



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
2013/2014

*For identification purpose only

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

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

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

HIGHLIGHTS

- The Group has recorded a total turnover of approximately HK\$1,141.540 million for the six months ended 30 September 2013 as compared to a total turnover of approximately HK\$990.800 million recorded in the corresponding period in year 2012, representing a significant increase of about 15.21%.
- Profit attributable to owners of the Company was approximately HK\$19.232 million for the period under review (2012: approximately HK\$21.142 million), representing a slightly decrease of about 9.03% as compared to the same period last year. The decrease was mainly related to the expenses incurred in the Group's Spin-Off Project and the loss on early redemption of promissory note. By excluding such effect, the Group recorded an increase of profit attributable to owners of the Company around 6% to same period last year.
- The basic and diluted earnings per share for the six months ended 30 September 2013 were approximately HK1.626 cents and HK1.597 cents respectively (2012: approximately HK1.788 cents and HK1.770 cents for the basic and the diluted earnings per share).
- The directors recommend the payment of a special interim dividend through distribution in species by the Company. The proposed distribution in species to the shareholder of the Company in the proportion of one share of HK\$0.01 each (the "Wanjia Share") in the issued share capital of Wanjia Holdings Group Limited for every five shares of HK\$0.01 each (the "Shares") in the issued share capital of the Company on the Record Date.

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 2013, together with the unaudited comparative figures for the corresponding periods in 2012 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the three months and six months ended 30 September 2013

	Notes	Three months ended 30 September		Six months ended 30 September	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover	3 & 4	540,639	507,438	1,141,540	990,800
Cost of sales		<u>(476,116)</u>	<u>(446,649)</u>	<u>(1,011,863)</u>	<u>(874,110)</u>
Gross profit		64,523	60,789	129,677	116,690
Other revenue		3,493	3,220	6,317	7,623
Selling and distribution expenses		(25,330)	(24,708)	(50,017)	(47,544)
Administrative expenses		(26,035)	(19,847)	(43,426)	(35,450)
Profit from operations	5	16,651	19,454	42,551	41,319
Finance costs	6	(2,901)	(3,198)	(5,715)	(6,381)
Profit before taxation		13,750	16,256	36,836	34,938
Taxation	7	(7,727)	(5,066)	(15,003)	(10,444)
Profit for the period		6,023	11,190	21,833	24,494
Other comprehensive income/(loss), net of tax:					
Exchange differences arising on translating foreign operations		2,313	(882)	7,559	(1,220)
Total comprehensive income for the period		8,336	10,308	29,392	23,274

	Notes	Three months ended 30 September 2013		Six months ended 30 September 2013	
		HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Profit for the period attributable to:					
Owners of the Company		5,028	9,472	19,232	21,142
Non-controlling interests		995	1,718	2,601	3,352
		6,023	11,190	21,833	24,494
Total comprehensive income attributable to:					
Owners of the Company		7,091	8,710	25,947	20,066
Non-controlling interests		1,245	1,598	3,445	3,208
		8,336	10,308	29,392	23,274
Dividends	13	283,785	–	283,785	–
Earnings per share attributable to the owners of the Company					
– Basic (<i>cents</i>)	8	0.425	0.801	1.626	1.788
– Diluted (<i>cents</i>)	8	0.416	0.789	1.597	1.770

Condensed Consolidated Statement of Financial Position

At 30 September 2013

		30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment		42,605	36,421
Prepaid lease payments		31,215	32,036
Investment properties		8,157	8,157
Goodwill		788,420	788,420
		<u>870,397</u>	<u>865,034</u>
Current assets			
Inventories		123,549	124,038
Trade and other receivables and deposits	9	481,847	505,807
Amount due from a non-controlling shareholder		224	–
Derivative financial instruments		69	69
Pledged bank deposits	10	31,815	3,609
Cash and bank balances		107,861	79,980
		<u>745,365</u>	<u>713,503</u>
Total assets		<u>1,615,762</u>	<u>1,578,537</u>
EQUITY			
Capital and reserves			
Share capital	11	11,824	11,824
Reserves		959,830	933,241
Equity attributable to the owners of the Company		<u>971,654</u>	<u>945,065</u>
Non-controlling interests		<u>41,978</u>	<u>40,974</u>
Total equity		<u>1,013,632</u>	<u>986,039</u>

		30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
	Notes		
LIABILITIES			
Current liabilities			
Trade and other payables	12	340,658	331,669
Bank borrowings		69,328	50,672
Amounts due to non-controlling shareholders		908	1,053
Tax payable		8,932	11,352
		<u>419,826</u>	<u>394,746</u>
Non-current liabilities			
Promissory note		177,042	192,635
Convertible note		4,772	4,627
Deferred taxation		490	490
		<u>182,304</u>	<u>197,752</u>
Total liabilities		<u>602,130</u>	<u>592,498</u>
Total equity and liabilities		<u>1,615,762</u>	<u>1,578,537</u>
Net current assets		<u>325,539</u>	<u>318,757</u>
Total assets less current liabilities		<u>1,195,936</u>	<u>1,183,791</u>

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2012 and 2013

	Attributable to the owners of the Company											
	Share capital HK\$'000 (Note (a))	Share premium HK\$'000	Capital reserve HK\$'000 (Note (d))	Special reserve HK\$'000 (Note (b))	Translation reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible note reserve HK\$'000	Statutory reserve HK\$'000 (Note (c))	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2012	11,824	190,250	579,395	(6,735)	24,146	14,862	2,537	17,465	65,139	898,883	41,161	940,044
Issue of share options	-	-	-	-	-	573	-	-	-	573	-	573
Profit for the period	-	-	-	-	-	-	-	-	21,142	21,142	3,352	24,494
Other comprehensive loss, net of tax:												
Exchange difference on translating foreign operations	-	-	-	-	(1,076)	-	-	-	-	(1,076)	(144)	(1,220)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(6,089)	(6,089)
Transfer to statutory reserve	-	-	-	-	-	-	-	3,588	(3,588)	-	-	-
At 30 September 2012	11,824	190,250	579,395	(6,735)	23,070	15,435	2,537	21,053	82,693	919,522	38,280	957,802

	Attributable to the owners of the Company											
	Share capital HK\$'000 (Note (a))	Share premium HK\$'000	Capital reserve HK\$'000 (Note (d))	Special reserve HK\$'000 (Note (b))	Translation reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible note reserve HK\$'000	Statutory reserve HK\$'000 (Note (c))	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2013	11,824	190,250	579,395	(6,735)	26,304	16,146	2,537	25,454	99,890	945,065	40,974	986,039
Issue of share options	-	-	-	-	-	642	-	-	-	642	-	642
Profit for the period	-	-	-	-	-	-	-	-	19,232	19,232	2,601	21,833
Other comprehensive income, net of tax:												
Exchange difference on translating foreign operations	-	-	-	-	6,715	-	-	-	-	6,715	844	7,559
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(2,441)	(2,441)
At 30 September 2013	11,824	190,250	579,395	(6,735)	33,019	16,788	2,537	25,454	119,122	971,654	41,978	1,013,632

Notes:

- (a) As at 30 September 2013, the total issued share capital of the Company was approximately HK\$11.824 million (2012: approximately HK\$11.824 million) divided into 1,083,938,264 ordinary shares and 98,500,000 non-voting convertible preference shares (2012: 1,083,938,264 ordinary shares and 98,500,000 non-voting convertible preference shares) of HK\$0.01 each (2012: HK\$0.01 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.
- (d) The increase in capital reserve amounting to approximately HK\$579,395,000 of the Group as the result of capital reorganisation taken by the Company during the year ended 31 March 2012.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2013

	Six months ended	
	30 September	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from / (used in) operating activities	65,071	(28,761)
Net cash (used in)/generated from investing activities	(1,691)	753
Net cash (used in)/generated from financing activities	(35,499)	20,411
Net increase/(decrease) in cash and cash equivalents	27,881	(7,597)
Cash and cash equivalents at 1 April	79,980	109,212
Cash and cash equivalents at 30 September	107,861	101,615

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 September 2013

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 provision of general hospital services and pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses 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 2013 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 2013 are consistent with those used in the preparation of the annual financial statements for the year ended 31 March 2013 (the "2012/2013 Financial Statements"), except for the amendments and interpretations of HKFRSs ("New HKFRSs") issued by HKICPA which have become effective in this period as detailed in notes to the 2012/2013 Financial Statements. The directors of the Company believe that the application of the other new and revised standards, amendments or interpretations has no material impact on the condensed consolidated financial results for the period.

Certain comparative amounts have been reclassified to conform 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, distribution and pharmaceutical retail chain businesses and the provision of general hospital services during the period.

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 has merged its organisation into two operating divisions: (a) provision of general hospital services and (b) pharmaceutical wholesale, distribution and pharmaceutical retail chain business. The chief operating decision maker has decided to combine the provision of general hospital service and the provision of healthcare and hospital management services into one single operation division in order to manage and review the performance of the hospital related business more efficiently. These divisions are the basis on which the Group reports its segment information.

Segment revenue and results

	Three months ended 30 September		Six months ended 30 September	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover				
– Pharmaceutical wholesale, distribution and pharmaceutical retail chain business	505,313	471,778	1,067,674	921,638
– Provision of general hospital services	35,326	35,660	73,866	69,162
	<u>540,639</u>	<u>507,438</u>	<u>1,141,540</u>	<u>990,800</u>
Results				
– Pharmaceutical wholesale, distribution and pharmaceutical retail chain business	17,976	18,124	42,328	37,857
– Provision of general hospital services	3,565	5,157	7,803	9,654
	<u>21,541</u>	<u>23,281</u>	<u>50,131</u>	<u>47,511</u>
Unallocated other revenue	5	32	5	32
Unallocated corporate expenses	(4,895)	(3,859)	(7,585)	(6,224)
	<u>16,651</u>	<u>19,454</u>	<u>42,551</u>	<u>41,319</u>
Finance costs	(2,901)	(3,198)	(5,715)	(6,381)
	<u>13,750</u>	<u>16,256</u>	<u>36,836</u>	<u>34,938</u>
Profit before taxation	13,750	16,256	36,836	34,938
Taxation	(7,727)	(5,066)	(15,003)	(10,444)
	<u>6,023</u>	<u>11,190</u>	<u>21,833</u>	<u>24,494</u>

Note:

Inter-segment sales under pharmaceutical wholesales, distribution and pharmaceutical retail chain business for three months ended 30 September 2013 amounted to approximately HK\$0.479 million (2012: approximately HK\$2.458 million) and for six months ended 30 September 2013 approximately HK\$1.696 (2012: approximately HK\$4.740 million). Inter-segment sales are charged at arm's length and fully eliminated under consolidation.

Segment assets and liabilities
As at 30 September 2013

	Provision of general hospital services HK\$'000 (Unaudited)	Pharmaceutical wholesale, distribution and pharmaceutical retail chain business HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
Assets			
Segment assets	184,525	1,422,221	1,606,746
Unallocated corporate assets			9,016
Consolidated total assets			<u>1,615,762</u>
Liabilities			
Segment liabilities	21,904	394,056	415,960
Promissory note			177,042
Convertible note			4,772
Deferred taxation			490
Unallocated corporate liabilities			3,868
Consolidated total liabilities			<u>602,132</u>
As at 31 March 2013			
Assets			
Segment assets	178,324	1,390,470	1,568,794
Unallocated corporate assets			9,743
Consolidated total assets			<u>1,578,537</u>
Liabilities			
Segment liabilities	23,116	367,234	390,350
Promissory note			192,635
Convertible note			4,627
Deferred taxation			490
Unallocated corporate liabilities			4,396
Consolidated total liabilities			<u>592,498</u>

5. Profit from operations

	Three months ended 30 September		Six months ended 30 September	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Profit from operations has been arrived at after charging:				
Depreciation of property, plant and equipment	1,832	1,780	3,713	3,640
Operating lease rentals in respect of buildings	5,021	4,569	10,353	8,908
Amortisation of prepaid lease payments	312	306	624	612
Staff costs (including directors' remuneration)	25,612	23,224	49,563	45,115

6. Finance costs

	Three months ended 30 September		Six months ended 30 September	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Interest on:				
– Interest expenses on convertible note and promissory note	1,584	1,755	3,314	3,510
– Interest expenses on bank borrowings wholly repayable within five years	1,317	1,443	2,401	2,871
	2,901	3,198	5,715	6,381

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 (2012: Nil).

Corporate income tax of approximately 25% has been provided for the profit generated from the pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses and general hospital services in the PRC (2012: approximately 25%).

8. Earnings per share

The calculation of basic earnings per share for the three months ended 30 September 2013 was based on the profit for the period attributable to owners of the Company of approximately HK\$5.028 million (2012: approximately HK\$9.472 million) and on the weighted average number of 1,182,438,264 shares (2012: 1,182,438,264 shares).

The calculation of basic earnings per share for the six months ended 30 September 2013 was based on the profit for the period attributable to owners of the Company of approximately HK\$19.232 million (2012: approximately HK\$21.142 million) and on the weighted average number of 1,182,438,264 shares (2012: 1,182,438,264 shares).

Diluted earnings per share was calculated 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 2013, the Company had a category of dilutive potential ordinary shares: share options. For the three months and six months ended 30 September 2013 and 2012, the calculation of diluted earnings per share did not assumed the exercise of the convertible note existed at 30 September 2013 and 2012 as the exercise of the convertible note would increase earnings per share, therefore anti-dilutive.

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 shares 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 2013 HK\$'000 (Unaudited)	Six months ended 30 September 2013 HK\$'000 (Unaudited)
Profit attributable to owners of the Company		
– Profit for the purpose of diluted earnings per shares	<u>5,028</u>	<u>19,232</u>
Weighted average number of ordinary shares in issue	1,182,438,264	1,182,438,264
Adjustments for assumed exercise of share options	<u>26,205,069</u>	<u>21,942,514</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>1,208,643,333</u>	<u>1,204,380,778</u>
	Three months ended 30 September 2013	Six months ended 30 September 2013
Diluted earnings per share	<u>HK0.416 cents</u>	<u>HK1.597 cents</u>

9. Trade and other receivables and deposits

	30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
Trade receivables, net	279,120	358,812
Bill receivables	9,942	7,490
Prepayments and deposits paid	82,520	68,747
Prepaid lease payments	1,256	1,233
Other receivables	115,450	75,966
	488,288	512,248
<i>Less: Impairment loss recognised in respect of other receivables</i>	(6,441)	(6,441)
	481,847	505,807

As at 30 September 2013, included in other receivables are the loan of approximately HK\$47.825 million (31 March 2013: HK\$46.892 million) advanced to Zhuhai Jiulong Hospital Limited. The loan receivable carries interest at 5% (31 March 2013: 5%) per annum and it is recoverable on demand. The loan receivable is secured by the entire issued share capital of Zhuhai Jiulong Hospital Limited.

Payment terms with customers from the pharmaceutical wholesale, 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 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 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
0 to 90 days	237,328	293,405
91 to 180 days	21,520	59,004
181 to 365 days	18,558	3,931
Over 365 days	3,406	4,164
	280,812	360,504
<i>Less: Allowance for doubtful debts</i>	(1,692)	(1,692)
	279,120	358,812

10. Pledged bank deposits

The Group had pledged bank deposits as at 30 September 2013 of approximately HK\$31.815 million to secure banking facilities granted to the Group (31 March 2013: approximately HK\$3.609 million).

11. Share capital

	Number of shares	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each at 30 September 2013	110,000,000,000	1,100,000
Convertible preference shares of HK\$0.01 each at 30 September 2013	<u>40,000,000,000</u>	<u>400,000</u>
	<u><u>150,000,000,000</u></u>	<u><u>1,500,000</u></u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 each at 30 September 2013	1,083,938,264	10,839
Convertible preference shares of HK\$0.01 each at 30 September 2013	<u>98,500,000</u>	<u>985</u>
	<u><u>1,182,438,264</u></u>	<u><u>11,824</u></u>

12. Trade and other payables

	30 September 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
Trade payables	220,335	292,647
Bill payables	60,252	4,350
Trade deposit received	19,895	3,030
Accruals and other payables	<u>40,176</u>	<u>31,642</u>
	<u><u>340,658</u></u>	<u><u>331,669</u></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 2013 HK\$'000 (Unaudited)	31 March 2013 HK\$'000 (Audited)
0 to 90 days	131,158	164,093
91 to 180 days	29,706	59,166
181 to 365 days	16,377	54,548
Over 365 days	43,094	14,840
	220,335	292,647

13. Dividends

On 16 August 2013, the Company issued circular in which the Company is seeking for the separate listing of Wanjia Group Holdings Limited (the “Wanjia Shares”) and the Board recommended the payment of special interim dividend (the “Special Dividend”) by way of the Distribution. The proposed distribution in specie (the “Distribution”) to the shareholders (the “Shareholders”) of the Company in the proportion of one share of HK\$0.01 each (the “Wanjia Shares”) in the issued share capital of Wanjia Group Holdings Limited for every five shares of HK\$0.01 each (the “Shares”) in the issued share capital of the Company on the Record Date.

At the extraordinary general meeting dated 4 September 2013, the independent Shareholders had approved the Proposed Spin-Off, including but not limited to, the Distribution.

On 30 September 2013, in respect to the Spin-Off of the Wanjia Group Holdings Limited on the Main Board of the Stock Exchange, Wanjia Group issued the Listing Document. As at 30 September 2013, the Distribution is still conditional upon, among other, the Listing Committee of the Stock Exchange granting the listing of and the permission to deal in the Wanjia Shares.

On 11 October 2013, the Stock Exchange granted the listing of, and permission to deal in, the shares of Wanjia Group Holdings Limited on the Main Board of the Stock Exchange, upon which the spin-off became unconditional. The Company settled the Distribution in species on the basis with one share of HK\$0.01 each (the “Wanjia Shares”) in the issued share capital of Wanjia Group Holdings Limited for every five shares of HK\$0.01 each (the “Shares”) in the issued share capital of the Company with an aggregate market value as at the respective date of the Distribution in specie of HK\$283.785 million were distributed to the eligible shareholders of the Company. The Company recorded an estimated dividend payable of approximately HK\$283.785 million as at 30 September 2013.

14. Related party transactions

During the reporting period, other than those transactions and balances detailed elsewhere in the condensed consolidated financial statements, the Group had the following significant transactions with related parties which, in the opinion of the directors, were carried out in the ordinary courses of the Group's business:

a) *Key management personnel*

Remuneration for key personnel management, including amount paid to the Company's directors and other members of key management during the period were as follows:

	Six months ended 30 September	
	2013	2012
	HKS'000	HKS'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	1,286	1,474
Share-based payment expenses	186	192
	<u>1,472</u>	<u>1,666</u>

b) *Personal guarantee*

Mr. Yung Kwok Leong has entered into a personal guarantee agreement on 30 November 2011 with Shanghai Pudong Development Bank to secure short-term banking facilities and bill payables on behalf of the Group in an aggregate amount of approximately RMB50 million for the period from 14 November 2011 to 14 November 2012.

c) *Transaction*

During the reporting period, the Group had the following connected transactions with related parties:

Name of related parties	Nature of transactions	Six months ended 30 September	
		2013	2012
		HKS'000	HKS'000
		(Unaudited)	(Unaudited)
Non-controlling shareholder of Edward Hospital Company Limited	Management fee paid	748	544

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 September 2013 (the “period under review”), the Group recorded a turnover on business operations of approximately HK\$1,141.540 million (2012: approximately HK\$990.800 million), representing an increase of about 15.21% as compared to the same period last year. The rise in turnover was mainly driven by the sales from the pharmaceutical wholesale, distribution and pharmaceutical retail chain business in the PRC.

Selling and distribution expenses for the period under review amounted to approximately HK\$50.017 million (2012: approximately HK\$47.544 million), rising slightly by approximately 5.20%. More selling and distribution expenses incurred due to the expansion of the business scale.

Administrative expenses for the period under review amounted to approximately HK\$43.426 million (2012: approximately HK\$35.450 million), rising about 22.50%. The increase was mainly related to the expenses of the Group’s Spin-off project.

The Group recorded a profit attributable to owners of the Company of approximately HK\$19.232 million for the period under review (2012: approximately HK\$21.142 million), representing a decrease of about 9.03% as compared to the same period last year. The decrease was mainly related to the expenses incurred in the Group’s Spin-off Project and the loss on early redemption of promissory note. By excluding such effect the Group recorded an increase of profit attributable to owners of the Company around 6% to same period last year.

Business Review and Outlook

General hospital services

During the six months ended 30 September 2013, the Group operates two general hospitals in Chongqing and Jiaying and manages one general hospital in Zhuhai city, 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 2013 was approximately HK\$73.865 million (2012: approximately HK\$69.162 million).

Pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses

The Group engages in the wholesale, distribution of a broad range of pharmaceutical products to hospitals, clinics and pharmacies in Fujian Province, the PRC. The Group also operate a chain of retail pharmacies located in six prefectural-level districts in Fujian Province in the PRC under the brand name “Huihao Sihai”. The Group’s pharmaceutical retail chain operation has maintained the leading position in both retail drug store numbers and comprehensive competitiveness within Fujian Province. The Group continues to allocate resources to look for business opportunities to expand the pharmaceutical wholesale, distribution and retail chain businesses. The turnover contributed by the pharmaceutical wholesale, distribution and pharmaceutical retail chain businesses for the six months ended 30 September 2013 was approximately HK\$1,067.675 million (2012: approximately HK\$921.638 million).

Future Prospects

On 14 October, 2013, the State Council of PRC released its guidance on the development of the healthcare services in China. This document calls for more investments into the healthcare services by continuing to loose the control over the entry barriers to the market, by offering more support from the central and local government. More significantly this official document clearly points out that by year 2020, the market is estimated to be worth approximately RMB8 trillion in total. The management of the Group believes that this guidance has further strengthened the basis for the healthcare reform and ultimately created many opportunities for the Group, especially for the hospital businesses. As a result, the Group will try to maximize 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 will continue to adjust our marketing strategies to reflect the impact of the fast economic growth on the increasing demands for quality medical services. We will continue to improve the service levels by our 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 their each local market in the both 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 2013/14 will reach the late part of the 12th Five Year Plan in China, and fuelled by the new guidance of the State Council, and the Group will begin to achieve the fruitful performances supported by the early financial and technical investments and preparation for the both businesses. 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.

Liquidity and Financial Resources

The Group had total cash and bank balances of approximately HK\$107.861 million as at 30 September 2013 (31 March 2013: approximately HK\$79.980 million).

The Group recorded total current assets of approximately HK\$745.365 million as at 30 September 2013 (31 March 2013: approximately HK\$713.503 million) and total current liabilities of approximately HK\$419.828 million as at 30 September 2013 (31 March 2013: approximately HK\$397.746 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 1.78 as at 30 September 2013 (31 March 2013: approximately 1.79).

Gearing ratio (total borrowings (comprises bill payables, bank borrowings, convertible note and promissory note), net of cash and cash equivalent, over shareholders' equity) as at 30 September 2013 was 21% (31 March 2013: 18%).

Contingent Liabilities

As at 30 September 2013, 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 of the Company (the "Directors") to be pending or threatened against any member of the Group. (31 March 2013: Nil).

Financing and Treasury Policies

The Group continues to adopt prudent financing and treasury policies. All the Group's financing and treasury activities are centrally managed and controlled. Implementation of the Group's related policies is made under collective but extensive considerations on liquidity risk, financing cost and exchange rate risk.

Foreign Exchange Risk

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. As the fiscal policy of the Central Government of the PRC in relation to Renminbi is stable throughout the period, the Directors believe that the potential foreign exchange exposure to the Group is limited. 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 2013.

Material Acquisitions and Disposals

Up to the date of this interim report, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures except for the Spin-Off of the Wanjia Group Holdings Limited on the Main Board of the Stock Exchange which became unconditional on 11 October 2013 when the listing permission is granted by the Stock Exchange. Approximately 36.45% of Wanjia's entire issued share capital was distributed.

Charges on the Group's Assets

As at 30 September 2013, the Group's bank deposits of approximately HK\$31.815 million (31 March 2013: approximately HK\$3.609 million) was pledged as collateral to secure general banking facilities granted to the Group.

Employee Information

As at 30 September 2013, the Group had 1,792 (31 March 2013: 1,754) full time employees. During the six months ended 30 September 2013, the staff costs, including Directors' remuneration, totalled approximately HK\$49.563 million (31 March 2013: approximately HK\$91.843 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 2013.

Significant Events After the Reporting Period

On 11 October 2013, the Stock Exchange granted the listing of, and permission to deal in, the shares of Wanjia Group Holdings Limited on the Main Board of the Stock Exchange, upon which the Spin-Off became unconditional. Pursuant to the Distribution, the eligible shareholders entitled to one (1) Wanjia Share for every five (5) Hua Xia Shares held on the Record Date, accordingly approximately 36.45% of Wanjia's entire issued share capital will be distributed. Immediately upon completion of the Distribution, the Company retains approximately 63.53% equity interest in Wanjia and Wanjia will become a non-wholly owned subsidiary of the Company and the financial information of Wanjia Group will continue to be consolidated into the accounts of the Company.

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 2013, 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	11.12%
	Personal interest (Note 2)	235,046,875	Long	21.68%
Mr. Zheng Gang	Personal interest	2,000,000	Long	0.18%

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 held by Marshal International Investments Limited which is in turn wholly and beneficially owned by Mr. Yung Kwok Leong.

Note 2: The 235,046,875 shares represent (i) the 136,546,875 shares beneficially owned by Mr. Yung Kwok Leong, and (ii) the 98,500,000 convertible preference shares.

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

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
	1 January 2012 to 31 December 2013	HK\$0.16	2,000,000	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
	1 January 2012 to 31 December 2013	HK\$0.16	6,700,000	Long

Name of director	Exercise period	Exercise price	Number of share options granted	Position
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
	1 January 2012 to 31 December 2013	HK\$0.16	1,000,000	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
	1 January 2012 to 31 December 2013	HK\$0.16	6,700,000	Long
Dr. Wong Yu Man, James	1 January 2012 to 31 December 2013	HK\$0.16	1,000,000	Long

Save as disclosed above, as at 30 September 2013, 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 2013, other than the interests of a director or chief executive of the Company as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures" above, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in shares of the Company:

Name of shareholder	Number of shares	Position	Capacity	Approximate percentage of the total issued shares
Easeglory Holdings Limited (Note 1)	120,960,500	Long	Beneficial owner	11.12%
Marshal International Investments Limited (Note 1)	120,960,500	Long	Beneficial owner	11.12%
Mrs. Yung Muk Ying (Note 1)	861,909,055	Long	Interest of spouse	79.52%
Mr. Zhan Guo Tuan (Note 2)	60,000,000	Long	Beneficial owner	5.54%
Mrs. Lin Zhen Jin (Note 2)	60,000,000	Long	Interest of spouse	5.54%
Rubyland Investments Limited (Note 3)	60,000,000	Long	Beneficial owner	5.54%
Mr. Lau Kim Hung, Jack (Note 4)	64,016,000	Long	Beneficial owner	5.91%
Mrs. Chan Yiu Kan, Katie (Note 4)	64,016,000	Long	Interest of spouse	5.91%

Note 1: The issued share capital of Easeglory Holdings Limited is 100% beneficially owned by Marshal International Investments Limited which is in turn 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, 136,546,875 shares, 1,700,000 share options, 98,500,000 convertible preference shares and the 504,201,680 convertible preference shares (to be issued upon completion of the subscription agreement dated 10 April 2013) beneficially held by Mr. Yung Kwok Leong in personal capacity.

Note 2: Mr. Zhan Guo Tuan is interested in 60,000,000 shares of the Company. Mrs. Lin Zhen Jin is deemed to be interested in 60,000,000 shares by virtue of her being the spouse of Mr. Zhan Guo Tuan.

Note 3: The issued share capital of Rubyland Investments Limited, a company incorporated in the British Virgin Islands with limited liability, is 100% beneficially owned by Mr. Lau Kim Hung, Jack.

Note 4: The 64,016,000 shares represents (i) 60,000,000 shares are held through Rubyland Investments Limited, which is beneficially owned by Mr. Lau Kim Hung, Jack and (ii) 4,016,000 shares are held through Bountiful Resources Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is owned by Mr. Lau Kim Hung, Jack.

By virtue of her being the spouse of Mr. Lau Kim Hung, Jack, Mrs. Chan Yiu Kan, Katie is deemed to be interested in 60,000,000 shares held by Rubyland Investments Limited and 4,016,000 shares held by Bountiful Resources Limited.

Save as disclosed above, as at 30 September 2013, 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 2013, there were 110,951,287 outstanding share options, of which, 44,051,287 and 66,900,000 share options were granted pursuant to the Post-IPO share option schemes adopted on 20 April 2002 and 10 August 2011 respectively. A breakdown setting out the number of outstanding share options, their respective exercise prices and respective exercise periods under the Post-IPO schemes were as follows:

Post-IPO share option schemes

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
	1 January 2012 to 31 December 2013	HK\$0.16	2,000,000
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
	1 January 2012 to 31 December 2013	HK\$0.16	6,700,000

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
Dr. Huang Jiaqing	30 September 2009 to 29 March 2019	HK\$0.50	1,000,000
	23 March 2010 to 22 March 2015	HK\$1.12	312,676
	1 January 2012 to 31 December 2013	HK\$0.16	1,000,000
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
	1 January 2012 to 31 December 2013	HK\$0.16	6,700,000
Dr. Wong Yu Man, James	1 January 2012 to 31 December 2013	HK\$0.16	1,000,000
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 2019	HK\$0.50	8,200,000
	23 March 2010 to 22 March 2015	HK\$1.12	21,574,648
	1 January 2012 to 31 December 2013	HK\$0.16	49,500,000
Total			<u>110,951,287</u>

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

During the six months ended 30 September 2013, 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.

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 2013.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules for the six months ended 30 September 2013 except for the following deviation:

- (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.

During the six months ended 30 September 2013, 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.

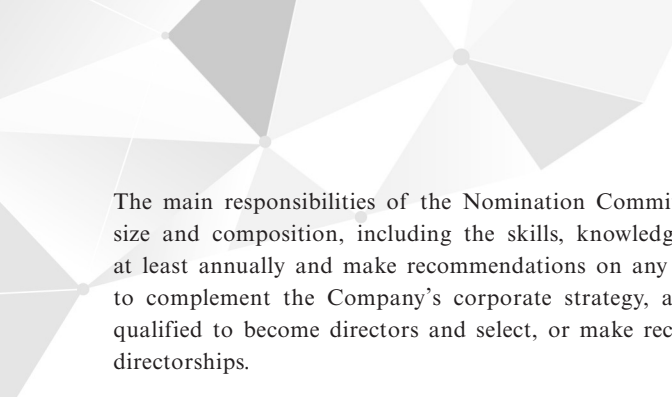
REMUNERATION COMMITTEE

The Remuneration Committee was established on 3 June 2005 in compliance with the code provision. The Remuneration Committee consists of Mr. Zheng Gang, an executive director of the Company and three independent non-executive directors, namely Prof. Hu Shanlian, Prof. Lu Chuanzhen and Ms. Wong Ka Wai, Jeanne. Ms. Wong Ka Wai, Jeanne is the Chairlady of the Remuneration Committee.

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.

NOMINATION COMMITTEE

The Nomination Committee was established on 27 March 2012 in compliance with the code provision. The Nomination Committee consists of Mr. Yung Kwok Leong, an executive director and three independent non-executive directors, namely Prof. Hu Shanlian, Prof. Lu Chuanzhen and Ms. Wong Ka Wai, Jeanne. Mr. Yung Kwok Leong is the chairman of the Nomination Committee.



The main responsibilities of the Nomination Committee are to review the structure, size and composition, including the skills, knowledge and experience of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and identify individuals suitable qualified to become directors and select, or make recommendations to the Board for directorships.

AUDIT COMMITTEE

The Company established the 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 2013 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, 13 November 2013