The date of such cessation shall be his last actual working day at his work place with Wanjia or any Subsidiary whether salary is paid in lieu of notice or not.

**(xiii) Rights on death**

Where the grantee of an outstanding option dies before exercising the option in full or at all, the option may be exercised in full or in part (to the extent not already exercised) by his personal representative(s) within 12 months of the date of death.

**(xiv) Rights on a general offer**

In the event of a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Wanjia Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, Wanjia shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Wanjia Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to Wanjia in exercise of his option within 14 days after the date on which the offer becomes or is declared unconditional.

**(xv) Rights on winding-up**

In the event that a notice is given by Wanjia to Wanjia Shareholders to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind-up Wanjia, Wanjia shall on the same date as or soon after it despatches such notice to each Wanjia Shareholder give notice thereof to all grantees (together with a notice of existence of this provision) and thereupon, each grantee (or his legal representative(s)) shall be entitled to exercise all or any of his options (to the extent which has become exercisable and not already exercised) at any time not later than 2 business days prior to the proposed general meeting of Wanjia by giving notice in writing to Wanjia, accompanied by a remittance for the full amount of the aggregate exercise price for the Wanjia Shares in respect of which the notice is given, whereupon Wanjia shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Wanjia Shares to the grantee credited as fully paid, which Wanjia Shares shall rank *pari passu* with all other Shares in issue on the date prior to the passing of the resolution to wind-up Wanjia to participate in the distribution of assets of Wanjia available in liquidation.

**(xvi) Rights on compromise or arrangement between Wanjia and our creditors**

In the event of a compromise or arrangement between Wanjia and our creditors (or any class of them) or between Wanjia and Wanjia Shareholders (or any class of them), in connection with a scheme for the reconstruction or amalgamation of Wanjia, Wanjia shall give notice thereof to all grantees on the same day as it gives notice of the meeting to Wanjia Shareholders or creditors to consider such a scheme or arrangement, and thereupon any grantee (or his legal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling 2 calendar months thereafter or the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his option (to the extent which has become exercisable and not already exercised), but the exercise of the option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Wanjia may thereafter require such grantee to transfer or otherwise deal with the Wanjia Shares issued as a result of such exercise of his option so as to place the grantee in the same position as nearly as possible as would have been the case had such Wanjia Shares been subject to such compromise or arrangement.

**(xvii) Reorganisation of capital structure**

In the event of any alteration in the capital structure of Wanjia whilst any option has been granted and remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of Wanjia (other than an issue of Wanjia Shares as consideration in respect of a transaction), such corresponding alterations (if any) shall be made (if applicable), in accordance with the Main Board Listing Rules and any applicable guidelines issued by the Stock Exchange from time to time (including but not limited to the supplementary guidance issued on 5 September 2005) to:

- (1) the number and/or nominal amount of Wanjia Shares subject to the options already granted so far as they remain exercisable; and/or
- (2) the subscription price; and/or
- (3) the maximum number of Wanjia Shares referred to in sub paragraphs (iii) and (iv) above provided that:
  - (aa) no such alteration shall be made in respect of an issue of Wanjia Shares or other securities by Wanjia as consideration in a transaction;

- (bb) any such alterations must be made so that each grantee is given the same proportion of the equity capital of Wanjia as that to which he was previously entitled;
- (cc) no such alterations shall be made which would result in the subscription price for a Wanjia Share being less than its nominal value; and
- (dd) any such alterations, save those made on a capitalisation issue, shall be certified by an independent financial adviser or the auditors in writing to our Directors as satisfying the requirements of provisos paragraphs (bb) and (cc) above.

**(xviii) Cancellation of options**

Wanjia may cancel an option granted but not exercised with the approval of the Wanjia Board. Any options cancelled by approval of the Wanjia Board cannot be re-granted to the same eligible person.

**(xix) Termination of the Wanjia Share Option Scheme**

Wanjia, by resolution in general meeting, or the Wanjia Board may at any time terminate the operation of the Wanjia Share Option Scheme and in such event no further option will be offered but in all other respects the provision of the Wanjia Share Option Scheme shall remain in full force and effect. Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Wanjia Share Option Scheme.

**(xx) Rights are personal to grantee**

An option shall be personal to the grantee and shall not be assignable nor transferable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (whether legal or beneficial) in favour of any third party over or in relation to any option.



**(xxi) Lapse of option**

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

- (a) the expiry of the period to be determined and notified by the Wanjia Board to the grantee;
- (b) the expiry of the periods referred to in sub-paragraphs (xii) or (xiii);
- (c) the date on which the offer referred to in sub-paragraph (xiv) closes;
- (d) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (xvi);
- (e) the date on which the grantee ceases to be an eligible person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an eligible person, on which he begins to appear to be unable to pay or has no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty;
- (f) subject to sub-paragraph (xv), the date of the commencement of the winding-up of Wanjia;
- (g) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest (whether legal or beneficial) in favour of any third party over or in relation to any option or purport to do any of the foregoing in breach of the Wanjia Share Option Scheme; and
- (h) the date on which our Directors shall at their absolute discretion determine that the grantee (other than an eligible employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and the Wanjia Group or any Invested Entity on the other part or that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his or her creditors generally. In such event, his options will lapse automatically and will not in any event be exercisable on or after the date on which our Directors have so determined.

**(xxii) Alterations to the Wanjia Share Option Scheme**

- (1) The Wanjia Share Option Scheme may be amended or altered in any respect to the extent allowed by the Main Board Listing Rules by resolution of the Wanjia Board except that the following alteration must be approved by a resolution of the Wanjia Shareholders in general meeting:
  - (aa) any changes to the definitions of eligible person, grantee and option period;
  - (bb) any changes to the terms and conditions of the Wanjia Share Option Scheme to the advantage of the grantees of the options;
  - (cc) any alteration to the terms and conditions of the Wanjia Share Option Scheme which are of a material nature;
  - (dd) any change to the terms of options granted; and
  - (ee) any change to the authority of the Wanjia Board in relation to any alteration to the terms of the Wanjia Share Option Scheme except where such alterations take effect automatically under the existing terms of the Wanjia Share Option Scheme, provided that: (aa) the amended terms of the Wanjia Share Option Scheme or the options must comply with Chapter 17 of the Main Board Listing Rules; and (bb) no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction in writing of such number of grantees as shall together hold options in respect of not less than three-fourths in nominal value of all Wanjia Shares then subject to the option granted under the Wanjia Share Option Scheme.
- (2) Notwithstanding the other provisions of the Wanjia Share Option Scheme, the Wanjia Share Option Scheme may be amended or altered in any respect by resolution of the Wanjia Board without the approval of the Wanjia Shareholders or the grantee(s) to the extent such amendment or alteration is required by the Main Board Listing Rules or any guidelines issued by the Stock Exchange from time to time.
- (3) Wanjia must provide to all grantees all details relating to changes in the terms of the Wanjia Share Option Scheme during the life of the Wanjia Share Option Scheme immediately upon such changes taking effect.

**(xxiii) Conditions**

- (1) The Wanjia Share Option Scheme is conditional on:
- (aa) the Listing Committee granting approval of the listing of, and permission to deal in, the Wanjia Shares in issue and any Wanjia Shares which may fall to be issued pursuant to the exercise of any option;
  - (bb) the passing of the ordinary resolution of the Hua Xia Shareholders approving the Wanjia Share Option Scheme; and
  - (cc) the commencement of dealings in the Wanjia Shares on the Stock Exchange.

**(B) PRESENT STATUS OF THE WANJIA SHARE OPTION SCHEME****(i) Approval of the Listing Committee required**

The Wanjia Share Option Scheme is conditional, among other matters, on the Listing Committee granting the listing of, and permission to deal in, such number of Wanjia Shares to be issued pursuant to the exercise of any options which may be granted under the Wanjia Share Option Scheme.

**(ii) Application for approval**

Application will be made to the Listing Committee for the listing of and permission to deal in the Wanjia Shares to be issued pursuant to the exercise of options which may be granted under the Wanjia Share Option Scheme. The total number of Wanjia Shares in respect of which options may be granted under the Wanjia Share Option Scheme and any other share option schemes of Wanjia shall not exceed 64,840,530 Wanjia Shares, being 10% of the total number of Wanjia Shares in issue as at the date of the EGM unless Wanjia obtains the approval of the Wanjia Shareholders in general meeting for refreshing the said 10% limit under the Wanjia Share Option Scheme provided that options lapsed in accordance with the terms of this scheme or any other share option schemes of Wanjia will not be counted for the purpose of calculating the 10% limit above mentioned.

**(iv) Grant of option**

As at the Latest Practicable Date, no options have been granted or agreed to be granted under the Wanjia Share Option Scheme.

**(v) Value of options**

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Wanjia Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

**TERMS OF UP TO THE HK\$120,000,000 CONVERTIBLE PREFERENCE SHARES****Summary of principal terms of the Convertible Preference Shares**

- Dividend:** Holder of each Convertible Preference Share shall have the same entitlement to dividend as holder of the number of Ordinary Shares into which such Convertible Preference Share may be converted upon exercise of conversion rights attached thereto.
- Conversion price:** Initially, Issue Price per Second Batch CPS (subject to standard adjustments).
- The conversion price of the Second Batch CPS is subject to adjustments upon the occurrence of consolidation or subdivision of Hua Xia Shares, capitalisation issues, capital distribution, rights issues and issue of new Hua Xia Shares or convertible securities at issue or conversion price at more than 20% discount to the then market price per Hua Xia Share (being the current market price at the date of the announcement of the terms of such issue).
- Conversion rights:** The Convertible Preference Shares are convertible at the option of the holder at any time after the Issue Date subject to the conversion of restriction as set out in paragraph 5(D).
- Redemption:** (A) holder of the Convertible Preference Shares shall have no right to redeem; and
- (B) the Company shall have no right to redeem.
- Other than for the purpose of conversion of the CPS pursuant to these Terms.
- Ranking:** The Convertible Preference Shares rank (A) in priority to the ordinary shares of the Company and any other shares of the Company as to return of capital, and (B) pari passu with ordinary shares of the Company as to dividends.
- Return of Capital:** On winding up of the Company, the holder of the Convertible Preference Shares shall be entitled to the return of capital on the basis of the Notional Value of the Convertible Preference Shares.

Transferability	The Convertible Preference Shares may be assigned or transferred to any transferee provided that such transferee may not be a connected person of the Company unless the necessary approval (if any) be obtained from the Hong Kong Stock Exchange and from the independent shareholders of the Company.
Voting:	Holders of the Convertible Preference Shares (in their capacity as such) will not be permitted to attend or vote at meetings of the Company, unless a resolution is proposed to vary the rights of holders of the Convertible Preference Shares or a resolution is proposed for the winding up of the Company.
Listing:	The Convertible Preference Shares are not listed on any stock exchanges.
“Notional Value”	The value of HK\$0.01 per Convertible Preference Share.
“Rights upon Liquidation”	On winding up of the Company, the holder of each Convertible Preference Share shall be entitled to the return of capital on the basis of the notional value of each Convertible Preference Share.

## **1. INTERPRETATION**

Unless the context otherwise defined, the following expressions used in this appendix IV shall have the following meanings:

- (A) “Articles” means the articles of associations of the Company as amended from time to time;
- “Auditors” means the auditors of the Company for the time being;
- “business day” means a day (excluding a Saturday) on which banks in Hong Kong are open for business in Hong Kong throughout their normal business hours;
- “Certificate” means a certificate issued by the Company in the name of the Convertible Preference Shareholder in respect of his holding of one or more Convertible Preference Shares;

“Closing Price” means the closing price per Ordinary Share on the Relevant Stock Exchange, as published by the Relevant Stock Exchange for one or more board lots of Ordinary Shares or, in the absence of any such published closing price, the last published closing price;

“Company” means Hua Xia Healthcare Holdings Limited;

“Conversion Date” means, subject to paragraph 5(G), 12 noon on the business day immediately following the date of the surrender of the relevant Certificate and delivery of the Conversion Notice therefor accompanied by the documents referred to in paragraph 5(B);

“Conversion Notice” means a notice, in such form as the Directors may from time to time specify, stating that a Convertible Preference Shareholder wishes to exercise the Conversion Right in respect of one or more Convertible Preference Shares;

“Conversion Number” means, in relation to any Convertible Preference Share, such number of Ordinary Shares as may, upon exercise of the Conversion Right, be converted at the Conversion Price in force on the relevant Conversion Date;

“Conversion Period” means, in respect of any Convertible Preference Share, subject to the conversion restrictions as set out in paragraph (D) any time commencing from 3:00 p.m. (Hong Kong time) on the business day immediately after the date of issue of such Conversion Preference Share and up to 4:00 p.m. (Hong Kong time) on the date of all Convertible Preference Shares being converted or purchased in full (or such earlier date as may be required under the Statutes) or HK Laws;

“Conversion Price” means initially, HK\$0.238 per Convertible Preference Share which shall be convertible into one Ordinary Share or such adjusted price as may for the time being be applicable in accordance with these Terms;

“Conversion Right” means the right, subject to the provisions of the Terms, the Articles, the Statutes and to any other applicable fiscal or other laws or regulations to convert at any time during the Conversion Period any Convertible Preference Share, which shall be deemed to have a value equal to the Notional Value, into the Conversion Number of Ordinary Shares;

“Conversion Share(s)” means Ordinary Share(s) to be issued upon an exercise of the Conversion Rights;

“Convertible Preference Shares” means the convertible preference shares of HK\$0.01 each in the capital of the Company, the rights of which are set out in these Terms;

“Convertible Preference Shareholder” means a person or persons who is or are registered in the register of member of the Company as a holder or joint holders of Convertible Preference Shares;

“Converting Shareholder” means a Convertible Preference Shareholder all or some of whose Convertible Preference Shares are being or have been converted;

“Dealing Day” means a day on which the Relevant Stock Exchange is open for business and on which trading in the Ordinary Shares or other relevant securities is not suspended;

“Directors” means the board of directors of the Company or the directors present at a meeting of directors at which a quorum is present;

“Dividend” means any dividend payable or distribution made pursuant to paragraph 2;

“Equity Share Capital” means issued share capital excluding any part thereof which neither as respect dividends nor as respects capital carries any right to participate beyond a specified amount in a distribution;

“GEM” means the Growth Enterprise Market of the Hong Kong Stock Exchange;

“HK Laws” means the applicable laws of Hong Kong relevant to the Convertible Preference Shares

“Hong Kong” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“Hong Kong Stock Exchange” means The Stock Exchange of Hong Kong Limited;

“Issue Date” means, in respect of any Convertible Preference Share, the date on which the Convertible Preference Share was allotted and issued;

“GEM Listing Rules” means the Rules Governing the Listing of Securities on the GEM;



“Notional Value” means the value of HK\$0.01 attributed to each Convertible Preference Share;

“Ordinary Shares” means fully paid ordinary shares of HK\$0.01 each (or of such other nominal value in which such ordinary shares are for the time being denominated following any consolidation or sub-division which gives rise to an adjustment to the Conversion Price in accordance with paragraph 8) in the Company of the class listed on the GEM or, where the context so requires, shares resulting from the re-designation or re-classification of all the Ordinary Shares outstanding, provided that if all of the Ordinary Shares are replaced by other securities (all of which are identical), the expression “Ordinary Shares” shall thereafter refer to those other securities;

“Outstanding” means in relation to the Convertible Preference Shares, all the Convertible Preference Shares issued other than:

- (A) those in respect of which Conversion Rights have been exercised and which have been cancelled in accordance with these Terms;
- (B) those mutilated or defaced Convertible Preference Shares which have been surrendered in exchange for replacement Convertible Preference Shares pursuant to paragraph 16;
- (C) (for the purpose only of determining how many Convertible Preference Shares are outstanding and without prejudice to their status for any other purpose) those Convertible Preference Shares alleged to have been lost, stolen or destroyed and in respect of which replacement Convertible Preference Shares have been issued pursuant to paragraph 16;
- (D) those which have been purchased and cancelled as provided in paragraph 10;

“Record Date” means the date and time by which a subscriber or transferee of securities of the class in question would have to be registered in order to participate in the relevant distribution or rights;

“Registrar’s Office” means the office of Hua Xia Healthcare Holdings Limited at 19/F, New Wing, 101 King’s Road, North Point, Hong Kong, or such office of such person or such other person as the Company may from time to time designate;

“Relevant Convertible Preference Shares” means a Convertible Preference Share which is to be converted pursuant to a Conversion Notice;

“Relevant Jurisdiction” means a jurisdiction in which the Company or any of its subsidiaries is incorporated, carries on business or holds any assets;

“Relevant Stock Exchange” means (A) the stock exchange on which the Ordinary Shares are at the relevant time principally traded, as determined by the Company, or (B) if, for the purposes of paragraph 8, the consideration at which any shares or securities are or are to be issued or transferred, or the relevant exercise, exchange or subscription price, if any, for such shares or securities, is to be fixed by reference to the price of such shares or securities on a particular stock exchange, that stock exchange;

“Statutes” means the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and every other law of the legislature of Cayman Islands for the time being in force applying to or affecting the Company, its memorandum of association and/or the Articles or the Terms;

“Terms” means terms of the Convertible Preference Shares as set out in this appendix IV, as may be amended from time to time;

“Hong Kong dollars” or “HK\$” means the lawful currency of Hong Kong.

(B) Under these Terms, references to:

“companies” include references to any bodies corporate however and wherever incorporated;

“distribution” include references to any dividend or other distribution (including a distribution in specie) or capitalisation issue;

“paragraphs” are references to the paragraphs of these Terms;

“property” include references to shares, securities, cash and other assets or rights of any nature;

“dates” and “times” are to dates and times in Hong Kong; and

a “gender” include any other gender.

**2. INCOME, DIVIDEND AND OTHER DISTRIBUTIONS**

Each Outstanding Convertible Preference Share shall confer, in case of any dividend or distribution being declared and paid by the Company to holders of the Ordinary Shares, on the holder thereof the same entitlement to dividend or distribution as holder of the number of Ordinary Shares into which such Convertible Preference Share may be converted upon exercise of Conversion Rights attached thereto.

**3. CAPITAL**

On a return of capital on liquidation or otherwise (but not on conversion or purchase) the Convertible Preference Shares shall confer on the Convertible Preference Shareholders the right to be paid, in priority to any return of assets in respect of any other class of shares in the capital of the Company, *pari passu* as between themselves an amount equal to the aggregate Notional Value of the Convertible Preference Shares. The Convertible Preference Shares shall not confer on the holders thereof any further or other right to participate in the assets of the Company.

**4. RANKING**

The Company shall not (unless such sanction has been given by the Convertible Preference Shareholders as would be required for a variation of the special rights attaching thereto or unless otherwise provided in the Articles) create or issue any shares ranking as regards order in the participation in the profits of the Company or in the assets of the Company on a winding up or otherwise in priority to the Convertible Preference Shares, but the Company may create or issue, without obtaining the consent of the Convertible Preference Shareholders, shares ranking *pari passu* in all respects (including as to class) with the Convertible Preference Shares and the existing and further Ordinary Shares.

**5. CONVERSION**

- (A) Each Convertible Preference Share shall confer on the holder thereof the Conversion Right.

(B) Subject to paragraph 5(H), any Convertible Preference Shareholder may exercise the Conversion Right in respect of one or more Convertible Preference Shares held by him at any time during the Conversion Period subject to the provisions of the Statutes, the HK Laws and any other applicable fiscal and other laws and regulations by delivering a duly signed and completed Conversion Notice to the Registrar's Office accompanied by:

- (1) the Certificates in respect of the Relevant Convertible Preference Shares and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right (or, if such Certificates have been lost or destroyed, such evidence of title and such indemnity as the Directors may reasonably require); and
- (2) a declaration and confirmation that the beneficial owner of the Relevant Convertible Preference Shares, and of the Conversion Shares, is not a resident or national of any foreign jurisdiction where the exercise of the Conversion Rights attached to the Relevant Convertible Preference Shares is prohibited by any law or regulation of that jurisdiction or where compliance with such laws or regulations would require filing or other action by the Company; or that delivery of the Relevant Convertible Preference Shares or Conversion Shares will not result in a breach of any exchange control, fiscal or other laws or regulations for the time being applicable.

A Conversion Notice shall not be effective if:

- (i) it is not accompanied by the Certificates in respect of the Relevant Convertible Preference Shares and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right (or, if such Certificates have been lost or destroyed, such evidence of title and such indemnity as the Directors may reasonably require); and

- (ii) it does not include a declaration and confirmation that the beneficial owner of the Relevant Convertible Preference Shares, and of the Conversion Shares, is not a resident or national of any foreign jurisdiction where the exercise of the Conversion Rights attached to the Relevant Convertible Preference Shares is prohibited by any law or regulation of that jurisdiction or where compliance with such laws or regulations would require filing or other action by the Company; or that delivery of the Relevant Convertible Preference Shares or Conversion Shares will not result in a breach of any exchange control, fiscal or other laws or regulations for the time being applicable.
  
- (C) The number of Conversion Shares to be issued on each conversion shall be determined by dividing the aggregate Notional Value of the Relevant Convertible Preference Shares by the Conversion Price applicable on the Conversion Date provided that no fraction of an Ordinary Share arising on conversion shall be allotted and all fractional entitlements shall be dealt with in accordance with paragraph 13.
  
- (D) Conversion of the Convertible Preference Shares shall be effected in such manner as the Directors shall subject to the Terms, the Articles, the Statutes, the HK Laws, and to any other applicable law and regulations, from time to time determine provided that no Conversion shall take place if (1) to do so would result in the Conversion Shares being issued at a price below their nominal value as at the applicable Conversion Date; (2) to the extent that following such exercise, the relevant Convertible Preference Shareholder and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30 per cent. or more of the entire issued Ordinary Shares (or in such lower percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer); or (3) if immediately after such conversion, the public float of the Shares falls below the minimum public float requirements stipulated under the GEM Listing Rules or as required by the Stock Exchange.

Without prejudice to the generality of the foregoing, any Convertible Preference Share may be converted by repurchase on the relevant Conversion Date out of:

- (a) subject to the Statutes or HK Laws, the capital paid up on the Relevant Convertible Preference Shares; or
  
- (b) out of profits of the Company; or

- (c) the proceeds of a fresh issue of shares made for the purpose; or
- (d) any combination of (a), (b) and (c),

and in the case of any premium payable on such a repurchase, out of the Company's profit or the Company's share premium account or the capital paid up on the Relevant Convertible Preference Shares. Each Conversion Notice shall be deemed to authorise and instruct the Directors to retain any repurchase moneys otherwise payable to the Converting Shareholder and, in respect of the Relevant Convertible Preference Share, to apply the same in the subscription on such Converting Shareholder's behalf of the Conversion Shares (subject to the treatment of fractions described in paragraph 13) and, to the extent that conversion shall be effected out of the proceeds of a fresh issue of shares, where appropriate, each Conversion Notice shall be deemed:

- (i) to appoint any person selected by the Directors as such Converting Shareholder's agent with authority to apply an amount equal to the repurchase moneys in respect of the Relevant Convertible Preference Shares in subscribing on such Converting Shareholder's behalf for the Conversion Shares (subject to the treatment of fractions described in paragraph 13); and
- (ii) to authorise and instruct the Directors following the allotment of such Conversion Shares to pay the said repurchase moneys to such agent who shall be entitled to retain the same for his own benefit without being accountable therefor to such Converting Shareholder;

provided that if the Converting Shareholder has a registered address in any territory where in the absence of a registration statement or any other special formalities the allotment or delivery of any Conversion Shares would or might in the opinion of the Directors be unlawful or impracticable under the laws of such territory or any Relevant Jurisdiction, the Company shall as soon as reasonably practicable after the receipt of the relevant Conversion Notice allot the Conversion Number of the Ordinary Shares to the Converting Shareholder or to one or more third parties selected by the Company and on behalf of the Converting Shareholder sell the same to one or more third parties selected by the Company for the best consideration then reasonably obtainable by the Company. As soon as reasonably practicable following any such allotment and sale, the Company shall pay the Converting Shareholder an amount equal to the consideration received by it.

- (E) Each Convertible Preference Shareholder irrevocably authorises the Company to effect the transactions required by paragraph 5(D) and for this purpose the Company may appoint any person to execute transfers, renunciations or other documents on behalf of the Convertible Preference Shareholder and generally may make all arrangements which appear to it to be necessary or appropriate in connection therewith.
- (F) The Company shall allot and issue the Conversion Shares or, as the case may be, send the amount to which he is entitled pursuant to paragraph 5(D) to the Converting Shareholder and shall procure that certificates in respect of the Conversion Shares, together with a new Certificate for any unconverted Convertible Preference Shares comprised in the Certificate(s) surrendered by the Converting Shareholder, are issued as soon as practicable and in any event not later than 14 business days after the relevant Conversion Date.
- (G) If and whenever any conversion takes place after the occurrence of any event falling within any sub-provision of paragraph 8(A) but before the amount of the relevant adjustment to the Conversion Price (if any) shall have been calculated in accordance with the provisions of paragraph 8(A), the Conversion Date shall be deemed to fall on the business day after the date the adjustment made to the Conversion Price in respect of the relevant event has become effective.
- (H) In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company at the same time it despatches such notice to each member of the Company shall give notice thereof to all Convertible Preference Shareholders (together with a notice of the existence of the provisions of this paragraph 5(H)) and thereupon, each Convertible Preference Shareholder shall be entitled to exercise all or any of his Conversion Rights at any time not later than fifteen (15) business days prior to the date of the general meeting of the Company by providing the Company a Conversion Notice duly completed and executed together with the Certificates, cashier orders and, where appropriate, other items listed in paragraphs 5(B)(1) and (2) whereupon the Company shall, subject to the Statutes and the HK Laws, as soon as possible and, in any event, no later than the business day immediately prior to the date of the general meeting, allot the Conversion Shares to the Relevant Convertible Preference Shareholders credited as fully paid.

**6. REDEMPTION**

(A) holder of the Convertible Preference Shares shall have no right to redeem their Convertible Preference Shares.

(B) the Company shall have no right to redeem the Convertible Preference Shares.

Other than for the purpose of conversion of the Convertible Preference Shares pursuant to these Terms.

**7. CONVERSION SHARES**

The Conversion Shares shall, save as provided for in these provisions, rank *pari passu* in all respects with the Ordinary Shares in issue at the time the Conversion Shares are issued, and shall, subject to the proviso of this paragraph 7, entitle the holders thereof to all distributions paid or made on the Ordinary Shares by reference to a Record Date falling after the Conversion Date, provided that if a Record Date after the Conversion Date is in respect of any distribution in respect of any financial period of the Company ended prior to such Conversion Date, the holders of the Conversion Shares will not be entitled to such distribution.

**8. ADJUSTMENTS TO THE CONVERSION PRICE**

(A) Subject as hereinafter provided, the Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of sub-paragraphs (1) to (7) inclusive of this paragraph 8, it shall fall within the first of the applicable paragraphs to the exclusion of the remaining paragraphs:

- (1) If and whenever there shall be an alteration in the nominal value of the Ordinary Shares by reason of any consolidation or sub-division, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by a fraction of which the numerator shall be the nominal value of one Ordinary Share immediately after such alteration and of which the denominator shall be the nominal value of one Ordinary Share immediately before such alteration and such adjustment shall become effective on the date on which such alteration takes effect.



- (2) If and whenever the Company shall capitalise any amount of profits or reserves (including any share premium account or contributed surplus account) and apply the same in paying up in full the nominal value of any Ordinary Shares (other than any Ordinary Shares credited as fully paid out of distributable profits or reserves (including any share premium account or contributed surplus account) and issued in lieu of the whole or any part of a cash dividend or specie distribution which the holders of the Ordinary Shares concerned would or could otherwise have received and which would not have constituted a Capital Distribution (as defined in paragraph 8(B))), the Conversion Price in force immediately prior to the Record Date therefor shall be adjusted by a fraction of which the numerator shall be the aggregate nominal amount of the issued Ordinary Shares immediately before such issue and of which the denominator shall be the aggregate nominal amount of the issued Ordinary Shares immediately after such issue. Such adjustment shall be effective immediately after the Record Date for such issue.
- (3) If and whenever the Company shall make any Capital Distribution, the Conversion Price in force immediately prior to such distribution shall be adjusted by multiplying it by the following fraction:

$$(K - L) \div K$$

where:

- K is the Closing Price of one Ordinary Share on the Dealing Day immediately preceding the date on which the Capital Distribution is announced or (failing any such announcement), the Dealing Day immediately preceding the Record Date for the Capital Distribution;
- L is the fair market value on the date of such announcement or (as the case may require) the Dealing Day immediately preceding the Record Date for the Capital Distribution, as determined in good faith by an approved merchant bank (selected at the option of the Company) or the Auditors of the portion of the Capital Distribution which is attributable to one Ordinary Share.

Provided that:

- (a) if in the opinion of the relevant approved merchant bank or the Auditors (as the case may be), the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed accordingly) the amount of the said Closing Price which should properly be attributed to the value of the Capital Distribution; and
- (b) the provisions of this sub-paragraph (3) shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend nor to a purchase by the Company of its own Ordinary Shares in accordance with the provisions of the Articles and Statutes.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the Record Date for the Capital Distribution.

- (4) If and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Ordinary Shares, at a price which is less than 80 per cent. of the market price (as defined in paragraph 8(B)) at the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$(K + L) \div M$$

where:

- K is the number of Ordinary Shares in issue immediately before the date of such announcement;
- L is the number of Ordinary Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Ordinary Shares comprised therein would purchase at such market price; and

M is the number of Ordinary Shares in issue immediately before the date of such announcement plus the aggregate number of Ordinary Shares offered for subscription or comprised in the options or warrants.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the Record Date for the offer or grant.

- (5) (a) If and whenever the Company or any other company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Ordinary Shares and the total Effective Consideration (as defined below) per Ordinary Share initially receivable for such securities is less than 80 per cent. of the price which is the market price at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by the following fraction:

$$(K + L) \div (K + M)$$

where:

K is the number of Ordinary Shares in issue immediately before the date of the issue;

L is the number of Ordinary Shares which the total Effective Consideration receivable for the securities issued would purchase at such market price; and

M is the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the business day immediately preceding whichever is the earlier of the date on which the issue is announced and the date on which the issuer determines the conversion or exchange rate or subscription price.

- (b) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (a) of this sub-paragraph (5) are modified so that the total Effective Consideration per Ordinary Share initially receivable for such securities shall be less than 80 per cent. of the price which is the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$(K + L) \div (K + M)$$

where:

- K is the number of Ordinary Shares in issue immediately before the date of such modification;
- L is the number of Ordinary Shares which the total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at the market price at the date of the announcement of such proposal; and
- M is the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms.

For the purposes of this sub-paragraph (5), the “total Effective Consideration” receivable for the securities issued shall be deemed to be the consideration receivable by the issuer for the issue of any such securities plus the additional minimum consideration (if any) to be received by the issuer and/ or the Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of such subscription rights and the Effective Consideration per Ordinary Share initially receivable for such securities shall be such aggregate consideration divided by the number of Ordinary Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

- (6) If and whenever the Company shall issue wholly for cash any Shares (other than Shares issued to employees, including directors of the Company or any of its subsidiaries, or their personal representatives, pursuant to an employee share scheme) at a price per Ordinary Share which is less than 80 per cent. of the market price current at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Ordinary Shares in issue immediately before the date of such announcement plus the number of Ordinary Shares which the aggregate amount payable for the issue would purchase at such market price and the denominator is the number of Ordinary Shares in issue immediately before the date of such announcement plus the number of Ordinary Shares so issued. Such adjustment shall become effective on the date of the issue.

(7) If and whenever the Company shall purchase any Shares or securities issued by the Company or any of its subsidiaries which are convertible into or exchangeable for Ordinary Shares or any rights to acquire Ordinary Shares (other than on the Relevant Stock Exchange) and the Directors cancel such Ordinary Shares, securities convertible into or exchangeable for Shares or rights to acquire Ordinary Shares, the Directors may if they consider it appropriate make an adjustment to the Conversion Price, provided that the Directors shall have appointed an approved merchant bank or the Auditors to consider whether, for any reason whatever as a result of such purchases, an adjustment should be made to the Conversion Price fairly and appropriately to reflect the relative interests of the persons affected by such purchases by the Company and, if such approved merchant bank or the Auditors shall consider in its opinion that it is appropriate to make an adjustment to the Conversion Price, the Directors shall make an adjustment to the Conversion Price in such manner as such approved merchant bank or the Auditors shall certify to be, in its opinion, appropriate. Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the business day immediately preceding the date on which such purchases by the Company are made.

(B) For the purposes of paragraph 8(A):

“announcement” shall include the releases of an announcement to the press or the delivery or transmission by telephone, telex or otherwise of an announcement to the Relevant Stock Exchange and “date of announcement” shall mean the date on which the announcement is first so released, delivered or transmitted;

“Capital Distribution” shall (without prejudice to the generality of that phrase) include distributions in cash or specie, and any dividend or distribution charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution, provided that any such dividend shall not automatically be so deemed if:

(a) it is paid out of the net profits (less losses) attributable to the holders of Ordinary Shares for all financial periods after that ended 31st of March as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each such financial period; or

- (b) to the extent that (a) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, such adjustments may be made as are in the opinion of the independent financial adviser appropriate to the circumstances and shall be made in the event that the lengths of such periods differ materially;

“market price” means the average of the closing prices of one Ordinary Share on the Relevant Stock Exchange in respect of dealings in board lots for the five consecutive Dealing Days ending on the last Dealing Day preceding the day on or as of which the market price is to be ascertained.

- (C) The provisions of sub-paragraphs (2), (3), (4), (5) and (6) of paragraph 8(A) shall not apply to:
- (1) an issue of fully paid Ordinary Shares upon the exercise of any conversion rights attached to securities convertible into Ordinary Shares or upon exercise of any rights (including the Conversion Rights attaching to the Convertible Preference Shares) to acquire Ordinary Shares;
  - (2) an issue of Ordinary Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or rights to acquire, Ordinary Shares to directors or employees of the Company or any of its subsidiaries or their personal representatives pursuant to an employee share scheme;
  - (3) an issue by the Company of Ordinary Shares or by the Company or any other subsidiary of the Company of securities wholly or partly convertible into or rights to acquire Ordinary Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;

- (4) an issue of Ordinary Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Ordinary Shares so issued is capitalised and the market value of such Ordinary Shares is not more than 110 per cent. of the amount of the dividend which holders of the Ordinary Shares could elect to or would otherwise receive in cash, for which purpose the “market value” of an Ordinary Share shall mean the average of the closing prices on the Relevant Stock Exchange for five (or more) consecutive Dealing Days falling within the period of one month ending on the last day on which holders of Ordinary Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash; or
- (5) the issue of the Convertible Preference Shares.
- (D) Any adjustment to the Conversion Price shall be made to the nearest one cent (Hong Kong currency) so that any amount under half a cent (Hong Kong currency) shall be rounded down and any amount of half a cent (Hong Kong currency) or more shall be rounded up and in no event shall any adjustment (otherwise than upon the consolidation of Ordinary Shares into Ordinary Shares of a larger nominal amount) involve an increase in the Conversion Price. In addition to any determination which may be made by the Directors every adjustment to the Conversion Price shall be certified either (at the option of the Company) by the Auditors or by an approved merchant bank.
- (E) Notwithstanding anything contained in the Terms, no adjustment shall be made to the Conversion Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions of paragraph 8 would be less than one cent and any adjustment that would otherwise then be required to be made shall not be carried forward.
- (F) If the Company or any of its subsidiaries shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire, Ordinary Shares, the Company shall appoint an approved merchant bank or the Auditors to consider whether any adjustment to the Conversion Price is appropriate (and if such approved merchant bank or the Auditors shall certify that any such adjustment is appropriate the Conversion Price shall be adjusted accordingly).



- (G) Notwithstanding the provisions of paragraph 8(A), in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions, the Directors may appoint an approved merchant bank or the Auditors to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved merchant bank or the Auditors shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including without limitation making an adjustment calculated on a different basis) as shall be certified by such approved merchant bank or the Auditors to be in its opinion appropriate.
- (H) Whenever the Conversion Price is adjusted as herein provided, the Company shall give notice to the Convertible Preference Shareholders that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof) and shall at all times thereafter so long as any of the Conversion Rights remains exercisable make available for inspection at the principal place of business for the time being of the Company and the Registrar's Office prior to all the Convertible Preference Shares being converted or purchased in full a signed copy of the said certificate of the Auditors or (as the case may be) of the relevant approved merchant bank or the Auditors and a certificate signed by a Director of the Company setting out the brief particulars of the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof.

## **9. UNDERTAKINGS**

So long as any Convertible Preference Share remains capable of being converted into Ordinary Shares:

- (1) the Company will use its best endeavours (a) to maintain a listing for all the issued Ordinary Shares on the GEM, (b) if and when the issued Convertible Preference Shares are listed on the GEM to maintain such listing for all the issued Convertible Preference Shares on the GEM and (c) to obtain and maintain a listing on the GEM for all Conversion Shares issued on the exercise of the Conversion Rights;

- (2) the Company will send to each Convertible Preference Shareholder, by way of information, one copy of every circular, notice or other document sent to any other shareholders in the Company in their capacity as shareholders, at the same time as it is sent to such other shareholders;
- (3) the Company shall procure that there shall be sufficient authorised but unissued share capital available for the purposes of satisfying the requirements of any Conversion Notice as may be given and the terms of any other securities for the time being in issue which are convertible into or have the right to subscribe for shares in the Company;
- (4) the Company shall not, without the consent of the Convertible Preference Shareholders as a class (obtained in the manner provided in the Articles and these Terms) or unless otherwise permitted pursuant to these provisions:
  - (a) modify, vary, alter or abrogate the rights attaching to the Ordinary Shares as a class, which (for the avoidance of doubt) shall not be deemed to be so modified, varied, altered or abrogated by the creation or issue of any shares or securities contemplated by these provisions; or
  - (b) change the date to which its annual accounts are made up from 31 March; or
  - (c) effect any repayment of the Convertible Preference Shares otherwise than as provided for in these provisions; or
  - (d) issue any shares (other than Ordinary Shares or shares ranking pari passu in all respects (including as to class) with the Convertible Preference Shares) constituting Equity Share Capital of the Company;
- (5) except in such manner as may be permitted by the Articles, the Statutes or the HK Laws, the Company shall not reduce its share capital or any uncalled liability in respect thereof or any share premium account;

- (6) if during such time when there are any Convertible Preference Shares outstanding an offer is made to the holders of Ordinary Shares (or all such shareholders other than the offeror and/or any company controlled by the offeror and/or any persons acting in concert with the offeror) to acquire the whole or any part of the Ordinary Shares and the Company becomes aware that the rights to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such companies or persons aforesaid, the Company shall (subject to any restrictions under any applicable laws, regulations, codes and/or rules) give notice to all Convertible Preference Shareholders of such vesting or future vesting within 7 days of its becoming so aware.

**10. PURCHASE**

Subject to the Articles, the Statutes or the HK Laws, the Company or any of its subsidiaries may at any time purchase any of the Convertible Preference Shares (by means available to all Convertible Preference Shareholders alike) at any price. Any Convertible Preference Shares so purchased or otherwise acquired by the Company or any of its subsidiaries may not be resold and in case such Convertible Preference Shares are purchased or otherwise acquired by the Company, such Convertible Preference Shares are to be cancelled, provided that nothing in this paragraph shall prohibit transfers of Convertible Preference Shares from any subsidiary of the Company to any other subsidiary of the Company.

**11. MEETINGS**

- (A) The Convertible Preference Shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, a general meeting of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or a resolution is to be proposed which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights or privileges of the Convertible Preference Shareholders, in which event the Convertible Preference Shares shall confer on the holder thereof the right to receive notice of, and to attend and vote at, that general meeting, save that such holders may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding up or the resolution which if passed would (subject to any consents required for such purpose being obtained) so vary or abrogate the rights and privileges of the Convertible Preference Shareholders.

- (B) If the Convertible Preference Shareholders are entitled to vote on any resolution, then at the relevant general meeting or separate general meeting of the Convertible Preference Shareholders, all resolutions put to the vote at the general meeting must be decided by way of poll and every Convertible Preference Shareholder who is present in person or by proxy or attorney or (being a corporation) by a duly authorised representative shall have one vote for each Conversion Share which would have been issued to him/it had he/it exercised the Conversion Right 48 hours preceding the date of such general meeting or separate general meeting of the Convertible Preference Shareholders.

**12. PAYMENTS**

- (A) Unless any other manner of payment is agreed between the Company and any Convertible Preference Shareholder, payment of Dividends, other cash distributions and moneys due on conversion or any repurchase permitted by the Articles and the Terms to such Convertible Preference Shareholder shall be made by the Company posting a cheque in Hong Kong dollars (or in the case of payments which are to be made in another currency, such other currency) addressed to that Convertible Preference Shareholder at his registered address appearing on the Register as at the relevant Record Date and at his own risk.
- (B) Subject to paragraph 12(A), where any property (including Conversion Shares and Certificates in respect of them) is to be allotted, transferred or delivered to any Convertible Preference Shareholder the Company may make such arrangements with regard to such allotment, transfer or delivery as it may deem appropriate and in particular, without limitation, may appoint any person on behalf of that Convertible Preference Shareholder to execute any transfers, renunciations or other document and may make arrangements for the delivery of any document or property to that Convertible Preference Shareholder at his/its risk. All share certificates and other documents of title to which any person is entitled shall be posted to him/it by the Company addressed to him/it at his/its registered address appearing on the Register as at the relevant Record Date or, if none, the date of posting and at his/its risk.
- (C) All payments or distributions with respect to Convertible Preference Shares held jointly by two or more persons shall be paid or made to whichever of such persons is named first in the Register and the making of any payment or distribution in accordance with this sub-provision shall discharge the liability of the Company in respect thereof.

**13. FRACTIONS**

No fraction of an Ordinary Share arising on conversion shall be allotted to the holder of the Relevant Convertible Preference Share(s) otherwise entitled thereto but such fractions will, when practicable, be aggregated and sold and the net proceeds of sale will then be distributed pro rata among such holders unless in respect of any holding of Relevant Convertible Preference Shares the amount to be so distributed would be less than HK\$100, in which case such amount will not be so distributed but will be retained for the benefit of the Company. Unless otherwise agreed between the Company and a Converting Shareholder, if more than one Convertible Preference Share shall fall to be converted pursuant to any one Conversion Notice, the number of Ordinary Shares to be issued upon conversion shall be calculated on the basis of the aggregate Notional Values of the Relevant Convertible Preference Shares. For the purpose of implementing the provisions of this paragraph 13, the Company may appoint some person to execute transfers, renunciations or other documents on behalf of persons entitled to any such fraction and generally may make all arrangements which appear to it to be necessary or appropriate for the settlement and disposal of fractional entitlements.

**14. TAXATION**

(A) All payments of amounts equal to the Notional Value, nominal amounts, premium (if any) and Dividends in respect of Convertible Preference Shares shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Cayman Islands or Hong Kong or any authority therein or thereof (other than any withholding or deduction on account of any income tax, capital gains tax or other tax or duties of a similar nature) unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, subject to the Company having sufficient profits available for distribution, the Company shall pay such additional amounts as may be necessary in order that the net amounts received by the Convertible Preference Shareholders after such withholding or deduction shall equal the respective amounts of the Notional Value, premium (if any) and Dividend which would have been receivable in respect of the Convertible Preference Shares in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Convertible Preference Shareholder:

- (1) who is liable to such taxes, duties, assessments or governmental charges in respect of any Convertible Preference Share by reason of such holder having some connection with the Cayman Islands or Hong Kong, as the case may be, other than by virtue of being a Convertible Preference Shareholder; or

- (2) receiving such payment in the Cayman Islands or Hong Kong, as the case may be, and who would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other similar claim for exemption to the Cayman Islands or Hong Kong tax authority, as the case may be, but fails to do so.
  
- (B) To the extent that the Company shall have insufficient profits available for distribution in order to permit it to pay all or any of such additional amounts as aforesaid the amount of any shortfall shall be treated for all purposes as arrears of Dividend only in circumstances when the Company has sufficient profits or distributable reserves available for distribution.

**15. RESTRICTED HOLDERS**

No Conversion Rights may be exercised by any Convertible Preference Shareholder who is a Restricted Holder (as hereinafter defined), and the exercise of any Conversion Rights by a Convertible Preference Shareholder shall constitute a confirmation, representation and warranty by the Converting Shareholder to the Company that such Converting Shareholder is not a Restricted Holder and that all necessary governmental, regulatory or other consents or approvals and all formalities have been obtained and observed by such Converting Shareholder to enable him to exercise legally and validly the relevant Conversion Rights, to hold the Conversion Shares allotted and issued upon exercise of the Conversion Rights and the Company to legally and validly allot the Conversion Shares. For the purposes of this paragraph 15, a “Restricted Holder” means a Convertible Preference Shareholder who is a resident or national of any jurisdiction other than Hong Kong under the laws and regulations of which an exercise of Conversion Rights by such Convertible Preference Shareholder or the performance by the Company of the obligations expressed to be assumed by it under these Terms and the Articles or the allotment and issue and holding of the Conversion Shares cannot be carried out lawfully or cannot be carried out lawfully without the Company first having to take certain actions in such jurisdiction.

**16. REPLACEMENT OF CERTIFICATES**

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the Registrar's Office upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company may reasonably require and on payment of such fee not exceeding HK\$50 as the Company may determine. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

**17. NOTICES**

Subject to the Statutes and HK Laws, except in the case of a Conversion Notice, a notice given pursuant to the provisions herein may be revoked with the consent in writing of the Company. Notices to Convertible Preference Shareholders shall be given in accordance with the Articles.

**18. TRANSFERS AND CERTIFICATES**

- (A) The provisions of the Articles relating to the transfer of shares and share certificates shall apply in relation to the Convertible Preference Shares, subject to these provisions.
- (B) The Company shall maintain and keep a full and complete register at such location in the Cayman Islands (but not in Hong Kong) as it shall from time to time determine of the Convertible Preference Shares and the Convertible Preference Shareholders from time to time, such register shall contain details of conversion and/or cancellation and the destruction of any Convertible Preference Shares and the issue of any replacement Certificates issued in substitution for any mutilated, defaced, lost, stolen or destroyed Certificates and of sufficient identification details of all Convertible Preference Shareholders from time to time (or, to the extent reasonably requested by the principal registrar of the Company in the Cayman Islands and agreed by the Company, such lesser details and/or information in relation to the Convertible Preference Shares as maintained by the principal registrar of the Company in the Cayman Islands).
- (C) Where any Convertible Preference Share is intended to be transferable to a connected person (as defined in the GEM Listing Rules) of the Company (other than the associates (as defined in the GEM Listing Rules) of the transferring Convertible Preference Shareholder), such transfer shall comply with the requirements under the GEM Listing Rules and/or requirements imposed by the GEM (if any).

**19. PRESCRIPTION**

Any Convertible Preference Shareholder who has failed to claim distributions or other property or rights within six years of their having been made available to him will not thereafter be able to claim such distributions or other property or rights which shall be forfeited and reverted to the Company. The Company shall retain such distributions or other property or rights but shall not at any time be a trustee in respect of any such distributions or other property or rights nor accountable for any income or other benefits derived therefrom.

**20. SEVERABILITY**

If at any time one or more provisions hereof is or becomes invalid, illegal, unenforceable or incapable of performance in any respect under the laws of any Relevant Jurisdiction, the validity, legality, enforceability or performance in that jurisdiction of the remaining provisions hereof or the validity, legality, enforceability or performance under the laws of any other Relevant Jurisdiction of these or any other provisions hereof shall not thereby in any way be affected or impaired.



**1. RESPONSIBILITY STATEMENT**

This circular, for which the Hua Xia Directors collectively and individually accept full responsibility, includes particular given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Hua Xia Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and is not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this circular misleading.

**2. SHARE CAPITAL**

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon full conversion of all Second Batch CPS will be as follows:

<i>Authorized:</i>		<i>HK\$</i>
110,000,000,000	Hua Xia Shares	1,100,000,000
<u>40,000,000,000</u>	CPSs	<u>400,000,000</u>
<u><u>150,000,000,000</u></u>		<u><u>1,500,000,000</u></u>
<i>Issued and fully paid:</i>		<i>HK\$</i>
1,083,938,264	Hua Xia Shares	10,839,382.64
98,500,000	First Batch CPS	985,000.00
504,201,680	Hua Xia Shares upon full conversion of Second Batch CPS	5,042,016.80
<u><u>1,686,639,944</u></u>		<u><u>16,866,399.44</u></u>

All the issued Hua Xia Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Conversion CPS upon full conversion of the Second Batch CPS to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing Hua Xia Shares.

The Hua Xia Shares in issue are listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Hua Xia Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, the Company has convertible notes with an outstanding principal amount of HK\$6,500,000 conferring rights to the holders to convert into a total of 3,421,053 Hua Xia Shares at a conversion price of HK\$1.9 per Hua Xia Share and 98,500,000 First Batch CPS which confers rights to holder to convert into a total of 98,500,000 Hua Xia Shares.

As at the Latest Practicable Date, the Company has 110,951,287 outstanding Share Options, which in aggregate entitling holders thereof to subscribe for 110,951,287 Hua Xia Shares. Save as disclosed above, the Company does not have any other outstanding options, convertible notes or securities in issue which are convertible or exchangeable into Hua Xia Shares.

### 3. DISCLOSURE OF INTERESTS

#### (a) Interests and short positions of the Hua Xia Directors and the chief executive of the Company in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of each of the Hua Xia Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or which were required (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

##### (i) Long positions in Hua Xia Shares

Name of Hua Xia Director	Nature of Interest	Number of Hua Xia Shares	Position	Approximate percentage of total issued Hua Xia Shares
Mr. Yung	Beneficial owner <i>(Note 1)</i>	739,248,555	Long	68.20%
	Interest in controlled corporation <i>(Note 2)</i>	120,960,500	Long	11.16%
Mr. Zheng Gang	Beneficial owner	2,000,000	Long	0.18%

*Notes:*

- The 739,428,555 Hua Xia Shares represent (i) the 136,546,875 Hua Xia Shares beneficially owned by Mr. Yung Kwok Leong, (ii) the 98,500,000 Hua Xia Shares which will be issued upon conversion of the First Batch CPS; (iii) and 504,201,680 Hua Xia Shares which will be issued upon conversion of the Second Batch CPS.
- These Hua Xia Shares are held through Easeglory, which is 100% beneficially owned by Marshal which is in turn beneficially owned by Mr. Yung. Accordingly, Mr. Yung is also deemed to be interested in the Hua Xia Shares held by Easeglory.

*(ii) Interests in options*

The following Hua Xia Directors have been granted options under the Hua Xia Option Scheme, details of which are set out below:

Name of Hua Xia Director	Capacity	No. of Hua Xia Share Option held	Approx. % of interests	Date granted	Exercise period	Exercise price per Hua Xia Share
Mr. Yung	Director	1,700,000	0.16%	30 March 2009	30 September 2009 to 29 March 2019	HK\$0.50
Dr. Jiang Tao	Director	800,000	0.07%	30 March 2009	30 September 2009 to 29 March 2019	HK\$0.50
		1,563,380	0.14%	18 March 2010	23 March 2010 to 22 March 2015	HK\$1.12
		2,000,000	0.18%	30 December 2011	1 January 2012 to 31 December 2013	HK\$0.16
Mr. Zheng Gang	Director	800,000	0.07%	30 March 2009	30 September 2009 to 29 March 2019	HK\$0.50
		2,814,084	0.26%	18 March 2010	23 March 2010 to 22 March 2015	HK\$1.12
		6,700,000	0.62%	31 December 2011	1 January 2012 to 31 December 2013	HK\$0.16
Dr. Huang Jiaqing	Director	1,000,000	0.09%	30 March 2009	30 September 2009 to 29 March 2014	HK\$0.50
		312,676	0.03%	18 March 2010	23 March 2010 to 22 March 2015	HK\$1.12
		1,000,000	0.09%	31 December 2011	1 January 2012 to 31 December 2013	HK\$0.16
Mr. Chen Jin Shan	Director	1,700,000	0.16%	30 March 2010	30 September 2009 to 29 March 2019	HK\$0.50
		2,084,507	0.19%	18 March 2009	23 March 2010 to 22 March 2015	HK\$1.12
		6,700,000	0.62%	30 December 2011	1 January 2012 to 31 December 2013	HK\$0.16
Dr. Wong Yu Man, James	Director	1,000,000	0.09%	31 December 2011	1 January 2012 to 31 December 2013	HK\$0.16

Save as disclosed above, as at the Latest Practicable Date, none of the Hua Xia Directors nor the chief executive of the Company or their respective associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

So far as is known to the Hua Xia Directors or chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

***Long positions in Hua Xia Shares***

Name of Hua Xia Shareholders	Type of interests	Position	Number of Hua Xia Shares	Approximate
				percentage of total issued Hua Xia Shares
Easeglory ( <i>Note 1</i> )	Beneficial owner	Long	120,960,500	11.16%
Marshal ( <i>Note 1</i> )	Interest in controlled corporation	Long	120,960,500	11.16%
Yung Muk Ying ( <i>Note 2</i> )	Family interest	Long	739,284,555	68.20%

*Notes:*

1. The entire issued share capital of Easeglory is beneficially owned by Marshal which in turn is beneficially owned by Mr. Yung.
2. By virtue of her being the spouse of Mr. Yung, Mrs. Yung Muk Ying is deemed to be interested in 120,960,500 Hua Xia Shares held by Easeglory and 136,546,875 Hua Xia Shares, 1,700,000 Hua Xia Share Options, 98,500,000 First Batch CPS and 504,201,680 Second Batch CPS beneficially held by Mr. Yung in personal capacity.

Save as disclosed above, as at the Latest Practicable Date, the Hua Xia Directors were not aware of any other person (other than the Hua Xia Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares (including any interests in options in respect of such capital) of the Company and its associated corporations which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

#### 4. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

- (i) the unconditional mortgage dated 15 March 2012 executed by Fujian Huihao Sihai Pharmaceutical Chain Company Limited# (福建惠好四海醫藥連鎖有限責任公司), (“**Huihao Sihai**”) in favour of Agricultural Bank of China Limited (“**ABC Bank**”), pursuant to which Huihao Sihai shall pledge a land property in favor of ABC Bank to secure the obligations, indebtedness and liabilities of Fujian Huihao Pharmaceutical Co. Ltd# (福建惠好藥業有限公司) (“**FHP Company**”), under the loan in the principal sum of RMB8,900,000 advanced by ABC Bank to FHP Company. As at the Latest Practicable Date, such mortgage has been released as the RMB8,900,000 loan has been repaid in full by FHP Company;
- (ii) the unconditional guarantee dated 20 February 2012 jointly executed by Huihao Sihai, Mr. Yung, Mr. Weng Jiale and Mr. Weng Qingjie in favour of ABC Bank to secure the obligations, indebtedness and liabilities of FHP Company under the loan in the principal sum of RMB19,000,000 advanced by ABC Bank to FHP Company. As at the Latest Practicable Date, such guarantee has been released as the RMB19,000,000 loan has been repaid in full by FHP Company; and
- (iii) the CPS Subscription Agreement.

#### 5. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Hua Xia Directors had any existing service contract or proposed service contract with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

#### 6. LITIGATION

As at the Latest Practicable Date, no member of the Remaining Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Hua Xia Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

#### 7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Hua Xia Directors or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

**8. EXPERTS**

The following are the qualifications of the experts who have given an opinion or advice, which are contained in this circular:

<b>Name</b>	<b>Qualifications</b>
HLB Hodgson Impey Cheng Limited (“ <b>HLB</b> ”)	Certified Public Accountants
Veda Capital	a corporation licensed to carry out business in type 6 (advising on corporate finance) regulated activity under the SFO

Each of HLB and Veda Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of HLB and Veda Capital did not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 March 2013), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

**9. DIRECTORS’ INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS**

- (a) Save for the rental agreement dated 31 May 2013 entered into between Ms. Yung Muk Ying, the spouse of Mr. Yung, as leaser and Huihao Medicine (Quanzhou) Co. Ltd., as lessee, in relation to the rental of office located in Putian, Fujian, at an annual fee of approximately RMB92,720 for a period from 1 June 2013 to 31 March 2015, as at the Latest Practicable Date, none of the Hua Xia Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 March 2013, the date to which the latest published audited financial statements of the Group were made up.
- (b) Save as Mr. Yung’s interests in the CPS Subscription, as at the Latest Practicable Date, none of the Hua Xia Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group since 31 March 2013, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

**10. MISCELLANEOUS**

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and principal place of business in Hong Kong is at 19th Floor, New Wing, 101 King's Road, Hong Kong.
- (b) The head office and principal place of business of the Company in Hong Kong is located at 19/F., New Wing, No. 101 King's Road, North Point, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) Mr. Lam Williamson is the Company secretary. He is a member of the Certified Practising Accountant in Australia and a member of the Hong Kong Institute of Certified Public Accountants.
- (e) Mr. Yung is the compliance officer of the Company. He is a registered economist in the Fujian Province in the PRC.
- (f) 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, interim and quarterly reports and given advice and comments thereon to the Hua Xia Directors; and (ii) to review and supervise the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive Directors, namely, Ms. Wong Ka Wai, Jeanne, Prof. Hu. Shanlian and Prof. Lu Chuanzhen with Ms. Wong Ka Wai, Jeanne acting as the chairlady of the audit committee.

**Ms. Wong Ka Wai, Jeanne**

Ms. Wong Ka Wai, Jeanne ("Ms. Wong"), aged 49, has over 25 years of experience in finance, accounting, taxation and corporate affairs. She is a member of the Institute of Chartered Accountants in Australia, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Society of Trust and Estate Practitioners. Ms. Wong holds a bachelor degree in economics from the University of Sydney, Australia. Ms. Wong is currently the managing director of a private company providing consulting and management services, as well as the chief financial officer of a local law firm and consultant of a local CPA firm. Ms. Wong is also currently an independent non-executive director and a member of the remuneration committee and the chairlady of the audit committee of the Company and Phoenitron Holdings Limited which both are listed on the GEM of the Stock Exchange. Ms. Wong was appointed as an independent non-executive director of the Company on 1 November 2007.

Save as disclosed above, Ms. Wong does not hold any positions with the Company and its subsidiaries, nor has she held any directorship in other listed public companies or any other major appointments and professional qualifications in the past three years. Ms. Wong does not have any relationship with any other Directors, senior management or substantial or controlling Shareholders.

**Prof. Hu Shanlian**

Prof. Hu Shanlian (“Prof. Hu”), aged 76, is a professor in health economics and has a master degree in science from the London School of Tropical Medicine and Hygiene. At present, he is the director of Training Centre for Health Management and Pharmacoeconomics Research and Evaluation Centre at School of Public Health at Fudan University in the PRC. Prof. Hu is also the director of Health Development Research Centre in the Shanghai Bureau of Health. Prof. Hu also held senior positions in the National Health Economic Institution and China Network of Training and Research in Health Economics and Financing between 1991 and 2005, which were supported by the Ministry of Health of the PRC and World Bank respectively. Prof. Hu was appointed as an independent non-executive director of the Company on 30 July 2009.

Save as disclosed above, Prof. Hu does not hold any positions with the Company and its subsidiaries, nor has he held any directorship in other listed public companies or any other major appointments and professional qualifications in the past three years. Prof. Hu does not have any relationship with any other Directors, senior management or substantial or controlling Shareholders.

**Prof. Lu Chuanzhen**

Prof. Lu Chuanzhen (“Prof. Lu”), aged 75, is a neurologist and has over 50 years of medical professional experience. Prof. Lu is currently the lifetime professor of Shanghai Huashan Hospital in the PRC and a director in the World Health Organisation’s Neuroscience Research and Training Centre. Prof. Lu was also the chairman and director of the Institute of Neurology in Shanghai Medical University, the chairman of the Chinese Association of Neurology and chairman of the Shanghai association of Neurology in the Chinese Medical Society. Prof. Lu also has an international membership with New York Academy of Sciences. Prof. Lu was appointed as an independent non-executive director of the Company on 30 July 2009.

Save as disclosed above, Prof. Lu does not hold any positions with the Company and its subsidiaries, nor has he held any directorship in other listed public companies or any other major appointments and professional qualifications in the past three years. Prof. Lu does not have any relationship with any other Directors, senior management or substantial or controlling Shareholders.

- (i) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.



**11. DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 19/F., New Wing, 101 King's Road, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of associations of the Company;
- (b) the Wanjia Share Option Scheme;
- (c) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;
- (d) the written consents of expert referred to in the paragraph headed "Expert" in this Appendix;
- (e) the annual reports of the Company for each of the two financial years ended 31 March 2013 and 31 March 2012;
- (f) the letter from HLB on the unaudited pro-forma financial information of the Remaining Group;
- (g) the first quarterly report of the Company for the three-month ended 30 June 2013;
- (h) letter of advice from Veda Capital, the text of which is set out on pages 57 to 82 in this circular; and
- (i) this circular.

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## NOTICE OF EGM

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## 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)

### NOTICE OF EGM

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“**Meeting**”) of Hua Xia Healthcare Holdings Limited (the “**Company**”) will be held at 19/F., New Wing, 101 King’s Road, Hong Kong at 11:30 a.m. on Wednesday, 4 September 2013 or immediately following the conclusion (or adjournment) of the annual general meeting of the Company for the purposes of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

#### ORDINARY RESOLUTIONS

1. “**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting approval for the listing of, and permission to deal in, all the shares (the “**Wanjia Shares**”) of Wanjia Group Holdings Limited (“**Wanjia Group**”):
  - (a) the proposed spin-off of Wanjia Group and separate listing of the Wanjia Shares on the Main Board of the Stock Exchange (the “**Listing**”) as more particularly described in the circular of the Company dated 19 August 2013 (the “**Circular**”), a copy of which having been produced to the meeting marked “A” and despatched to the shareholders of the Company (the “**Shareholders**”) of which the notice convening this Meeting forms part and produced to the Meeting and for the purpose of identification signed by the chairman (the “**Chairman**”) of the Meeting, subject to any variations or changes which are considered by the directors (the “**Directors**”) of the Company, be and is hereby approved;
  - (b) a distribution (the “**Distribution**”) by the Company of a sum to be determined by the Director, being part of the amount standing to the credit of the Company’s reserve, by way of special interim dividend to the Shareholders whose names appeared on the register of members of the Company on the record date, being a date to be determined by the Directors for ascertaining the Shareholders’ entitlements to the Distribution (the “**Distribution Record**”

\* For identification purpose only

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## NOTICE OF EGM

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**Date**”) on the basis of one Wanjia Share for every five shares of the Company (the **“Shares”**) then held by the Shareholders be and is hereby approved, on the condition that the Distribution is to be satisfied by:

- (i) procuring the transfer to the Shareholders (other than the Excluded Shareholders (as defined in the Circular)) of such number of Wanjia Shares in the proportion of one Wanjia Share for every five Shares held by them as at the Distribution Record Date, provided that all costs due in respect of the transfer of such Wanjia Shares to the Shareholders (other than Excluded Shareholders) shall be borne by the Company; or
  - (ii) cash payment (after deducting expenses) in Hong Kong dollars to the Excluded Shareholders which equals to the net proceeds of the sale by the Company on their behalf the Wanjia Shares to which the Excluded Shareholders would otherwise be entitled to receive under the Distribution after dealings in the Wanjia Shares commence on the Stock Exchange at the prevailing market price;
- (c) the Directors be and are hereby authorised to do all such acts and to enter into all such transactions and arrangements as may be necessary or expedient in order to give effect to the Listing and the Distribution.”

2. **“THAT**

- (a) conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Wanjia Shares falling to be issued pursuant to the share option scheme (the **“Wanjia Share Option Scheme”**) of Wanjia Group, the terms of which are set out in the document marked **“B”** which has been produced to this Meeting and initialed by the Chairman for the purpose of identification, the rules of the Wanjia Share Option Scheme be and are hereby approved and adopted and the Directors be and are hereby authorised to approve any amendments to the rules of the Wanjia Share Option Scheme as may be acceptable or not objected to by the Stock Exchange and to do all such acts and to enter into all such transactions and arrangements as may be necessary or expedient in order to give effect to the Wanjia Share Option Scheme; and

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## NOTICE OF EGM

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- (b) the aggregate nominal amount of share capital to be allotted and issued pursuant to resolution numbered 2(a) above, together with any issue of Wanjia Shares upon the exercise of any options granted under any other share option schemes of Wanjia Group as may from time to time adopted by the Company, shall not exceed 10 per cent. of the total number of Wanjia Shares in issue as at the date of the adoption of Wanjia Share Option Scheme by the shareholders of Wanjia Group.”
3. “**THAT** subject to the fulfillment of the terms and conditions set out in the subscription agreement dated 10 April 2013 (the “**CPS Subscription Agreement**”) and entered into between Mr. Yung Kwok Leong as subscriber and the Company as issuer, a copy of the CPS Subscription Agreement having been produced to the meeting and marked “C” and initialed by the Chairman for the purpose of identification, in respect of the subscription (the “**Proposed Subscription**”) of convertible preference shares (“**CPS**”) of HK\$0.01 in the share capital of the Company up to the amount of HK\$120,000,000 at the subscription price of HK\$0.238 per share (the “**Shares**”) in the Company:
- (i) the CPS Subscription Agreement in relation to the Proposed Subscription and the matters contemplated thereunder be and are hereby approved, confirmed and ratified;
  - (ii) the Proposed Subscription pursuant to the CPS Subscription Agreement be and is hereby approved and the Directors be and are hereby authorised to allot and issue the CPS pursuant to the CPS Subscription Agreement and to allot and issue the new Shares upon Conversion of the CPS;
  - (iii) the unconditional specific mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with the CPS and to allot and issue the new Shares upon Conversion of the CPS be and is hereby approved; and

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## NOTICE OF EGM

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- (iv) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Agreement including but not limited to the allotment and issue of CPS and the new Shares upon exercising the conversion rights attached to CPS and the transactions contemplated thereunder”.

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

Hong Kong, 19 August 2013

*Registered Office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Head Office and Principal*

*Place of Business:*  
19/F., New Wing  
101 King's Road  
Hong Kong

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the principal place of business of the Company at 19/F., New Wing, 101 King's Road, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should you so wish.
3. In the case of joint holders of shares, any one such holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
4. The voting on the resolutions at the Meeting will be conducted by way of a poll.