



**HUA XIA HEALTHCARE HOLDINGS LIMITED**

**華夏醫療集團有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8143)**

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010**

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

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

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

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*This announcement for which the directors (the “Directors”) of Hua Xia Healthcare Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.*

\* For identification purpose only

**ANNOUNCEMENT OF INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010**

**HIGHLIGHTS**

- Total turnover increased more than ten-fold to approximately HK\$707.377 million (2009: approximately HK\$63.921 million).
- Profit attributable to owners of the Company was approximately HK\$29.070 million (2009: net loss approximately HK\$1.319 million).
- The basic and diluted earnings per share were approximately HK0.31 cents and HK0.30 cents respectively (2009: basic and diluted loss per share approximately HK0.03 cents).
- The Directors do not recommend the payment of an interim dividend (2009: Nil).

## INTERIM RESULTS

The board (the “Board”) of Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 September 2010, together with the unaudited comparative figures for the corresponding periods in 2009 as follows:

### Condensed Consolidated Statement of Comprehensive Income

For the three months and six months ended 30 September 2010

	Notes	Three months ended 30 September		Six months ended 30 September	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
<b>TURNOVER</b>	3&4	<b>362,595</b>	34,273	<b>707,377</b>	63,921
Cost of sales		<b>(310,777)</b>	(12,379)	<b>(605,134)</b>	(24,776)
Gross profit		<b>51,818</b>	21,894	<b>102,243</b>	39,145
Other income		<b>1,810</b>	37	<b>7,279</b>	7,850
Selling and distribution costs		<b>(5,234)</b>	(6,070)	<b>(11,803)</b>	(11,490)
Administrative expenses		<b>(25,674)</b>	(17,040)	<b>(51,097)</b>	(34,271)
<b>PROFIT/(LOSS) FROM OPERATIONS</b>	5	<b>22,720</b>	(1,179)	<b>46,622</b>	1,234
Finance costs	6	<b>(2,214)</b>	(877)	<b>(4,159)</b>	(1,003)
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>20,506</b>	(2,056)	<b>42,463</b>	231
Taxation	7	<b>(5,902)</b>	(284)	<b>(10,052)</b>	(881)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>14,604</b>	(2,340)	<b>32,411</b>	(650)
<b>Other comprehensive income/(loss):</b>					
Exchange differences arising on translating foreign operations		<b>2,234</b>	130	<b>4,178</b>	(211)
Other comprehensive income/ (loss) for the period		<b>2,234</b>	130	<b>4,178</b>	(211)
<b>Total comprehensive income/ (loss) for the period</b>		<b>16,838</b>	(2,210)	<b>36,589</b>	(861)

**Condensed Consolidated Statement of Comprehensive Income**  
*For the three months and six months ended 30 September 2010*

	Notes	Three months ended 30 September		Six months ended 30 September	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
<b>Profit/(loss) for the period attributable to:</b>					
Equity owners of the Company		12,792	(3,452)	29,070	(1,319)
Minority interests		1,812	1,112	3,341	669
		<u>14,604</u>	<u>(2,340)</u>	<u>32,411</u>	<u>(650)</u>
<b>Total comprehensive income/ (loss) attributable to:</b>					
Equity owners of the Company		16,602	(2,344)	36,163	(942)
Minority interests		236	134	426	81
		<u>16,838</u>	<u>(2,210)</u>	<u>36,589</u>	<u>(861)</u>
<b>DIVIDENDS</b>	13	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>EARNINGS/(LOSS) PER SHARE</b>					
– Basic ( <i>cents</i> )	8	<u>0.14</u>	<u>(0.08)</u>	<u>0.31</u>	<u>(0.03)</u>
– Diluted ( <i>cents</i> )	8	<u>0.13</u>	<u>(0.07)</u>	<u>0.30</u>	<u>(0.03)</u>

**Condensed Consolidated Statement of Financial Position**  
*At 30 September 2010*

	<i>Notes</i>	<b>30 September 2010 HK\$'000 (Unaudited)</b>	31 March 2010 HK\$'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		35,057	43,438
Prepaid lease payments		32,268	32,268
Investment properties		5,586	5,586
Goodwill		788,068	788,068
		<u>860,979</u>	<u>869,360</u>
<b>Current assets</b>			
Inventories		95,962	95,154
Trade and other receivables and deposits	9	330,713	241,136
Derivative financial instruments		96	96
Pledged bank deposits	10	7,005	17,274
Cash and bank balances		77,139	59,712
		<u>510,915</u>	<u>413,372</u>
<b>Total assets</b>		<u><b>1,371,894</b></u>	<u><b>1,282,732</b></u>
<b>Equity:</b>			
<b>Capital and reserves attributable to the owners of the Company</b>			
Share capital	11	466,423	466,423
Reserves		266,950	237,561
		<u>733,373</u>	<u>703,984</u>
<b>Minority interests</b>		<u>36,138</u>	<u>32,858</u>
<b>Total equity</b>		<u><b>769,511</b></u>	<u><b>736,842</b></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	307,983	250,748
Bank borrowings		47,310	47,310
Amounts due to minority shareholders		551	719
Tax payable		2,316	2,254
		<u>358,160</u>	<u>301,031</u>
<b>Long-term liabilities</b>			
Promissory note		240,482	240,482
Convertible note		3,741	3,741
Deferred taxation		–	636
		<u>244,223</u>	<u>244,859</u>
<b>Total liabilities</b>		<u><b>602,383</b></u>	<u><b>545,890</b></u>
<b>Total equity and liabilities</b>		<u><b>1,371,894</b></u>	<u><b>1,282,732</b></u>
<b>Net current assets</b>		<u><b>152,755</b></u>	<u><b>112,341</b></u>
<b>Total assets less current liabilities</b>		<u><b>1,013,734</b></u>	<u><b>981,701</b></u>

**Unaudited Consolidated Statement of Changes in Equity**  
*For the six months ended 30 September 2010*

	Share capital HK\$'000 (Note (a))	Share premium HK\$'000	Special reserve HK\$'000 (Note (b))	Translation reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible notes reserve HK\$'000	Statutory surplus reserve HK\$'000 (Note (c))	Accumulated profit/losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 April 2009	224,756	335,267	(6,735)	7,899	4,658	4,448	1,287	(243,757)	327,823	28,239	356,062
(Loss) for the period	-	-	-	-	-	-	-	(1,319)	(1,319)	669	(650)
Transfer to reserve	-	-	-	1,226	770	-	-	-	1,996	90	2,086
At 30 September 2009	<u>224,756</u>	<u>335,267</u>	<u>(6,735)</u>	<u>9,125</u>	<u>5,428</u>	<u>4,448</u>	<u>1,287</u>	<u>(245,076)</u>	<u>328,500</u>	<u>28,998</u>	<u>357,498</u>
At 1 April 2010	466,423	673,600	(6,735)	7,189	6,230	2,537	1,287	(446,547)	703,984	32,858	736,842
Offset accumulated losses with share premium	-	(446,547)	-	-	-	-	-	446,547	-	-	-
Profit for the period	-	-	-	-	-	-	-	29,070	29,070	3,341	32,411
Transfer to reserve	-	-	-	319	-	-	-	-	319	(61)	258
At 30 September 2010	<u>466,423</u>	<u>227,053</u>	<u>(6,735)</u>	<u>7,508</u>	<u>6,230</u>	<u>2,537</u>	<u>1,287</u>	<u>29,070</u>	<u>733,373</u>	<u>36,138</u>	<u>769,511</u>

*Notes:*

(a) As at 30 September 2010, the total issued share capital of the Company was approximately HK\$466.423 million (2009: approximately HK\$224.756 million) divided into 4,495,111,986 ordinary shares and 4,833,333,333 convertible preference shares (2009: 4,495,111,986 ordinary shares) of HK\$0.05 each.

(b) Included in the special reserve amounting to approximately HK\$2,935,000 of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of the share capital of a subsidiary acquired pursuant to a group reorganisation in 2001.

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

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

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

**Condensed Consolidated Cash Flow Statement**  
*For the six months ended 30 September 2010*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2010</b>	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Net cash inflow/(used in) from operating activities	<b>15,237</b>	(3,847)
Net cash inflow investing activities	<b>6,349</b>	86
Net cash used in financing activities	<b>(4,159)</b>	(232)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	<b>17,427</b>	(3,993)
Cash and cash equivalents at 1 April	<b>59,712</b>	88,506
	<hr/>	<hr/>
Cash and cash equivalents at 30 September	<b><u>77,139</u></b>	<b><u>84,513</u></b>

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

*For the six months ended 30 September 2010*

### **1. Corporate Information**

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

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

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

### **2. Statement of Compliance**

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

The accounting policies adopted in preparing the unaudited condensed consolidated results for the six months ended 30 September 2010 are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2010.

### **3. Turnover**

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

### **4. Segment Information**

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. The adoption of HKFRS 8 did not have significant effect on the Group's reportable segments.



### *Business segments*

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

	Three months ended 30 September		Six months ended 30 September	
	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)
Turnover				
– Pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses	332,673	–	645,958	–
– Provision of general hospital services	29,187	33,819	60,285	63,268
– Provision of healthcare and hospital management services	735	454	1,134	653
	<u>362,595</u>	<u>34,273</u>	<u>707,377</u>	<u>63,921</u>
Results				
– Pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses	32,595	–	62,331	–
– Provision of general hospital services	18,525	21,464	38,835	38,525
– Provision of healthcare and hospital management services	698	430	1,077	620
	<u>51,818</u>	<u>21,894</u>	<u>102,243</u>	<u>39,145</u>
Unallocated other income	1,810	37	7,279	7,850
Unallocated corporate expenses	<u>(30,908)</u>	<u>(23,110)</u>	<u>(62,900)</u>	<u>(45,761)</u>
Profit/(loss) from operations	22,720	(1,179)	46,622	1,234
Finance costs	<u>(2,214)</u>	<u>(877)</u>	<u>(4,159)</u>	<u>(1,003)</u>
Profit/(loss) before taxation	20,506	(2,056)	42,463	231
Taxation	<u>(5,902)</u>	<u>(284)</u>	<u>(10,052)</u>	<u>(881)</u>
Profit/(loss) for the period	<u>14,604</u>	<u>(2,340)</u>	<u>32,411</u>	<u>(650)</u>
Profit/(loss) attributable to:				
Equity owners of the Company	12,792	(3,452)	29,070	(1,319)
Minority interests	<u>1,812</u>	<u>1,112</u>	<u>3,341</u>	<u>669</u>
	<u>14,604</u>	<u>(2,340)</u>	<u>32,411</u>	<u>(650)</u>

## 5. Profit/(Loss) from Operations

	Three months ended		Six months ended	
	30 September		30 September	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit/(loss) from operations has been arrived at after charging:				
Depreciation of property, plant and equipment	<b>2,639</b>	2,348	<b>5,390</b>	4,743
Operating lease rentals in respect of buildings	<b>3,771</b>	1,717	<b>7,477</b>	3,487
Staff costs (including Directors' remuneration)	<b>11,578</b>	6,375	<b>22,987</b>	12,801

## 6. Finance Costs

	Three months ended		Six months ended	
	30 September		30 September	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest expense – convertible notes and promissory note	<b>581</b>	33	<b>1,337</b>	65
Bank interest and charges	<b>1,633</b>	74	<b>2,822</b>	168
Share-based payment expense	–	770	–	770
	<b>2,214</b>	877	<b>4,159</b>	1,003

## 7. Taxation

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

Corporate income tax of approximately 24% has been provided for the profit generated from the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses, general hospital and healthcare and hospital management services in the PRC (2009: approximately 26%).

## 8. Earnings Per Share

The calculation of basic earnings per share for the three months ended 30 September 2010 was based on the net profit of approximately HK\$12.792 million (2009: net loss of approximately HK\$3.452 million) and on the weighted average number of 9,328,445,379 shares (2009: 4,495,111,980 shares).

The calculation of basic earnings per share for the six months ended 30 September 2010 was based on the net profit of approximately HK\$29.070 million (2009: net loss of approximately HK\$1.319 million) and on the weighted average number of 9,328,445,319 shares (2009: 4,495,111,980 shares).

Diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the three months and six months ended 30 September 2010, the Company had two categories of dilutive potential ordinary shares: convertible notes and share options.

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

	<b>Three months ended 30 September 2010 HK\$'000 (Unaudited)</b>	<b>Six months ended 30 September 2010 HK\$'000 (Unaudited)</b>
Earnings attributable to equity holders of the Company	12,792	29,070
Interest expense on convertible notes (net of tax)	32	64
	<hr/>	<hr/>
Earnings used to determine diluted earnings per share	<b>12,824</b>	<b>29,134</b>
	<hr/>	<hr/>
Weighted average number of shares in issue	9,328,445,319	9,328,445,319
Adjustments for assumed conversion of convertible notes	30,805,687	30,805,687
Adjustments for assumed exercise of share options	483,142,203	483,142,203
	<hr/>	<hr/>
Weighted average number of shares of diluted earnings per share	<b>9,842,393,209</b>	<b>9,842,393,209</b>
	<hr/>	<hr/>
	<b>Three months ended 30 September 2010</b>	<b>Six months ended 30 September 2010</b>
Diluted earnings per share	<b>HK0.13 cents</b>	<b>HK0.30 cents</b>
	<hr/>	<hr/>

## 9. Trade and Other Receivables

	<b>30 September 2010 HK\$'000 (Unaudited)</b>	31 March 2010 HK\$'000 (Audited)
Trade receivables	<b>194,293</b>	126,226
Deposits paid	<b>181</b>	181
Prepayments	<b>29,620</b>	30,429
Prepaid lease payments	<b>1,126</b>	1,126
Other receivables	<b>105,493</b>	83,174
	<b>330,713</b>	241,136

Payment terms with customers from the pharmaceutical wholesale and distribution business are mainly on credit. Invoices are normally payable from 30 to 90 days of issuance. Payment terms with customers from general hospital and healthcare and hospital management services are normally payable from 0 to 30 days. The following is an aged analysis of trade receivables at the balance sheet date:

	<b>30 September 2010 HK\$'000 (Unaudited)</b>	31 March 2010 HK\$'000 (Audited)
Trade receivables		
<b>Age</b>		
0 to 90 days	<b>180,061</b>	116,670
91 to 180 days	<b>7,492</b>	7,217
181 to 365 days	<b>3,229</b>	985
Over 365 days	<b>3,511</b>	3,447
	<b>194,293</b>	128,319
<i>Less: Allowance for doubtful debts</i>	–	(2,093)
	<b>194,293</b>	126,226

## 10. Pledged Bank Deposits

The Group had pledged bank deposits for the six months ended 30 September 2010 of approximately HK\$7.005 million to secure banking facilities granted to the Group. (31 March 2010: approximately HK\$17.274 million).

## 11. Share Capital

	Number of shares	Amount <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.05 each at 30 September 2010	22,000,000,000	1,100,000
Convertible preference shares of HK\$0.05 each at 30 September 2010	<u>8,000,000,000</u>	<u>400,000</u>
	<u><b>30,000,000,000</b></u>	<u><b>1,500,000</b></u>
Issued and fully paid:		
Ordinary shares of HK\$0.05 each at 30 September 2010	4,495,111,986	224,756
Convertible preference shares of HK\$0.05 each at 30 September 2010	<u>4,833,333,333</u>	<u>241,667</u>
	<u><b>9,328,445,319</b></u>	<u><b>466,423</b></u>

## 12. Trade and Other Payables

	30 September 2010 <i>HK\$'000</i> (Unaudited)	31 March 2010 <i>HK\$'000</i> (Audited)
Trade payables	239,028	169,112
Bill payables	28,660	28,660
Accruals and other payables	<u>40,295</u>	<u>52,976</u>
	<u><b>307,983</b></u>	<u><b>250,748</b></u>

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

	30 September 2010 <i>HK\$'000</i> (Unaudited)	31 March 2010 <i>HK\$'000</i> (Audited)
Trade payables		
<b>Age</b>		
0 to 90 days	136,999	101,448
91 to 180 days	58,034	46,001
181 to 365 days	27,401	11,177
Over 365 days	<u>16,594</u>	<u>10,486</u>
	<u><b>239,028</b></u>	<u><b>169,112</b></u>

## 13. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2010 (2009: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the six months ended 30 September 2010 (the “period under review”), the Group recorded a turnover on business operations of approximately HK\$707.377 million (2009: approximately HK\$63.921 million), representing about a ten-fold increase compared to the same period last year. The rise in turnover was mainly driven by the sales from the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses in the PRC.

Other income for the period under review amounted to approximately HK\$7.279 million of which approximately HK\$5.291 million was recorded in June 2010 for a vendor’s compensation for the shortfall of guaranteed profit.

Selling and distribution expenses for the period under review amounted to approximately HK\$11.803 million (2009: approximately HK\$11.49 million), rising about 2.7%.

Administrative expenses amounted to approximately HK\$51.097 million (2009: approximately HK\$34.271 million), climbing about 49%. The increase in these expenses was due to the Group’s business expansion initiatives.

The Group recorded a profit attributable to owners of the Company of approximately HK\$29.070 million for the period under review (2009: net loss of approximately HK\$1.319 million). The improvement in the Group’s results was mainly attributable to the gradual recovery of the global economy and the expansion of its pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses in the PRC.

### Business Review and Outlook

#### *Pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses*

The Group engages in the wholesale and distribution of pharmaceutical products to more than 1,900 distribution customers in Fujian Province, the PRC, including more than 110 distributors and more than 1,000 clinics and pharmacies. Direct sales to more than 100 hospitals provide these institutions a broad range of pharmaceutical products. The Group’s pharmaceutical retail chain operation is the leader in that business segment within Fujian Province in terms of the number of retail drug stores. There are currently 85 direct retail drug stores located in major cities in Fujian Province under the Group’s brand name “Huihao Sihai”. The turnover contributed by the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses for the six months ended 30 September 2010 was approximately HK\$645.958 million (2009: Nil).

### *General hospital services*

During the six months ended 30 September 2010, the Group had three general hospitals operating in a number of cities scattered in the PRC (i.e. Chongqing, Jiaxing and Shangrao) which principally engaged in the provision of general hospital services including but not limited to medical wards, surgical wards, cosmetic surgery, dermatology and medical checkup and examination. The total turnover contributed by these general hospitals for the period under review was approximately HK\$60.285 million (2009: approximately HK\$63.268 million).

### *Healthcare and hospital management services*

The Group provides healthcare management and training and consultancy services for hospitals in the PRC which includes advising on management strategies, operations and business modelling, logistics and procurement, workflow and human resources, market strategies and providing training and administrative support. The turnover contributed by the healthcare and hospital management services for the six months ended 30 September 2010 was approximately HK\$1.134 million (2009: approximately HK\$0.653 million).

### *Future Prospects*

While the global economy has shown signs of gradual recovery in the second half of 2010, and the PRC has resumed its booming expansion, the management of the Group will continue to adapt to the changing business environment with effective and efficient measures and continue to maintain its focus on its core healthcare and pharmaceutical businesses in the PRC. The strong economic growth, and increasing healthcare expenditures in the PRC spurred by greater public awareness of health issues are major drivers for greater demands for quality hospital services and affordable pharmaceutical products. The Directors therefore remain optimistic about the promising healthcare and pharmaceutical sectors in the PRC in the long-run.

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

## **Disposal of Subsidiaries**

On 14 September 2010, Ally Health International Limited (“Ally Health”), a wholly owned subsidiary of the Company entered into the sale and purchase agreement pursuant to which Ally Health agreed to sell the entire issued share capital of Large Forever Group Limited (“Large Forever”) (a wholly owned subsidiary of the Company) to an independent third party of the Company at the consideration of HK\$6.7 million. The principal asset of Large Forever is the indirect 70% interest in Shangrao City Xiehe Hospital Limited. For further details, please refer to the Company’s announcement dated 14 September 2010.

## **Liquidity and Financial Resources**

The Group had total cash and bank balances of approximately HK\$77.139 million as at 30 September 2010 (31 March 2010: approximately HK\$59.712 million).

The Group recorded total current assets of approximately HK\$510.915 million as at 30 September 2010 (31 March 2010: approximately HK\$413.372 million) and total current liabilities of approximately HK\$358.160 million as at 30 September 2010 (31 March 2010: approximately HK\$301.031 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 1.427 as at 30 September 2010 (31 March 2010: approximately 1.373).

## **Fund Raising Activities**

On 27 September 2010, the Company proposed to carry out the rights issue to raise not less than approximately HK\$92.9 million but not more than approximately HK\$97.9 million before expenses by way of rights to the shareholders. The rights issue involved the issue of not less than 1,498,370,662 rights shares but not more than 1,578,651,396 rights shares at the subscription price of HK\$0.062 per rights share, subject to any issue of new shares by the Company on or before the record date on conversion of the outstanding convertible notes or exercise of share options by the holders thereof.

The Company has provisionally allotted one rights share in nil-paid form for every three shares held by the qualifying shareholders on the record date. Based on the number of 1,503,470,662 rights shares, the estimated net proceeds of the rights issue will be approximately HK\$86.4 million. The Company intends to use not more than half of the net proceeds to repay part of the shareholder’s loan and the remaining net proceeds will be used as general working capital of the Group. For further details, please refer to the Company’s announcements and prospectus dated 27 September, 28 September, 18 October, 19 October, 11 November and 12 November 2010 respectively.

## **Contingent Liabilities**

As at 30 September 2010, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group. (31 March 2010: Nil).



## **Treasury Policies**

The Group generally finances its operations with internal resources.

## **Foreign Exchange Risk**

Since almost all transactions of the Group are denominated in Renminbi and Hong Kong dollars and most of the bank deposits are being kept in Renminbi and Hong Kong dollars to minimise exposure to foreign exchange risk, the Directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure during the six months ended 30 September 2010.

## **Employee Information**

As at 30 September 2010, the Group had 1,571 (31 March 2010: 1,552) full time employees. During the six months ended 30 September 2009, the staff costs, including Directors' remuneration, totalled approximately HK\$22.987 million (31 March 2010: approximately HK\$31.103 million). Share options and bonuses are also available to the Group's employees at the discretion of the Board and depending upon the financial performance of the Group. The Group's employment and remuneration policies remained the same as detailed in its annual report for the year ended 31 March 2010.

## **Events After the Reporting Period**

On 6 October 2010, the Board proposed that every ten issued and unissued ordinary shares of HK\$0.05 each in the share capital of the Company be consolidated into one consolidated ordinary share of HK\$0.5 each and every ten issued and unissued convertible preference shares of HK\$0.05 each in the share capital of the Company be consolidated into one consolidated convertible preference share of HK\$0.5 each in the share capital of the Company.

It is also proposed that following the share consolidation, the consolidated ordinary shares will be traded in board lots of 4,000 consolidated ordinary shares. For further details, please refer to the Company's announcement dated 6 October 2010.

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

### Disclosure of Interests

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

As at 30 September 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by Directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

##### (i) Interests in shares:

Name of Director	Nature of interest	Number of shares	Position	Approximate percentage of the total issued shares
Mr. Yung Kwok Leong	Corporate interest ( <i>Note 1</i> )	1,209,605,000	Long	26.91%
	Personal interest ( <i>Note 2</i> )	4,848,802,083	Long	107.87%
Mr. Weng Jiaxing	Personal interest	14,062,500	Long	0.31%
Mr. Zheng Gang	Personal interest	9,000,000	Long	0.20%

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

*Note 2:* The 4,848,802,083 shares represent (i) the 15,468,750 shares beneficially owned by Mr. Yung Kwok Leong, and (ii) the 4,833,333,333 convertible preference shares.

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

Name of Director	Exercise period	Exercise price	Number of share options granted	Position
Mr. Yung Kwok Leong	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000	Long
Dr. Jiang Tao	30 September 2009 to 29 March 2019	HK\$0.050	8,000,000	Long
	23 March 2010 to 22 March 2015	HK\$0.117	15,000,000	Long
Mr. Weng Jiaying	23 March 2010 to 22 March 2015	HK\$0.117	19,000,000	Long
Mr. Zheng Gang	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000	Long
	23 March 2010 to 22 March 2015	HK\$0.117	27,000,000	Long
Dr. Huang Jiaqing	30 September 2009 to 29 March 2014	HK\$0.05	10,000,000	Long
	23 March 2010 to 22 March 2015	HK\$0.117	3,000,000	Long
Mr. Chen Jin Shan	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000	Long
	23 March 2010 to 22 March 2015	HK\$0.117	20,000,000	Long

Save as disclosed above, as at 30 September 2010, none of the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 September 2010, other than the interests of a Director or chief executive of the Company as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures" above, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in shares of the Company:

Name of shareholder	Number of shares	Position	Capacity	Approximate percentage of the total issued shares
Easeglory Holdings Limited (Note 1)	1,209,605,000	Long	Beneficial owner	26.91%
Mrs. Yung Muk Ying (Note 1)	6,075,407,083	Long	Interest of spouse	135.16%
Mr. Lau Kam Shui (Note 2)	425,800,000	Long	Beneficial owner	9.47%
Mrs. Lau Yuk Lan (Note 2)	425,800,000	Long	Interest of spouse	9.47%

Notes:

- (1) The issued share capital of Easeglory Holdings Limited is 100% beneficially owned by Mr. Yung Kwok Leong, an executive Director and the Chairman of the Board and Chief Executive Officer of the Company. By virtue of her being the spouse of Mr. Yung Kwok Leong, Mrs. Yung Muk Ying is deemed to be interested in 1,209,605,000 shares held by Easeglory Holdings Limited and 15,468,750 shares and 17,000,000 share options and 4,833,333,333 convertible preference shares beneficially held by Mr. Yung Kwok Leong in personal capacity.
- (2) Mr. Lau Kam Shui is interested in 425,800,000 shares of the Company. Mrs. Lau Yuk Lan is deemed to be interested in 425,800,000 shares by virtue of her being the spouse of Mr. Lau Kam Shui.

Save as disclosed above, as at 30 September 2010, the Directors of the Company were not aware of any other person (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

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

## SHARE OPTION SCHEMES

As at 30 September 2010, there were 483,142,203 outstanding share options, of which, 2,281,370 and 480,860,833 share options were granted pursuant to the respective Pre-IPO share option scheme and Post-IPO share option scheme. Details of the outstanding share options as at 30 September 2010 were as follows:

### (i) Pre-IPO scheme

As at 30 September 2010, there were 2,281,370 outstanding share options pursuant to the Pre-IPO scheme adopted on 20 April 2002. A breakdown setting out the number of outstanding share options, their respective exercise price and respective exercise period under the Pre-IPO scheme was as follows:

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
Former employee and advisor of the Group	25 April 2002 to 24 April 2012	HK\$0.245	2,281,370

**(ii) Post-IPO share option scheme**

On 12 July 2006, 21 March 2007, 30 March 2009 and 18 March 2010 respectively, the Company passed Board resolutions pursuant to the Post-IPO scheme adopted on 20 April 2002 to grant a total of 480,860,833 share options to directors, consultants and employees of the Group. It was resolved that share options be offered to the directors, consultants and employees respectively with a 5 year and 10 year exercise period each commencing from 13 July 2006, 21 March 2007, 30 September 2009 and 23 March 2010 respectively. The exercise prices of the share options granted on 13 July 2006 and 21 March 2007 have been adjusted to HK\$0.376 and HK\$0.306 respectively as a result of the open offer became unconditional on 12 March 2009. A breakdown setting out the number of the share options outstanding, their respective exercise price and exercise period for the six months ended 30 September 2010 was as follows:

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
<b>Directors</b>			
Mr. Yung Kwok Leong	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000
Dr. Jiang Tao	30 September 2009 to 29 March 2019	HK\$0.050	8,000,000
	23 March 2010 to 22 March 2015	HK\$0.117	15,000,000
Mr. Weng Jiaying	23 March 2010 to 22 March 2015	HK\$0.117	19,000,000
Mr. Zheng Gang	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000
	23 March 2010 to 22 March 2015	HK\$0.117	27,000,000
Dr. Huang Jiaqing	30 September 2009 to 29 March 2014	HK\$0.050	10,000,000
	23 March 2010 to 22 March 2015	HK\$0.117	3,000,000
Mr. Chen Jin Shan	30 September 2009 to 29 March 2019	HK\$0.050	17,000,000
	23 March 2010 to 22 March 2015	HK\$0.117	20,000,000
Employees and consultants of the Group	13 July 2006 to 12 July 2016	HK\$0.376	11,027,500
	21 March 2007 to 20 March 2017	HK\$0.306	20,833,333
	30 September 2009 to 29 March 2019	HK\$0.050	102,000,000
	23 March 2010 to 22 March 2015	HK\$0.117	194,000,000
Total			<u>480,860,833</u>

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

During the six months ended 30 September 2010, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

## **COMPETING INTERESTS**

None of the Directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the six months ended 30 September 2010.

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

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the six months ended 30 September 2010.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the six months ended 30 September 2010 except: (i) the roles of chairman and chief executive officer are not separated; and (ii) no nomination committee of the Board is established.

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

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

## **PRE-EMPTIVE RIGHTS**

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

## REMUNERATION COMMITTEE

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

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

## AUDIT COMMITTEE

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

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

The Group's unaudited condensed consolidated results for the six months ended 30 September 2010 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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

Hong Kong, 12 November 2010

*As at the date of this announcement, the executive Directors of the Company are Mr. Yung Kwok Leong, Dr. Jiang Tao, Mr. Weng Jiaying, Mr. Zheng Gang, Dr. Huang Jiaqing and Mr. Chen Jin Shan, the non-executive Director is Dr. Wong Yu Man, James, and the independent non-executive Directors are Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian and Prof. Lu Chuanzhen.*

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