



HUA XIA HEALTHCARE HOLDINGS LIMITED

華夏醫療集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8143)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

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

* For identification purpose only

HIGHLIGHTS

- The Group has recorded a total turnover of approximately HK\$797.415 million for the six months ended 30 September 2015 as compared with approximately HK\$925.344 million in the corresponding period in year 2014, representing a decrease of approximately 13.83%.
- Gross profit margin of the Group was approximately 15.79% for the six months ended 30 September 2015, compared with 12.61% in the corresponding period in year 2014, representing an improvement of approximately 3.18 percentage points.
- The Group has recorded a loss attributable to owners of the Company for the six months ended 30 September 2015 of approximately HK\$13.907 million (2014: loss attributable to owners of the Company of approximately HK\$497.361 million).
- The basic and diluted loss per share for the six months ended 30 September 2015 were approximately HK0.781 cents and HK0.781 cents, respectively (2014: approximately HK28.259 cents and HK28.259 cents for the basic and diluted loss per share, respectively).
- The Directors do not recommend the payment of a dividend for the six months ended 30 September 2015 (2014: Nil).

INTERIM RESULTS (UNAUDITED)

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 2015, together with the unaudited comparative figures for the corresponding periods in 2014 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months and six months ended 30 September 2015

	Notes	Three months ended 30 September		Six months ended 30 September	
		2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Turnover	3 & 4	418,883	488,222	797,415	925,344
Cost of sales		(359,224)	(427,766)	(671,540)	(808,645)
Gross profit		59,659	60,456	125,875	116,699
Other revenue and income		2,704	1,352	4,347	7,974
Selling and distribution expenses		(43,999)	(34,605)	(84,541)	(59,100)
Administrative expenses		(18,443)	(24,862)	(47,773)	(46,541)
Impairment loss on goodwill		–	–	–	(785,483)
(Loss)/profit from operations	5	(79)	2,341	(2,092)	(766,451)
Finance costs	6	(5,147)	(3,189)	(9,023)	(5,368)
Loss before taxation		(5,226)	(848)	(11,115)	(771,819)
Taxation	7	(1,461)	(2,806)	(2,542)	(7,252)
Loss for the period		(6,687)	(3,654)	(13,657)	(779,071)
Other comprehensive income for the period					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		(14,365)	575	(14,216)	612
Total comprehensive loss for the period		(21,052)	(3,079)	(27,873)	(778,459)

	Three months ended 30 September		Six months ended 30 September	
	2015	2014	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Notes</i>	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loss for the period attributable to:				
Owners of the Company	(7,788)	(3,674)	(13,907)	(497,361)
Non-controlling interests	<u>1,101</u>	<u>20</u>	<u>250</u>	<u>(281,710)</u>
	<u>(6,687)</u>	<u>(3,654)</u>	<u>(13,657)</u>	<u>(779,071)</u>
Total comprehensive loss for the period attributable to:				
Owners of the Company	(14,380)	(3,190)	(20,229)	(496,985)
Non-controlling interests	<u>(6,672)</u>	<u>111</u>	<u>(7,644)</u>	<u>(281,474)</u>
	<u>(21,052)</u>	<u>(3,079)</u>	<u>(27,873)</u>	<u>(778,459)</u>
Loss per share attributable to owners of the Company				
– Basic and diluted (HK cents)	<u>(0.433)</u>	<u>(0.209)</u>	<u>(0.781)</u>	<u>(28.259)</u>

Condensed Consolidated Statement of Financial Position
At 30 September 2015

		30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		72,780	72,030
Prepaid lease payments		22,882	30,255
Investment properties		7,782	8,093
Goodwill		31,866	31,939
		<u>135,310</u>	<u>142,317</u>
Current assets			
Inventories		133,056	133,516
Trade and other receivables and deposits	9	558,852	497,111
Derivative financial instruments		284	284
Pledged bank deposits	10	3,725	12,970
Cash and cash equivalents		150,631	88,793
		<u>846,548</u>	<u>732,674</u>
Total assets		<u>981,858</u>	<u>874,991</u>
EQUITY			
Capital and reserves			
Share capital	11	17,973	17,601
Reserves		225,518	204,209
Equity attributable to owners of the Company		<u>243,491</u>	<u>221,810</u>
Non-controlling interests		<u>170,552</u>	<u>159,688</u>
Total equity		<u>414,043</u>	<u>381,498</u>
LIABILITIES			
Current liabilities			
Trade and other payables	12	311,028	287,349
Bank borrowings		96,421	121,454
Amounts due to non-controlling shareholders		614	1,147
Tax payables		4,509	5,042
		<u>412,572</u>	<u>414,992</u>
Non-current liabilities			
Promissory note		81,476	72,712
Convertible note		73,410	5,432
Deferred taxation		357	357
		<u>155,243</u>	<u>78,501</u>
Total liabilities		<u>567,815</u>	<u>493,493</u>
Total equity and liabilities		<u>981,858</u>	<u>874,991</u>
Net current assets		<u>433,976</u>	<u>317,682</u>
Total assets less current liabilities		<u>569,286</u>	<u>459,999</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2015

	Attributable to owners of the Company												
	Share capital HK\$'000 (Note (a))	Share premium HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000 (Note (b))	Special reserve HK\$'000	Translation reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible note reserve HK\$'000	Statutory reserve HK\$'000 (Note (c))	Retained earnings/ (accumulated losses) HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2014 (audited)	17,562	316,969	295,610	(97,455)	(6,735)	32,789	15,645	2,537	37,079	110,252	724,253	426,170	1,150,423
Loss for the period	-	-	-	-	-	-	-	-	-	(497,361)	(497,361)	(281,710)	(779,071)
Other comprehensive income for the period													
Exchange difference on translating foreign operations	-	-	-	-	-	376	-	-	-	-	376	236	612
Total comprehensive (loss)/ income for the period	-	-	-	-	-	376	-	-	-	(497,361)	(496,985)	(281,474)	(778,459)
Exercise of share options	39	1,969	-	-	-	-	(58)	-	-	-	1,950	-	1,950
Non-controlling interests arising on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	9,944	9,944
At 30 September 2014 (unaudited)	17,601	318,938	295,610	(97,455)	(6,735)	33,165	15,587	2,537	37,079	(387,109)	229,218	154,640	383,858

	Attributable to owners of the Company												
	Share capital HK\$'000 (Note (a))	Share premium HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000 (Note (b))	Special reserve HK\$'000	Translation reserve HK\$'000	Share-based payment reserve HK\$'000	Convertible note reserve HK\$'000	Statutory reserve HK\$'000 (Note (c))	Retained earnings/ (accumulated losses) HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2015 (audited)	17,601	318,938	295,610	(97,455)	(6,735)	33,977	188	2,537	40,648	(383,499)	221,810	159,688	381,498
Loss for the period	-	-	-	-	-	-	-	-	-	(13,907)	(13,907)	250	(13,657)
Other comprehensive loss for the period													
Exchange difference on translating foreign operations	-	-	-	-	-	(6,322)	-	-	-	-	(6,322)	(7,894)	(14,216)
Total comprehensive loss for the period	-	-	-	-	-	(6,322)	-	-	-	(13,907)	(20,229)	(7,644)	(27,873)
Issue of convertible notes	-	-	-	-	-	-	-	9,866	-	-	9,866	-	9,866
Issue of share options	-	-	-	-	-	-	9,094	-	-	-	9,094	-	9,094
Exercise of share options	372	33,269	-	-	-	-	(8,809)	-	-	-	24,832	-	24,832
Capital contributed by non-controlling interests	-	-	-	(1,882)	-	-	-	-	-	-	(1,882)	18,508	16,626
At 30 September 2015 (unaudited)	17,973	352,207	295,610	(99,337)	(6,735)	27,655	473	12,403	40,648	(397,406)	243,491	170,552	414,043

Notes:

- (a) As at 30 September 2015, the total issued share capital of the Company was approximately HK\$17.973 million (31 March 2015: approximately HK\$17.601 million) divided into 1,698,769,944 ordinary shares and 98,500,000 non-voting convertible preference shares (31 March 2015: 1,661,589,944 ordinary shares and 98,500,000 non-voting convertible preference shares) of HK\$0.01 each (31 March 2015: HK\$0.01 each).
- (b) The decrease in other reserve amounting to approximately HK\$1,882,000 of the Group arose on a deemed disposal of interest of a non-wholly owned subsidiary of Wanjia Group Holdings Limited (“**Wanjia Group**”), a non-wholly owned subsidiary of the Company.
- (c) As stipulated by the relevant People’s Republic of China (“**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 2015

	Six months ended	
	30 September	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash (used in)/generated from operating activities	(26,695)	45,871
Net cash generated from/(used in) investing activities	1,906	(10,638)
Net cash generated from/(used in) financing activities	<u>86,627</u>	<u>(17,074)</u>
Net increase in cash and cash equivalents	61,838	18,159
Cash and cash equivalents at 1 April	<u>88,793</u>	<u>92,418</u>
Cash and cash equivalents at 30 September	<u><u>150,631</u></u>	<u><u>110,577</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 September 2015

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 unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is the functional currency of the Company, and the functional currency of most of its subsidiaries is Renminbi (“**RMB**”). The Directors considered that it is more appropriate to present the condensed consolidated financial statements in HK\$ as the shares of the Company are listed on the GEM of the Stock Exchange. The unaudited condensed consolidated financial statements are presented in thousands of units of HK\$ (HK\$'000), unless otherwise stated.

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 business in the PRC.

2. Basis of preparation and principal accounting policies

The unaudited condensed consolidated financial statements for the six months ended 30 September 2015 (the “**Interim Financial Statements**”) have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), which is a collective term that includes all applicable individual HKFRSs, 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. The Interim Financial Statements have been prepared under the historical cost convention except for certain financial instruments (including derivative financial instruments) and investment properties, which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange of assets.

The accounting policies adopted in preparing the Interim Financial Statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 March 2015 (the “**2014/2015 Financial Statements**”), except for the new and revised standards, amendments and interpretations of HKFRSs (“**new and revised HKFRSs**”) issued by the HKICPA which have become effective in this period as detailed in notes to the 2014/2015 Financial Statements. The Directors believe that the application of these new and revised HKFRSs has no material impact on the amounts reported and disclosures set out in the Interim Financial Statements.

3. Turnover

Turnover represents the aggregate of the net invoiced amounts received and receivable from third parties in connection with the pharmaceutical wholesale and distribution and pharmaceutical retail chain business and the provision of general hospital services during the period, after allowances for returns and trade discounts.

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 and 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		Six months ended	
	30 September		30 September	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover				
– Pharmaceutical wholesale and distribution and pharmaceutical retail chain business	355,036	442,800	667,203	840,439
– Provision of general hospital services	63,847	45,422	130,212	84,905
	<u>418,883</u>	<u>488,222</u>	<u>797,415</u>	<u>925,344</u>
Results				
– Pharmaceutical wholesale and distribution and pharmaceutical retail chain business	5,465	983	6,242	(768,530)
– Provision of general hospital services	4,375	3,461	6,471	6,244
	<u>9,840</u>	<u>4,444</u>	<u>12,713</u>	<u>(762,286)</u>
Unallocated other revenue and income	2	12	2	13
Unallocated corporate expenses	(9,921)	(2,115)	(14,807)	(4,178)
	<u>(79)</u>	<u>2,341</u>	<u>(2,092)</u>	<u>(766,451)</u>
Finance costs	(5,147)	(3,189)	(9,023)	(5,368)
	<u>(5,226)</u>	<u>(848)</u>	<u>(11,115)</u>	<u>(771,819)</u>
Taxation	(1,461)	(2,806)	(2,542)	(7,252)
	<u>(6,687)</u>	<u>(3,654)</u>	<u>(13,657)</u>	<u>(779,071)</u>

Note:

There was no inter-segment sales under pharmaceutical wholesale and distribution and pharmaceutical retail chain business for the three months ended 30 September 2015 (2014: approximately HK\$0.408 million) and for the six months ended 30 September 2015 (2013: approximately HK\$1.315 million). Inter-segment sales were charged at arm's length price and fully eliminated under consolidation.

Segment assets and liabilities

	Provision of general hospital services <i>HK\$'000</i>	Pharmaceutical wholesale and distribution and pharmaceutical retail chain business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
As at 30 September 2015 (unaudited)			
Assets			
Segment assets	202,262	720,356	922,618
Unallocated corporate assets			<u>59,240</u>
Consolidated total assets			<u><u>981,858</u></u>
Liabilities			
Segment liabilities	41,536	364,505	406,041
Promissory note			73,410
Convertible note			81,476
Deferred taxation			357
Unallocated corporate liabilities			<u>6,531</u>
Consolidated total liabilities			<u><u>567,815</u></u>
As at 31 March 2015 (audited)			
Assets			
Segment assets	223,334	644,490	867,824
Unallocated corporate assets			<u>7,167</u>
Consolidated total assets			<u><u>874,991</u></u>
Liabilities			
Segment liabilities	40,179	367,781	407,960
Promissory note			72,712
Convertible note			5,432
Deferred taxation			357
Unallocated corporate liabilities			<u>7,032</u>
Consolidated total liabilities			<u><u>493,493</u></u>

5. (Loss)/profit from operations

	Three months ended		Six months ended	
	30 September		30 September	
	2015	2014	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/profit from operations has been arrived at after charging:				
Depreciation of property, plant and equipment	3,810	3,034	7,656	5,556
Amortisation of prepaid lease payments	652	314	1,476	627
Operating lease rentals in respect of buildings	10,512	7,910	21,774	15,160
Staff costs (including Directors' remuneration)	38,415	30,391	86,115	57,405

6. Finance costs

	Three months ended		Six months ended	
	30 September		30 September	
	2015	2014	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on:				
– Convertible note and promissory note	609	1,036	1,248	1,341
– Bank borrowings wholly repayable within five years	4,538	2,153	7,775	4,027
	5,147	3,189	9,023	5,368

7. Taxation

No provision for Hong Kong Profits Tax has been made in the Interim Financial Statements as the Group had no assessable profits derived from Hong Kong's operations during the period (2014: Nil).

Corporate income tax of approximately 25% has been provided for the profit generated from the pharmaceutical wholesale and distribution and pharmaceutical retail chain business and general hospital services in the PRC (2014: approximately 25%).

8. Loss per share

The calculation of basic loss per share for the three months ended 30 September 2015 was based on the loss for the period attributable to owners of the Company of approximately HK\$7.788 million (2014: loss attributable to owners of the Company of approximately HK\$3.674 million) and on the weighted average number of ordinary shares of approximately 1,797,269,944 shares (2014: 1,760,089,944 shares).

The calculation of basic loss per share for the six months ended 30 September 2015 was based on the loss for the period attributable to owners of the Company of approximately HK\$13,907 million (2014: loss attributable to owners of the Company of approximately HK\$497.361 million) and on the weighted average number of ordinary shares of approximately 1,780,332,239 shares (2014: 1,759,983,387 shares).

For the three months periods ended 30 September 2015 and 2014, and the six months periods ended 30 September 2015 and 2014, the calculation of diluted loss per share did not assume the exercise of the convertible notes and outstanding share options existed as at 30 September 2015 and 2014, respectively, as the exercise of the convertible notes and share options would decrease the loss per share, and therefore are anti-dilutive.

9. Trade and other receivables and deposits

	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
Trade receivables, net	331,409	297,403
Bill receivables	669	6,229
Prepayments and deposits paid	130,206	145,130
Prepaid lease payments	467	1,261
Other receivables	103,067	54,094
	565,818	504,117
<i>Less: Impairment loss recognised in respect of other receivables</i>	(6,966)	(7,006)
	558,852	497,111

As at 30 September 2015, included in other receivables are the loan of approximately HK\$16.439 million (31 March 2015: HK\$24.026 million) advanced to an independent third party. The loan receivable carries interest at 6% (31 March 2015: 6%) per annum and it is unsecured and recoverable on demand.

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 services are normally payable from 0 to 30 days. The following is an aged analysis of trade receivables based on invoice date at the end of the reporting period:

	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
0 to 90 days	212,357	218,913
91 to 180 days	62,187	51,122
181 to 365 days	30,878	18,212
Over 365 days	32,601	15,970
	338,023	304,217
<i>Less:</i> Impairment loss recognised in respect of trade receivables	(6,614)	(6,814)
	331,409	297,403

10. Pledged bank deposits

The Group had certain pledged bank deposits as at 30 September 2015 of approximately HK\$3,725 million to secure banking facilities granted to the Group (31 March 2015: approximately HK\$12,970 million).

11. Share capital

	Number of shares	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each at 30 September 2015	110,000,000,000	1,100,000
Non-voting convertible preference shares of HK\$0.01 each at 30 September 2015	40,000,000,000	400,000
	150,000,000,000	1,500,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 each at 30 September 2015	1,698,769,944	16,988
Non-voting convertible preference shares of HK\$0.01 each at 30 September 2015	98,500,000	985
	1,797,269,944	17,973

12. Trade and other payables

	30 September	31 March
	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade payables	218,038	189,619
Bill payables	19,233	18,697
Receipts in advance	17,882	17,410
Accruals and other payables	55,875	61,623
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	311,028	287,349
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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 based on invoice date at the end of the reporting period:

	30 September	31 March
	2015	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
0 to 90 days	139,643	123,096
91 to 180 days	37,691	25,230
181 to 365 days	19,722	14,510
Over 365 days	20,982	26,783
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	218,038	189,619
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13. Dividends

The Directors do not recommend the payment of a dividend for the six months ended 30 September 2015 (2014: Nil).

14. Related party transactions

During the reporting period, other than those transactions and balances detailed elsewhere in the Interim 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 management personnel, 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	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Short-term employee benefits	2,061	1,430
Share-based payment expenses	3,269	–
	<u>5,330</u>	<u>1,430</u>

b) *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	
		2015	2014
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Non-controlling shareholder of Edward Hospital Company Limited	Management fee paid	<u>759</u>	<u>614</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 September 2015 (the “**period under review**”), the Group recorded a turnover on business operations of approximately HK\$797.415 million (2014: approximately HK\$925.344 million), representing a decrease of approximately 13.83% as compared with the same period last year. The turnover was mainly affected by the decrease in 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\$84.541 million (2014: approximately HK\$59.100 million), an increase of approximately 43.05%. Increased selling and distribution expenses were incurred mainly attributable to the increase in both salaries and share-based payment expenses to senior management staff, and also arising from the increase in both the number of sales and marketing personnel employed by the Group and the number of retail pharmacies during the period under review compared with the corresponding period in year 2014.

Administrative expenses for the period under review amounted to approximately HK\$47.773 million (2014: approximately HK\$46.541 million), a slight increase by approximately about 2.65%.

The Group recorded a loss attributable to owners of the Company of approximately HK\$13.907 million for the period under review (2014: loss attributable to owners of the Company of approximately HK\$497.361 million), representing a significant decrease in the loss attributable to owners of the Company as compared with the same period last year. The loss for the same period last year was mainly related to the impairment loss on goodwill of approximately HK\$785.483 million recognised by our non-wholly owned subsidiary.

Business Review and Outlook

General hospital services

During the six months ended 30 September 2015, the Group operated three general hospitals in Chongqing, Jiaxing and Zhuhai (2014: three general hospitals in Chongqing, Jiaxing and Zhuhai), 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 2015 was approximately HK\$130.212 million (2014: approximately HK\$84.905 million), an increase by approximately about 53.36%.

Pharmaceutical wholesale, distribution and pharmaceutical retail chain business

The Group engaged in the wholesale and distribution of a broad range of pharmaceutical products to hospitals, clinics and pharmacies in Fujian Province (“**Fujian**”), the PRC through our non-wholly owned major subsidiary, Wanjia Group. In April 2014, the new Good Supply Practice (“**New GSP**”) was promulgated and implemented in Fujian, under which with effect from the year 2016, only selected pharmaceutical distributors are allowed to distribute medicine to public hospitals and public healthcare institutions. In August 2014, Fujian Food and Drug Administration* (福建省食品藥品監督管理局) announced a list of 10 companies, which are permitted to conduct the business of distribution to public hospitals and public healthcare institutions after 2016, in which the operating subsidiary of the Company, namely Fujian Province Fuzhou City Huihao Pharmaceutical Co. Ltd.* (福建省福州市惠好藥業有限公司) is on the list. Notwithstanding this recognition as a qualified participant in the distribution industry is encouraging, the effect of the implementation of the New GSP and any future policy development on the hospital distribution business of the Wanjia Group remains uncertain.

The Group also operated a chain of retail pharmacies located in six prefectural-level districts in Fujian under the brand name “Huihao Sihai”. The Group’s pharmaceutical retail chain operation had maintained the leading position in both the number of the retail drug store and comprehensive competitiveness within Fujian. The Group continues to allocate resources to look for business opportunities to expand the pharmaceutical distribution and retail chain businesses. The turnover contributed by the pharmaceutical wholesale, distribution and pharmaceutical retail chain business for the period under review was approximately HK\$667.203 million (2014: approximately HK\$840.439 million), a decrease of approximately 20.61%.

Future Prospects

As the calendar year 2015 is approaching its end, marking the beginning of the Thirteenth Five Year Plan which demanded more investments in healthcare in China in accordance with the economic targets of the country by the end of this decade, there are more demand for quality services and diversified care models to fight the fast increasing health issues affecting the citizens of all ages and lifestyles. As such, the management foresees more opportunities to expand our services through the general and specialized medical models, and is confident that the Group is well poised to take advantage of the favorable situations in the country. Therefore, the Group’s hospitals will continue to improve the quality of services and introduce the new medical technologies in the present market. At the same time, the Group continues to explore the development opportunities for the existing and future hospitals. The Group will continue to identify projects that involve the public and private partnerships. Those projects will further open up the healthcare market for the Group in different regions. This will increase our service coverage, medical specialties and more importantly attract more talents to join our hospitals. For the years ahead, we will continue to explore the private hospital market for more cooperation.

* For identification purpose only

This year poses both opportunities and challenges to the Group. This special time not only sets up the path for the Company to further explore the potential in PRC but also will witness the noticeable outcomes of the Company's branding, representing quality, accessibility and credibility in the local markets. The demand for excellent healthcare services will also result in tangible economic results for those who have long invested in the services, education, quality and trust.

Liquidity and Financial Resources

The Group had total cash and cash equivalents of approximately HK\$150.631 million as at 30 September 2015 (31 March 2015: approximately HK\$88.793 million).

The Group recorded total current assets of approximately HK\$846.548 million as at 30 September 2015 (31 March 2015: approximately HK\$732.674 million) and total current liabilities of approximately HK\$412.572 million as at 30 September 2015 (31 March 2015: approximately HK\$414.992 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 2.052 as at 30 September 2015 (31 March 2015: approximately 1.766).

Gearing ratio (total borrowings comprises bill payables, bank borrowings, convertible note and promissory note, net of cash and bank balances, over equity attributable to owners of the Company) as at 30 September 2015 was approximately 49% (31 March 2015: approximately 58%).

Contingent Liabilities

As at 30 September 2015, 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 2015: 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 2015.

Material Acquisitions and Disposals

During the period under review, the Group did not have any material acquisitions and disposal of subsidiaries, associates or joint ventures.

Charges on the Group's Assets

As at 30 September 2015, the Group's bank deposits of approximately HK\$3.725 million (31 March 2015: approximately HK\$12.970 million) were pledged as collateral to secure general banking facilities granted to the Group.

Employee Information

As at 30 September 2015, the Group had 2,124 (31 March 2015: 1,936) full time employees. During the six months ended 30 September 2015, the staff costs, including Directors' remuneration, totalled approximately HK\$86.115 million (2014: approximately HK\$57.405 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 2015.

Significant Events After the Reporting Period

No significant event took place subsequent to the end of the reporting period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

Disclosure of Interests

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

As at 30 September 2015, 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 of the Company:*

Name of Director	Nature of interest	Number of shares	Position	Approximate percentage of the total issued ordinary shares
Mr. Yung Ka Chun (“Mr. Yung”)	Corporate interest (Note)	418,491,516	Long	24.63%
	Personal interest (Note)	2,640,000	Long	0.16%
Dr. Jiang Tao	Personal interest	5,740,000	Long	0.34%
Mr. Zheng Gang	Personal interest	6,044,000	Long	0.36%
Dr. Huang Jiaqing	Personal interest	3,800,000	Long	0.22%

Note: These shares are held through Easeglory Holdings Limited (“**Easeglory**”), a company incorporated in the British Virgin Islands (“**BVI**”) with limited liability, the entire issued share capital of which is directly owned by Mr. Yung. By virtue of the SFO, Mr. Yung is deemed to have interest of 98,500,000 convertible preference shares held by Easeglory, which represented approximately 5.80% of the issued share capital of the Company. Together with the preference shares held by Easeglory, Mr. Yung is deemed to have approximately 30.43% of the total issued ordinary share of the Company.

(ii) *Interests in the issued share capital of the Company’s associated corporation:*

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of shares	Position	Approximate percentage of shareholdings in the associated corporation’s issued share capital
Mr. Yung Ka Chun	Wanjia Group <i>(Note 1)</i>	Corporate interest <i>(Note 2)</i>	24,192,100	Long	3.73%

Note 1: Hua Xia Healthcare Holdings Limited held the entire issued share capital of Greatly Wealth Global Group Limited (“**Greatly Wealth**”), a company incorporated in the BVI with limited liability, which is in turn interested in 411,917,648 shares of Wanjia Group, a company incorporated in the Cayman Islands with limited liability, of which its shares are listed on the Main Board of the Stock Exchange (representing approximately 63.53% of the issued share capital of Wanjia Group). Therefore, Wanjia Group is an associated corporation of the Company for the purposes of the SFO.

Note 2: These shares are held through Easeglory, the entire issued share capital of which is owned by Mr. Yung.

(iii) *Interests in share options under share option scheme:*

Name of Director	Exercise period	Exercise price	Number of share options granted	Position
Mr. Yung Ka Chun	18 April 2015 to 17 April 2018	HK\$0.68	3,960,000	Long
Dr. Jiang Tao	18 April 2015 to 17 April 2018	HK\$0.68	4,410,000	Long
Mr. Zheng Gang	18 April 2015 to 17 April 2018	HK\$0.68	4,410,000	Long
Dr. Huang Jiaqing	18 April 2015 to 17 April 2018	HK\$0.68	4,200,000	Long
Dr. Wong Yu Man, James	18 April 2015 to 17 April 2018	HK\$0.68	1,000,000	Long
Mr. Tang Xun	18 April 2015 to 17 April 2018	HK\$0.68	3,000,000	Long

Save as disclosed above, as at 30 September 2015, 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 2015, other than the interests of Directors or chief executives of the Company as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures of the Company and its associated corporations" 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 ordinary shares
Easeglory Holdings Limited <i>(Note 1)</i>	516,991,516	Long	Beneficial owner	30.43%
New Hope International (Hong Kong) Limited <i>(Note 2)</i>	343,217,539	Long	Beneficial owner	20.20%
南方希望實業有限公司 <i>(Note 2)</i>	343,217,539	Long	Corporate interest	20.20%
新希望集團有限公司 <i>(Note 2)</i>	343,217,539	Long	Corporate interest	20.20%
西藏恒業峰實業有限公司 <i>(Note 2)</i>	343,217,539	Long	Corporate interest	20.20%
Mr. Liu Yonghao <i>(Note 2)</i>	343,217,539	Long	Corporate interest	20.20%
Ms. Liu Chang <i>(Note 2)</i>	343,217,539	Long	Corporate interest	20.20%
Ms. Li Wei <i>(Note 2)</i>	343,217,539	Long	Corporate interest	20.20%

Note 1: The issued share capital of Easeglory is 100% beneficially owned by Mr. Yung, an executive Director of the Company. The 516,991,516 shares represent (i) the 418,491,516 ordinary shares beneficially owned by Easeglory, and (ii) the 98,500,000 convertible preference shares.

Note 2: New Hope International (Hong Kong) Limited is interested in 343,217,539 ordinary shares of the Company. The issued share capital of New Hope International (Hong Kong) Limited is 75% beneficially owned by 南方希望實業有限公司 which is in turn 51% held by 新希望集團有限公司 and 49% is held by 西藏恒業峰實業有限公司.

Both 新希望集團有限公司 and 西藏恒業峰實業有限公司 are beneficially held by Mr. Liu Yonghao, Ms. Liu Chang and Ms. Li Wei in shareholding proportionate among them as 62.34%, 36.35% and 1.31%, respectively. Therefore, Mr. Liu Yonghao, Ms. Liu Chang and Ms. Li Wei are interested in shares of the Company.

Save as disclosed above, as at 30 September 2015, the Directors 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 of the Company and its associated corporations" 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 2015, there were 67,071,991 outstanding share options, of which representing approximately 3.95% of the issued share capital of the Company. All of which were granted pursuant to the share option schemes adopted on 20 April 2002 and 10 August 2011. A breakdown setting out the number of outstanding share options, their respective exercise prices and respective exercise periods was as follows:

Categories of grantees	Exercise period	Exercise price	Number of share options outstanding
Directors			
Mr. Yung Ka Chun	18 April 2015 to 17 April 2018	HK\$0.68	3,960,000
Dr. Jiang Tao	18 April 2015 to 17 April 2018	HK\$0.68	4,410,000
Mr. Zheng Gang	18 April 2015 to 17 April 2018	HK\$0.68	4,410,000
Dr. Huang Jiaqing	18 April 2015 to 17 April 2018	HK\$0.68	4,200,000
Dr. Wong Yu Man, James	18 April 2015 to 17 April 2018	HK\$0.68	1,000,000
Mr. Tang Xun	18 April 2015 to 17 April 2018	HK\$0.68	3,000,000
Employees and consultants of the Group			
	13 July 2006 to 12 July 2016	HK\$3.61	459,738
	21 March 2007 to 20 March 2017	HK\$2.94	1,042,253
	30 September 2009 to 29 March 2019	HK\$0.50	450,000
	18 April 2015 to 17 April 2018	HK\$0.68	<u>44,140,000</u>
Total			<u><u>67,071,991</u></u>

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

During the six months ended 30 September 2015, 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 the 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 2015.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the six months ended 30 September 2015.

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 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 AND CORPORATE GOVERNANCE COMMITTEE

On 11 February 2014, the Board resolved to establish a Nomination and Corporate Governance Committee in place and instead of the previously Nomination Committee, which was established on 27 March 2012 in compliance with the code provision. The Nomination and Corporate Governance Committee comprised of Dr. Jiang Tao, an executive Director and three independent non-executive Directors, namely Prof. Hu Shanlian, Prof. Lu Chuanzhen and Ms. Wong Ka Wai, Jeanne. Dr. Jiang Tao is the chairman of the Nomination and Corporate Governance Committee.

The Primary duties of the Nomination and Corporate Governance Committee include, but are not limited to: (i) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes; (ii) identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of, individuals nominated for directorships; (iii) making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman of the Board and the chief executive officer of the Company; and (iv) keeping the effectiveness of the corporate governance and system of internal controls of the Group.

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 period under review 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
Jiang Tao
Chief Executive Officer

Hong Kong, 5 November 2015

As at the date of this announcement, the Board comprises Dr. Jiang Tao, Mr. Yung Ka Chun, Mr. Zheng Gang and Dr. Huang Jiaqing as executive Directors; Dr. Wong Yu Man, James and Mr. Tang Xun as non-executive Directors; and Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian and Prof. Lu Chuanzhen as independent non-executive Directors.

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

This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least seven days from the date of publication and on the Company’s website at <http://www.huaxia-healthcare.com>.