



HUA XIA HEALTHCARE HOLDINGS LIMITED

華夏醫療集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

Interim Report

2011/2012

*for identification purpose only

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This report, for which the directors (the “directors”) of Hua Xia Healthcare Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- The Group has recorded a total turnover of approximately HK\$829.160 million for the six months ended 30 September 2011 as compared to a total turnover of approximately HK\$707.377 million recorded in the corresponding period in year 2010, representing a significant increase of about 17.22%.
- Profit attributable to owners of the Company was approximately HK\$17.462 million (2010: net profit approximately HK\$29.070 million).
- The basic and diluted earnings per share were approximately HK1.477 cents and HK1.434 cents respectively (2010: (restated): approximately HK\$1.558 cents and HK\$1.549 cents for the basic and the diluted earnings per share).
- The directors do not recommend the payment of an interim dividend (2010: Nil).

INTERIM RESULTS

The board of directors (the “Board”) of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 September 2011, together with the unaudited comparative figures for the corresponding periods in 2010 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the three months and six months ended 30 September 2011

	Notes	Three months ended 30 September		Six months ended 30 September	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Turnover	3 & 4	439,328	362,595	829,160	707,377
Cost of sales		<u>(387,085)</u>	<u>(310,777)</u>	<u>(722,839)</u>	<u>(605,134)</u>
Gross profit		52,243	51,818	106,321	102,243
Other income		1,267	1,810	2,655	7,279
Selling and distribution costs		(7,426)	(5,234)	(15,731)	(11,803)
Administrative expenses		(27,892)	(25,674)	(53,626)	(51,097)
Profit from operations	5	18,192	22,720	39,619	46,622
Finance costs	6	(2,958)	(2,214)	(7,026)	(4,159)
Profit before taxation		15,234	20,506	32,593	42,463
Taxation	7	(6,363)	(5,902)	(11,632)	(10,052)
Profit for the period		8,871	14,604	20,961	32,411
Other comprehensive income:					
Exchange differences arising on translating foreign operations		4,579	2,234	6,753	4,178
Other comprehensive income for the period		4,579	2,234	6,753	4,178
Total comprehensive income for the period		13,450	16,838	27,714	36,589

	Notes	Three months ended 30 September		Six months ended 30 September	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Profit for the period					
attributable to:					
Owners of the Company		7,085	12,792	17,462	29,070
Non-controlling interests		1,786	1,812	3,499	3,341
		<u>8,871</u>	<u>14,604</u>	<u>20,961</u>	<u>32,411</u>
Total comprehensive income					
attributable to:					
Owners of the Company		11,082	16,602	23,223	36,163
Non-controlling interests		2,369	236	4,492	426
		<u>13,451</u>	<u>16,838</u>	<u>27,715</u>	<u>36,589</u>
DIVIDENDS	14	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
EARNINGS PER SHARE					
– Basic (<i>cents</i>)	8	<u>0.599</u>	0.686 (restated)	<u>1.477</u>	1.558 (restated)
– Diluted (<i>cents</i>)	8	<u>0.584</u>	0.682 (restated)	<u>1.434</u>	1.549 (restated)

Condensed Consolidated Statement of Financial Position*At 30 September 2011*

		30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment		43,708	31,438
Prepaid lease payments		21,410	32,551
Investment properties		6,208	6,045
Goodwill		<u>788,068</u>	<u>788,068</u>
		<u>859,394</u>	<u>858,102</u>
Current assets			
Inventories		96,476	110,204
Trade and other receivables and deposits	9	434,727	314,949
Derivative financial instruments		432	432
Pledged bank deposits	10	28,485	13,809
Cash and bank balances		<u>85,912</u>	<u>77,227</u>
		<u>646,032</u>	<u>516,621</u>
Total assets		<u>1,505,426</u>	<u>1,374,723</u>
Equity			
Capital and reserves attributable to the owners of the Company			
Share capital	11	591,219	591,219
Reserves		<u>270,339</u>	<u>245,773</u>
		<u>861,558</u>	<u>836,992</u>
Non-controlling interests		<u>44,198</u>	<u>39,706</u>
Total equity		<u>905,756</u>	<u>876,698</u>

		30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
	Notes		
LIABILITIES			
Current liabilities			
Trade and other payables	12	332,999	240,221
Bank borrowings		57,951	49,194
Amounts due to non-controlling shareholders		551	551
Tax payable		7,124	9,309
		398,625	299,275
Long-term liabilities			
Promissory note		196,333	194,183
Convertible note		4,114	3,969
Deferred taxation		598	598
		201,045	198,750
Total liabilities		599,670	498,025
Total equity and liabilities		1,505,426	1,374,723
Net current assets		247,407	217,346
Total assets less current liabilities		1,106,801	1,075,448

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2011

	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 note reserve HK\$'000	Statutory surplus reserve HK\$'000 (Note (c))	Accumulated (losses)/retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
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	466,423	227,053	(6,735)	7,508	6,230	2,537	1,287	29,070	733,373	36,138	769,511

	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 note reserve HK\$'000	Statutory surplus reserve HK\$'000 (Note (c))	Accumulated (losses)/retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2011	591,219	190,250	(6,735)	15,111	11,801	2,537	7,158	25,651	836,992	39,706	876,698
Issue of share options	-	-	-	-	1,343	-	-	-	1,343	-	1,343
Profit for the period	-	-	-	-	-	-	-	17,462	17,462	3,499	20,961
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	5,761	-	-	-	-	5,761	993	6,754
At 30 September 2011	591,219	190,250	(6,735)	20,872	13,144	2,537	7,158	43,113	861,558	44,198	905,756

Notes:

- (a) As at 30 September 2011, the total issued share capital of the Company was approximately HK\$591.219 million (2010: approximately HK\$466.423 million) divided into 672,438,264 ordinary shares and 510,000,000 non-voting convertible preference shares (2010: 4,495,111,986 ordinary shares and 4,833,333,333 non-voting convertible preference shares) of HK\$0.5 each (2010: 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 Statement of Cash Flows*For the six months ended 30 September 2011*

	Six months ended	
	30 September	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash inflow generated from operating activities	17,880	15,237
Net cash (used in)/generated from investing activities	(3,095)	6,349
Net cash used in financing activities	(6,101)	(4,159)
Net increase in cash and cash equivalents	8,684	17,427
Cash and cash equivalents at 1 April	77,228	59,712
Cash and cash equivalents at 30 September	85,912	77,139

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

For the six months ended 30 September 2011

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 ("HK\$"), 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 services, healthcare and hospital management services in the People's Republic of China (the "PRC").

2. Basis of preparation and principal accounting policies

The condensed consolidated financial results for the six months ended 30 September 2011 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (the "Interpretations") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the GEM Listing Rules of the Stock Exchange (the "GEM Listing Rules"). The unaudited condensed consolidated financial results have been prepared under the historical cost except for certain financial instruments, which are measured at fair value.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the six months ended 30 September 2011 are consistent with those used in the preparation of the annual financial statements for the year ended 31 March 2011.

Certain comparative amounts have been stated to confirm with the current period's presentation and accounting treatment.

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

Information reported internally to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group organised into two operating divisions: provision of general hospital services and pharmaceutical wholesale and distribution and pharmaceutical retail chain business. These divisions are the basis on which the Group reports its segment information.

Segment revenue and results

	Three months ended		Six months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover				
– Pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses	407,199	332,673	764,240	645,958
– Provision of general hospital services	32,129	29,922	64,920	61,419
	439,328	362,595	829,160	707,377
Results				
– Pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses	18,124	20,323	37,293	37,632
– Provision of general hospital services	3,901	4,373	8,572	8,068
	22,025	24,696	45,865	45,700
Unallocated other income	–	–	–	5,292
Unallocated corporate expenses	(3,833)	(1,976)	(6,246)	(4,370)
Profit from operations	18,192	22,720	39,619	46,622
Finance costs	(2,958)	(2,214)	(7,026)	(4,159)
Profit before taxation	15,234	20,506	32,593	42,463
Taxation	(6,363)	(5,902)	(11,632)	(10,052)
Profit for the period	8,871	14,604	20,961	32,411
Profit attributable to:				
Owners of the Company	7,085	12,792	17,462	29,070
Non-controlling interests	1,786	1,812	3,499	3,341
	8,871	14,604	20,961	32,411

Segment assets and liabilities**As at 30 September 2011**

	Provision of general hospital services HK\$'000 (Unaudited)	Pharmaceutical wholesale and distribution and pharmaceutical retail chain business HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Assets			
Segment assets	170,885	1,328,547	1,499,432
Unallocated corporate assets			5,993
Consolidated total assets			<u>1,505,425</u>
Liabilities			
Segment liabilities	69,139	369,291	438,430
Promissory note			196,333
Convertible note			4,114
Deferred taxation			598
Unallocated corporate liabilities			4,392
Consolidated total liabilities			<u>643,867</u>

As at 31 March 2011

Assets			
Segment assets	159,793	1,203,473	1,363,266
Unallocated corporate assets			11,457
Consolidated total assets			<u>1,374,723</u>
Liabilities			
Segment liabilities	21,760	272,857	294,617
Promissory note			194,183
Convertible note			3,969
Deferred taxation			598
Unallocated corporate liabilities			4,658
Consolidated total liabilities			<u>498,025</u>

5. Profit from operations

	Three months ended		Six months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit from operations has been arrived at after charging:				
Depreciation of property, plant and equipment	2,138	2,639	4,007	5,390
Operating lease rentals in respect of buildings	3,195	3,771	7,789	7,477
Staff costs (including directors' remuneration)	14,449	11,578	28,202	22,987

6. Finance costs

	Three months ended		Six months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest expenses – convertible note and promissory note	1,755	581	3,510	1,337
Bank interest	1,203	1,633	3,516	2,822
	2,958	2,214	7,026	4,159

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 (2010: Nil).

Corporate income tax of approximately 31% 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 (2010: approximately 24%).

8. Earnings per share

The calculation of basic earnings per share for the three months ended 30 September 2011 was based on the net profit of approximately HK\$7.085 million (2010: net profit of approximately HK\$12.792 million) and on the weighted average number of 1,182,438,264 shares (2010 (restated): 1,865,689,063 shares).

The calculation of basic earnings per share for the six months ended 30 September 2011 was based on the net profit of approximately HK\$17.462 million (2010: net profit of approximately HK\$29.070 million) and on the weighted average number of 1,182,438,264 shares (2010 (restated): 1,865,689,063 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 2011, the Company had two categories of dilutive potential ordinary shares: convertible note and share options.

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

	Three months ended 30 September 2011 HK\$'000 (Unaudited)	Six months ended 30 September 2011 HK\$'000 (Unaudited)
Profit attributable to owners of the Company	7,085	17,462
Interest expense on convertible note (net of tax)	105	210
Profit for the purpose of diluted earnings per share	<u>7,190</u>	<u>17,672</u>
Weighted average number of ordinary shares in issue	1,182,438,264	1,182,438,264
Adjustments for assumed conversion of convertible note	3,421,053	3,421,053
Adjustments for assumed exercise of share options	45,413,234	46,105,014
Weighted average number of shares for the purpose of diluted earnings per share	<u>1,231,272,551</u>	<u>1,231,964,331</u>
	Three months ended 30 September 2011	Six months ended 30 September 2011
Diluted earnings per share	<u>HK0.584 cents</u>	<u>HK1.434 cents</u>

9. Trade and other receivables

	30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
Trade and bills receivables	244,878	204,917
Deposits paid	181	181
Prepayments	47,620	42,849
Prepaid lease payments	1,472	1,171
Other receivables	140,576	65,831
	434,727	314,949

Payment terms with customers from the pharmaceutical wholesale and distribution business and pharmaceutical retail chain 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 end of the reporting period:

	30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
0 to 90 days	225,293	187,678
91 to 180 days	16,444	11,433
181 to 365 days	2,006	5,750
Over 365 days	5,017	3,938
	248,760	208,799
Less: Allowance for doubtful debts	(3,882)	(3,882)
	244,878	204,917

10. Pledged bank deposits

The Group had pledged bank deposits for the six months ended 30 September 2011 of approximately HK\$28.485 million to secure banking facilities granted to the Group (31 March 2011: approximately HK\$13.809 million).

11. Share capital

	Number of shares	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.5 each at 30 September 2011	2,200,000,000	1,100,000
Convertible preference shares of HK\$0.5 each at 30 September 2011	<u>800,000,000</u>	<u>400,000</u>
	<u>3,000,000,000</u>	<u>1,500,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.5 each at 30 September 2011	672,438,264	336,219
Convertible preference shares of HK\$0.5 each at 30 September 2011	<u>510,000,000</u>	<u>255,000</u>
	<u>1,182,438,264</u>	<u>591,219</u>

12. Trade and other payables

	30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
Trade payables	207,637	184,101
Bill payables	57,200	26,486
Accruals and other payables	<u>68,162</u>	<u>29,634</u>
	<u>332,999</u>	<u>240,221</u>

Bill payables were secured by certain pledged bank deposits.

The average credit period on purchases of certain goods is 90 days. The following is an aged analysis of trade payables at the end of the reporting period:

	30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
0 to 90 days	171,982	146,183
91 to 180 days	26,860	21,468
181 to 365 days	4,628	7,224
Over 365 days	4,167	9,226
	<u>207,637</u>	<u>184,101</u>

13. Comparative amounts

During the period, the presentation of certain items in the financial statements has been revised. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

14. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2011 (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 September 2011 (the “period under review”), the Group recorded a turnover on business operations of approximately HK\$829.160 million (2010: approximately HK\$707.377 million), representing an increase of about 17.22% 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 amounted to approximately HK\$2.655 million (2010: approximately HK\$7.279 million) for the six months ended 30 September 2011. The decrease was due to approximately HK\$5.291 million of one-off vendor’s compensation was recorded during the same period of last year while no such compensation income was recognised during the six months period ended 30 September 2011.

Selling and distribution expenses for the period under review amounted to approximately HK\$15.731 million (2010: approximately HK\$11.803 million), rising about 33.28%. The increase was related to the marketing and promotional expenses incurred in PRC.

Administrative expenses for the period under review amounted to approximately HK\$53.626 million (2010: approximately HK\$51.097 million) which is similar with both periods.

The Group recorded a profit attributable to owners of the Company of approximately HK\$17.462 million for the period under review (2010: net profit of approximately HK\$29.070 million), representing a decrease of about 39.93% compared to the same period last year. The decrease was mainly due to no vendor’s compensation for shortfall of guaranteed profit recognised in current period.

Business Review and Outlook

Pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses

The Group engages in the wholesale and distribution of a broad range of pharmaceutical products to hospitals, clinics and pharmacies in Fujian Province, the PRC. The Group's pharmaceutical retail chain operation is also in the leading position within Fujian Province in both retail drug store numbers and comprehensive competitiveness. The Group continues to allocate resources to look for business opportunities to expand the pharmaceutical wholesale and distribution and retail chain businesses. The turnover contributed by the pharmaceutical wholesale and distribution and pharmaceutical retail chain businesses for the six months ended 30 September 2011 was approximately HK\$764.240 million (2010: approximately HK\$645.958 million).

General hospital services

During the six months ended 30 September 2011, the Group operates two general hospitals in Chongqing and Jiaxing and manages one general hospital in Zhuhai city which is 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 six months ended 30 September 2011 was approximately HK\$64.920 million (2010: approximately HK\$61.419 million).

Future Prospects

The management of the Group will continue to rely on its two core businesses model (i.e. general hospital operations and pharmaceutical distribution and retail businesses) for growth potential. The Group will actively look for further development opportunities made available by the healthcare reform and the rapid economic growth.

With the Group's accurate market positioning, in 2011, our hospitals will benefit tremendously from the outcomes of healthcare reform in the PRC, especially based on the solid development of hospital management systems and well-trained professionals. At the same time, we should see further cost efficiency in our hospitals to maximise profitability while we continue to look for growth opportunities.

Liquidity and Financial Resources

The Group had total cash and bank balances of approximately HK\$85.912 million as at 30 September 2011 (31 March 2011: approximately HK\$77.227 million).

The Group recorded total current assets of approximately HK\$646.032 million as at 30 September 2011 (31 March 2011: approximately HK\$516.621 million) and total current liabilities of approximately HK\$398.625 million as at 30 September 2011 (31 March 2011: approximately HK\$299.275 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 1.621 as at 30 September 2011 (31 March 2011: approximately 1.726).

Contingent Liabilities

As at 30 September 2011, 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 2011: 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 2011.

Employee Information

As at 30 September 2011, the Group had 1,649 (31 March 2011: 1,631) full time employees. During the six months ended 30 September 2011, the staff costs, including Directors' remuneration, totalled approximately HK\$28.202 million (31 March 2011: approximately HK\$56.003 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 2011.

Significant Events After the Reporting Period

On 5 July 2011, the Company proposed a capital reorganisation, pursuant to which the issued share capital of the Company will be reduced by HK\$0.49 per Existing Ordinary Share by cancelling an equivalent amount of paid-up capital per Existing Ordinary Share so that the par value of each New Ordinary Share in issue will be HK\$0.01 and the relevant amount of issued capital hereby cancelled be made available for issue of New Ordinary Shares. Besides, the issued share capital will also be reduced by HK\$0.49 per Existing Convertible Preference Share (the "Existing CP Share") by cancelling an equivalent amount of paid-up capital per Existing CP Share so that the par value of each New CP Share in issue will be HK\$0.01 and the relevant amount of issued share capital hereby cancelled be made available for issue of New CP Shares; and each of the unissued Shares in the exiting authorized but unissued share capital of the Company shall be sub-divided into 50 shares of a nominal value of HK\$0.01 each. Details of the transactions are set out in the Company's announcement and circular dated 5 July 2011 and 12 July 2011 respectively.

The capital reorganisation had been approved by shareholders during the annual general meeting held on 10 August 2011.

The capital reorganisation had become effective on 19 October 2011 (Cayman Islands time) after obtaining approval by Cayman Island Court.

The dealing in new Ordinary Shares on the Stock Exchange commenced on 25 October 2011 (Hong Kong time).

Save as disclosed above, there was no other significant event took place subsequent to the end of the reporting period.

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 2011, 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 (Note 1)	120,960,500	Long	17.99%
	Personal interest (Note 2)	581,546,875	Long	86.48%
Mr. Weng Jiaxing	Personal interest	1,406,250	Long	0.21%
Mr. Zheng Gang	Personal interest	2,000,000	Long	0.30%

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

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

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

Name of Director	Exercise period	Exercise price	Number of share options granted	Position
Mr. Yung Kwok Leong	30 September 2009 to 29 March 2019	HK\$0.50	1,700,000	Long
Dr. Jiang Tao	30 September 2009 to 29 March 2019	HK\$0.50	800,000	Long
	23 March 2010 to 22 March 2015	HK\$1.12	1,563,380	Long
Mr. Weng Jiaxing	23 March 2010 to 22 March 2015	HK\$1.12	1,980,282	Long
Mr. Zheng Gang	30 September 2009 to 29 March 2019	HK\$0.50	800,000	Long
	23 March 2010 to 22 March 2015	HK\$1.12	2,814,084	Long
Dr. Huang Jiaqing	30 September 2009 to 29 March 2014	HK\$0.50	1,000,000	Long
	23 March 2010 to 22 March 2015	HK\$1.12	312,676	Long
Mr. Chen Jin Shan	30 September 2009 to 29 March 2019	HK\$0.50	1,700,000	Long
	23 March 2010 to 22 March 2015	HK\$1.12	2,084,507	Long

Save as disclosed above, as at 30 September 2011, 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 2011, 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 <i>(Note 1)</i>	120,960,500	Long	Beneficial owner	17.99%
Mrs. Yung Muk Ying <i>(Note 1)</i>	704,207,375	Long	Interest of spouse	104.72%

Notes:

- (1) The issued share capital of Easeglory Holdings Limited is 100% beneficially owned by Mr. Yung Kwok Leong, an executive director and the Chairman of the Board and Chief Executive Officer of the Company. By virtue of her being the spouse of Mr. Yung Kwok Leong, Mrs. Yung Muk Ying is deemed to be interested in 120,960,500 shares held by Easeglory Holdings Limited and 71,546,875 shares and 1,700,000 share options and 510,000,000 convertible preference shares beneficially held by Mr. Yung Kwok Leong in personal capacity.

Save as disclosed above, as at 30 September 2011, 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 2011, there were 44,289,064 outstanding share options, of which, 237,777 and 44,051,287 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 2011 were as follows:

(i) Pre-IPO scheme

As at 30 September 2011, there were 237,777 outstanding share options pursuant to the Pre-IPO scheme adopted on 20 April 2002. A breakdown setting out the number of outstanding share options, their respective exercise price and respective exercise period under the Pre-IPO scheme was as follows:

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

(ii) Post-IPO share option scheme

As at 30 June 2011, there were 44,051,287 outstanding share options pursuant to the Post-IPO scheme adopted on 20 April 2002. A breakdown setting out the number of outstanding share options, their respective exercise price and respective exercise period under the Post-IPO scheme was as follows:

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
Directors			
Mr. Yung Kwok Leong	30 September 2009 to 29 March 2019	HK\$0.50	1,700,000
Dr. Jiang Tao	30 September 2009 to 29 March 2019	HK\$0.50	800,000
	23 March 2010 to 22 March 2015	HK\$1.12	1,563,380
Mr. Weng Jiaying	23 March 2010 to 22 March 2015	HK\$1.12	1,980,282
Mr. Zheng Gang	30 September 2009 to 29 March 2019	HK\$0.50	800,000
	23 March 2010 to 22 March 2015	HK\$1.12	2,814,084
Dr. Huang Jiaqing	30 September 2009 to 29 March 2014	HK\$0.50	1,000,000
	23 March 2010 to 22 March 2015	HK\$1.12	312,676

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
Mr. Chen Jin Shan	30 September 2009 to 29 March 2019	HK\$0.50	1,700,000
	23 March 2010 to 22 March 2015	HK\$1.12	2,084,507
Employees and consultants of the Group	13 July 2006 to 12 July 2016	HK\$3.61	459,739
	21 March 2007 to 20 March 2017	HK\$2.94	1,042,253
	30 September 2009 to 29 March 2014	HK\$0.50	8,200,000
	23 March 2010 to 22 March 2015	HK\$1.12	19,594,366
Total			44,051,287

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

During the six months ended 30 September 2011, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

PRE-EMPTIVE RIGHTS

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

COMPETING INTERESTS

None of the directors or the management shareholders (as defined in the GEM Listing Rules), and their respective associates had any interest in business which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding directors securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the directors throughout the six months ended 30 September 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions on Corporate Governance Practices (the “CG Code”) as set out in Appendix 15 of the GEM Listing Rules for the six months ended 30 September 2011 except for the following deviations:

- (i) The code provision A.2.1 of the CG Code prescribed, among others, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.
- (ii) No nomination committee of the Board is established.

During the six months ended 30 September 2011, 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 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/her qualifications, experience and background.

REMUNERATION COMMITTEE

The remuneration committee consists of four members and was established on 3 June 2005 in compliance with the code provision. 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 ensure the adequacy and effectiveness of the accounting and financial controls of the Group; (ii) oversee the performance of internal control systems and financial reporting process; and (iii) monitor the integrity of the financial statements and compliance with statutory and listing requirements and to oversee independence and qualifications of the external auditors. The audit committee comprises three members including Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian and Prof. Lu Chuanzhen. All of them are the independent non-executive directors. The chairlady of the audit committee is Ms. Wong Ka Wai, Jeanne.

The Group's unaudited condensed consolidated results for the six months ended 30 September 2011 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures has been made.

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

Hong Kong, 11 November 2011