



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
2016/2017

* For identification purpose only

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*This report, for which the directors (the “**Directors**”) of Hua Xia Healthcare Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (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 revenue of approximately HK\$649.036 million for the six months ended 30 September 2016 as compared with approximately HK\$797.415 million in the corresponding period in year 2015, representing a decrease of approximately 18.61%.
- Gross profit margin of the Group was approximately 24.24% for the six months ended 30 September 2016, compared with 15.79% in the corresponding period in year 2015, representing an improvement of approximately 8.45 percentage points.
- The Group has recorded a loss attributable to owners of the Company for the six months ended 30 September 2016 of approximately HK\$21.276 million (2015: loss attributable to owners of the Company of approximately HK\$13.907 million).
- The basic and diluted loss per share for the six months ended 30 September 2016 were approximately HK1.124 cents and HK1.124 cents, respectively (2015: approximately HK0.781 cents and 0.781 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 2016 (2015: 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 2016, together with the unaudited comparative figures for the corresponding periods in 2015 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months and six months ended 30 September 2016

	Notes	Three months ended 30 September		Six months ended 30 September	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3 & 4	298,956	418,883	649,036	797,415
Cost of sales		(221,258)	(359,224)	(491,173)	(671,540)
Gross profit		77,698	59,659	157,323	125,875
Other revenue and income		133	2,704	1,135	4,374
Loss on early redemption of promissory note		(3,030)	–	(3,030)	–
Selling and distribution expenses		(57,071)	(43,999)	(112,729)	(84,541)
Administrative expenses		(25,946)	(18,443)	(49,740)	(47,773)
Loss from operations	5	(8,216)	(79)	(7,041)	(2,092)
Finance costs	6	(5,389)	(5,147)	(9,458)	(9,023)
Loss before taxation		(13,605)	(5,226)	(16,499)	(11,115)
Taxation	7	(927)	(1,461)	(2,273)	(2,542)
Loss for the period		(14,532)	(6,687)	(18,772)	(13,657)
Other comprehensive income for the period					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		(5,520)	(14,365)	(29,942)	(14,216)
Total comprehensive loss for the period		(20,052)	(21,052)	(48,714)	(27,873)

	Notes	Three months ended 30 September		Six months ended 30 September	
		2016	2015	2016	2015
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Loss for the period attributable to:					
Owners of the Company		(15,426)	(7,788)	(21,276)	(13,907)
Non-controlling interests		894	1,101	2,504	250
		<u>(14,532)</u>	<u>(6,687)</u>	<u>(18,772)</u>	<u>(13,657)</u>
Total comprehensive loss for the period attributable to:					
Owners of the Company		(8,403)	(14,380)	(45,453)	(20,229)
Non-controlling interests		(11,649)	(6,672)	(3,261)	(7,644)
		<u>(20,052)</u>	<u>(21,052)</u>	<u>(48,714)</u>	<u>(27,873)</u>
Loss per share attributable to owners of the Company					
– Basic and diluted (HK cents)	8	<u>(0.858)</u>	<u>(0.433)</u>	<u>(1.124)</u>	<u>(0.781)</u>

Condensed Consolidated Statement of Financial Position

As at 30 September 2016

		30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment		100,309	91,772
Prepaid lease payments		34,452	34,897
Investment properties		6,975	7,199
Goodwill		176,918	30,068
		<u>318,654</u>	<u>163,936</u>
Current assets			
Inventories		116,081	118,574
Trade and other receivables and deposits	9	464,168	339,251
Derivative financial instruments		301	301
Pledged bank deposits	10	7,968	6,096
Cash and cash equivalents		193,735	249,712
		<u>782,253</u>	<u>713,934</u>
Total assets		<u>1,100,907</u>	<u>877,870</u>
EQUITY			
Capital and reserves			
Share capital	11	24,568	17,978
Reserves		334,503	163,987
		<u>359,071</u>	<u>181,965</u>
Equity attributable to owners of the Company		359,071	181,965
Non-controlling interests		<u>209,120</u>	<u>212,381</u>
Total equity		<u>568,191</u>	<u>394,346</u>

		30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
	Notes		
LIABILITIES			
Current liabilities			
Trade and other payables	12	316,707	271,771
Bank borrowings		90,954	50,395
Amounts due to non-controlling shareholders		838	662
Tax payables		3,976	2,573
		412,475	325,401
Non-current liabilities			
Promissory note		32,731	74,104
Convertible note		86,645	83,178
Deferred taxation		865	841
		120,241	158,123
Total liabilities		532,716	483,524
Total equity and liabilities		1,100,907	877,870
Net current assets		369,779	388,533
Total assets less current liabilities		688,433	552,469

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2016

	Attributable to owners of the Company											Non-controlling interests	Total equity
	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))	Accumulated losses HK\$'000	Sub-total HK\$'000		
At 1 April 2015 (audited)	17,601	318,938	295,600	(97,455)	(6,735)	33,977	188	2,537	40,648	(383,499)	221,810	159,683	381,498
Loss for the period	-	-	-	-	-	-	-	-	-	(13,907)	(13,907)	250	(13,657)
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange difference on translating foreign operations	-	-	-	-	-	(6,322)	-	-	-	-	(6,322)	(7,894)	(14,216)
Total comprehensive (loss)/income for the period	-	-	-	-	-	(6,322)	-	-	-	(13,907)	(20,229)	(7,644)	(27,873)
Exercise of share options	372	-	-	-	-	-	9,094	9,866	-	-	9,866	-	9,860
Non-controlling interests arising on acquisition of subsidiaries	-	33,269	-	(1,882)	-	-	(8,809)	-	-	-	(1,882)	18,508	24,832
At 30 September 2015 (unaudited)	17,973	352,207	295,600	(99,337)	(6,735)	27,655	473	12,403	40,648	(397,406)	243,401	170,522	414,043

	Attributable to owners of the Company											Non-controlling interests	Total equity
	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))	Accumulated losses HK\$'000	Sub-total HK\$'000		
At 1 April 2016 (audited)	17,978	351,261	295,610	(126,115)	(6,735)	13,932	12,023	10,232	43,122	(429,345)	181,965	212,381	394,346
Loss for the period	-	-	-	-	-	-	-	-	-	(21,276)	(21,276)	2,504	(18,772)
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange difference on translating foreign operations	-	-	-	-	-	(23,989)	-	-	-	(188)	(24,177)	(5,765)	(29,942)
Total comprehensive loss for the period	-	-	-	-	-	(23,989)	-	-	-	(21,464)	(45,453)	(3,261)	(48,714)
Issue of convertible notes	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of new shares	6,590	214,072	-	-	-	-	-	-	-	-	220,662	-	220,662
Reserve of share options	-	-	-	-	-	-	2,200	-	-	-	2,200	-	2,200
Transfer to Statutory Reserve	-	-	-	-	-	-	-	(303)	(303)	-	(303)	-	(303)
At 30 September 2016 (unaudited)	24,568	565,333	295,610	(126,115)	(6,735)	(10,057)	14,223	10,232	42,819	(450,809)	359,071	209,120	568,191

Notes:

- As at 30 September 2016, the total issued share capital of the Company was approximately HK\$24,568 million (31 March 2016: approximately HK\$17,978 million) divided into 2,358,250,657 ordinary shares and 98,500,000 non-voting convertible preference shares (31 March 2016: 1,699,249,944 ordinary shares and 98,500,000 non-voting convertible preference shares) of HK\$0.01 each (31 March 2016: HK\$0.01 each).
- 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.
- 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 2016

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(142,834)	(26,695)
Net cash (used in)/generated from investing activities	(128,006)	1,906
Net cash generated from financing activities	<u>214,863</u>	<u>86,627</u>
Net (decrease)/increase in cash and cash equivalents	(55,977)	61,838
Cash and cash equivalents at 1 April	<u>249,712</u>	<u>88,793</u>
Cash and cash equivalents at 30 September	<u><u>193,735</u></u>	<u><u>150,631</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the six months ended 30 September 2016

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 GEM. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, 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 GEM. 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 2016 (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 2016 (the “**2015/2016 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. Revenue

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 30 September		Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue				
– Pharmaceutical wholesale and distribution and pharmaceutical retail chain business	238,316	355,036	528,349	667,203
– Provision of general hospital services	60,640	63,847	120,687	130,212
	<u>298,956</u>	<u>418,883</u>	<u>649,036</u>	<u>797,415</u>
Results				
– Pharmaceutical wholesale and distribution and pharmaceutical retail chain business	(4,236)	5,465	(2,728)	6,242
– Provision of general hospital services	3,656	4,375	5,350	6,471
	(580)	9,840	2,662	12,713
Unallocated other revenue and income	–	2	1	2
Unallocated corporate expenses	(7,636)	(9,921)	(9,664)	(14,807)
Loss from operations	(8,216)	(79)	(7,041)	(2,092)
Finance costs	(5,389)	(5,147)	(9,458)	(9,023)
Loss before taxation	(13,605)	(5,226)	(16,499)	(11,115)
Taxation	(927)	(1,461)	(2,273)	(2,542)
Loss for the period	<u>(14,532)</u>	<u>(6,687)</u>	<u>(18,772)</u>	<u>(13,657)</u>

Note:

Inter-segment sales under pharmaceutical wholesale and distribution and pharmaceutical retail chain business for the three months ended 30 September 2016 amounted to approximately HK\$1.371 million (2015: approximately HK\$Nil) and for six months ended 30 September 2016 approximately HK\$1.593 million (2015: approximately HK\$Nil). Inter-segment sales are charged at arm's length and fully eliminated under consolidation.

Segment assets and liabilities

	Provision of general hospital services HK\$'000	Pharmaceutical wholesale and distribution and pharmaceutical retail chain business HK\$'000	Consolidated HK\$'000
<i>As at 30 September 2016 (unaudited)</i>			
Assets			
Segment assets	179,910	662,369	842,279
Unallocated corporate assets			<u>258,628</u>
Consolidated total assets			<u><u>1,100,907</u></u>
Liabilities			
Segment liabilities	48,102	320,369	368,471
Promissory note			32,731
Convertible note			86,645
Deferred taxation			865
Unallocated corporate liabilities			<u>44,004</u>
Consolidated total liabilities			<u><u>532,716</u></u>

	Provision of general hospital services HK\$'000	Pharmaceutical wholesale and distribution and pharmaceutical retail chain business HK\$'000	Consolidated HK\$'000
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As at 31 March 2016 (audited)

Assets

Segment assets	219,238	614,471	833,709
Unallocated corporate assets			44,161

Consolidated total assets			<u>877,870</u>
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Liabilities

Segment liabilities	53,677	264,072	317,749
Promissory note			74,104
Convertible note			83,178
Deferred taxation			841
Unallocated corporate liabilities			7,652

Consolidated total liabilities			<u>483,524</u>
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5. Loss from operations

	Three months ended 30 September		Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Loss from operations has been arrived at after charging:				
Depreciation of property, plant and equipment	4,039	3,810	8,115	7,656
Amortisation of prepaid lease payments	698	652	1,579	1,476
Operating lease rentals in respect of buildings	11,353	10,512	23,516	21,774
Staff costs (including Directors' remuneration)	<u>41,872</u>	<u>38,415</u>	<u>93,865</u>	<u>86,115</u>

6. Finance costs

	Three months ended 30 September		Six months ended 30 September	
	2016	2015	2016	2015
	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)
Interest on:				
– Convertible note and promissory note	3,055	609	6,747	1,248
– Bank borrowings wholly repayable within five years	2,334	4,538	2,711	7,775
	<u>5,389</u>	<u>5,147</u>	<u>9,458</u>	<u>9,023</u>

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 (2015: 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 (2015: approximately 25%).

8. Loss per share

The calculation of basic loss per share for the three months ended 30 September 2016 was based on the loss for the period attributable to owners of the Company of approximately HK\$15.426 million (2015: loss attributable to owners of the Company of approximately HK\$7.788 million) and on the weighted average number of ordinary shares of approximately 1,797,749,944 shares (2015: 1,797,269,944 shares).

The calculation of basic loss per share for the six months ended 30 September 2016 was based on the loss for the period attributable to owners of the Company of approximately HK\$21.276 million (2015: loss attributable to owners of the Company of approximately HK\$13.907 million) and on the weighted average number of ordinary shares of approximately 1,892,225,334 shares (2015: 1,780,332,239 shares).

For the three months periods ended 30 September 2016 and 2015, and the six months periods ended 30 September 2016 and 2015, 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 2016 and 2015, 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 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Trade receivables, net	110,971	211,052
Bill receivables	1,899	5,854
Prepayments and deposits paid	183,686	74,320
Prepaid lease payments	354	1,405
Other receivables	177,168	57,059
	474,078	349,690
Less: Impairment loss recognised in respect of other receivables	(9,910)	(10,439)
	464,168	339,251

As at 30 September 2016, included in other receivables are the loan of approximately HK\$Nil million (31 March 2016: HK\$14.398 million) advanced to an independent third party. The loan receivable carries interest at 6% (31 March 2016: 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 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
0 to 90 days	47,302	161,505
91 to 180 days	29,543	41,268
181 to 365 days	14,239	8,279
Over 365 days	29,076	7,280
	120,160	218,332
Less: Impairment loss recognised in respect of trade receivables	(5,189)	(7,280)
	110,971	211,052

10. Pledged bank deposits

The Group had certain pledged bank deposits as at 30 September 2016 of approximately HK\$7.968 million to secure banking facilities granted to the Group (31 March 2016: approximately HK\$6.096 million).

11. Share capital

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 30 September 2016	110,000,000,000	1,100,000
Non-voting convertible preference shares of HK\$0.01 each at 30 September 2016	<u>40,000,000,000</u>	<u>400,000</u>
	<u>150,000,000,000</u>	<u>1,500,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 30 September 2016	2,358,249,944	23,582
Non-voting convertible preference shares of HK\$0.01 each at 30 September 2016	<u>98,500,000</u>	<u>985</u>
	<u>2,456,749,944</u>	<u>24,567</u>

12. Trade and other payables

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Trade payables	91,436	182,448
Bill payables	15,126	16,308
Receipts in advance	17,971	18,989
Accruals and other payables	192,174	54,026
	<u>316,707</u>	<u>271,771</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 based on invoice date at the end of the reporting period:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
0 to 90 days	57,860	116,071
91 to 180 days	9,121	32,770
181 to 365 days	8,222	13,274
Over 365 days	16,233	20,333
	<u>91,436</u>	<u>182,448</u>

13. Dividends

The Directors do not recommend the payment of a dividend for the six months ended 30 September 2016 (2015: 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	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	2,761	2,061
Share-based payment expenses	2,200	3,269
	<u>4,961</u>	<u>5,330</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	
		2016	2015
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Non-controlling shareholder of Edward Hospital Company Limited	Management fee paid	<u>631</u>	<u>759</u>



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 September 2016 (the “**period under review**”), the Group recorded a turnover on business operations of approximately HK\$649.036 million (2015: approximately HK\$797.415 million), representing a decrease of approximately 18.61% 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\$112.729 million (2015: approximately HK\$84.541 million), an increase of approximately 33.34%. Increased selling and distribution expenses were incurred mainly attributable to the increase in salaries 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 2015.

Administrative expenses for the period under review amounted to approximately HK\$49.740 million (2015: approximately HK\$47.773 million), a slight decrease by approximately about 4.12%.

The Group recorded a loss attributable to owners of the Company of approximately HK\$21.276 million for the period under review (2015: loss attributable to owners of the Company of approximately HK\$13.907 million), representing an increase in the loss attributable to owners of the Company as compared with the same period last year.

Business Review and Outlook

General hospital services

On 30 September 2016, the Group completed the acquisition of a composite hospital located in Beijing, the PRC. For more details, please refer to the paragraph headed “Material Acquisitions and Disposals” below.

During the six months ended 30 September 2016, the Group operated four general hospitals in Chongqing, Jiaying, Zhuhai and Beijing (2015: three general hospitals in Chongqing, Jiaying and Zhuhai), principally engaged in the provision of 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 hospitals for the six months ended 30 September 2016 was approximately HK\$120.687 million (2015: approximately HK\$130.212 million), a decrease by approximately about 7.31%.

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.

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\$528.349 million (2015: approximately HK\$667.203 million), a decrease of approximately 20.81%.



Future Prospects

Being the first year of the 13th Five Year Plan, China has set clear goals to achieve the accessible and affordable health care to the citizens by the end of 2020, releasing concrete measures to facilitate the development of the private hospitals. The latest industry data indicate that the total number of private hospitals has accounted for more than 50% of the market share. More hospitals have been set up and among them are the fast growing private hospitals. The management of the Group is confident that the Group is well poised to take advantage of the favourable situations in the country. Therefore, the Group's hospitals will continue to improve the quality of services and the new medical technologies in the present market. At the same time, the Group will continue to explore the development opportunities for the existing and future hospitals. One of the important potentials for the Group's hospitals is 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 year ahead, we anticipate to allocate more resources to explore new services as one of the opportunities to increase revenue.

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

Capital Structures, Liquidity and Financial Resources

The Group had total cash and cash equivalents of approximately HK\$193.735 million as at 30 September 2016 (31 March 2016: approximately HK\$249.712 million).

The Group recorded total current assets of approximately HK\$782.253 million as at 30 September 2016 (31 March 2016: approximately HK\$713.934 million) and total current liabilities of approximately HK\$412.475 million as at 30 September 2016 (31 March 2016: approximately HK\$325.401 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 1.896 as at 30 September 2016 (31 March 2016: approximately 2.194).

Gearing Ratio

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 2016 was approximately 36% (31 March 2016: approximately 49%).

Capital Commitment

As at 30 September 2016, the Group had no material capital commitment (31 March 2016: Nil).

Significant Investments Held

As at 30 September 2016, the Group did not hold any significant investment (31 March 2016: Nil).

Contingent Liabilities

As at 30 September 2016, 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 2016: 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.

Dividends

The Directors do not recommend the payment of a dividend for the six months ended 30 September 2016 (2015: Nil).



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 2016.

Placing of New Shares

On 21 July 2016, the Company and the placing agent entered into the placing agreement pursuant to which the Company has conditionally agreed to place through the placing agent of up to 339,000,000 placing shares at a price of HK\$0.31 per placing share.

Completion of the placing took place on 10 August 2016, and 339,000,000 placing shares were allotted and issued to not less than six placees at the placing price of HK\$0.31 per placing share pursuant to the terms and conditions of the placing agreement. For more details, please refer to the announcements of the Company dated 21 July 2016, 22 July 2016 and 10 August 2016.

Material Acquisitions and Disposals

On 30 September 2016, the Group completed the acquisition of (a) the entire issued share capital of Glowing Smart, and (b) all obligations, liabilities and debts owing or incurred by Glowing Smart to Kingfull Corporate Development Limited (“**Kingfull**”) on or at any time prior to the completion, from Kingfull, at an aggregate consideration of HK\$149,501,540, which was satisfied by the combination of cash in the amount of HK\$47,101,540, and the balance of HK\$102,400,000 by the issue and allotment of 320,000,000 consideration shares at the issue price of HK\$0.32 per share. For more details, please refer to the announcements of the Company dated 14 September 2016 and 30 September 2016.

Save as disclosed above, 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 2016, the Group's bank deposits of approximately HK\$7.968 million (31 March 2016: approximately HK\$3.725 million) were pledged as collateral to secure general banking facilities granted to the Group.

Employee Information

As at 30 September 2016, the Group had 2,050 (31 March 2016: 2,134) full time employees. During the six months ended 30 September 2016, the staff costs, including Directors' remuneration, totalled approximately HK\$93.865 million (2015: approximately HK\$86.115 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 2016.

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 2016, 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)	516,991,516	Long	21.92%
	Personal interest (Note)	2,640,000	Long	0.11%
Dr. Jiang Tao	Personal interest	5,740,000	Long	0.24%
Mr. Zheng Gang	Personal interest	6,044,000	Long	0.26%
Dr. Huang Jiaqing	Personal interest	3,800,000	Long	0.16%

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 4.18% of the issued share capital of the Company. Together with the preference shares held by Easeglory, Mr. Yung is deemed to have approximately 26.1% 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 (Note 1)	Corporate interest (Note 2)	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

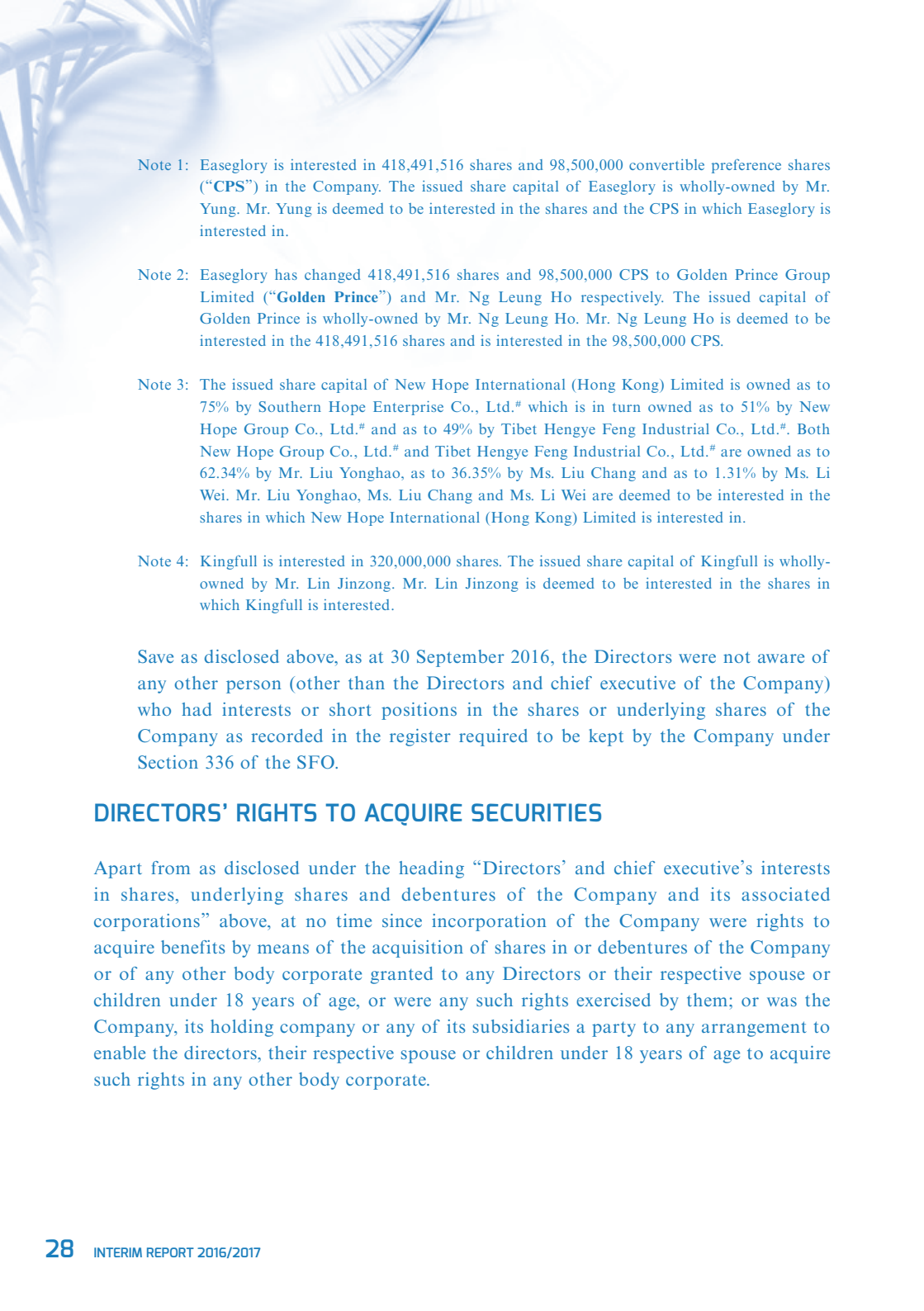
Save as disclosed above, as at 30 September 2016, none of the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded 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 2016, 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
Easeglogy Holdings Limited (Note 1&2)	516,991,516	Long	Beneficial owner	21.92%
New Hope International (Hong Kong) Limited (Note 3)	343,217,539	Long	Beneficial owner	14.55%
Southern Hope Enterprise Co., Ltd. [#] (南方希望實業有限公司) (Note 3)	343,217,539	Long	Corporate interest	14.55%
New Hope Group Co., Ltd. [#] (新希望集團有限公司) (Note 3)	343,217,539	Long	Corporate interest	14.55%
Tibet Hengye Feng Industrial Co., Ltd. [#] (西藏恒業鋒實業有限公司) (Note 3)	343,217,539	Long	Corporate interest	14.55%
Mr. Liu Yonghao (Note 3)	343,217,539	Long	Corporate interest	14.55%
Ms. Liu Chang (Note 3)	343,217,539	Long	Corporate interest	14.55%
Ms. Li Wei (Note 3)	343,217,539	Long	Corporate interest	14.55%
Kingfull Corporate Development Limited (Note 4)	320,000,000	Long	Corporate interest	13.57%
Mr. Lin Jinzong (Note 4)	320,000,000	Long	Corporate interest	13.57%



Note 1: Easeglory is interested in 418,491,516 shares and 98,500,000 convertible preference shares (“CPS”) in the Company. The issued share capital of Easeglory is wholly-owned by Mr. Yung. Mr. Yung is deemed to be interested in the shares and the CPS in which Easeglory is interested in.

Note 2: Easeglory has changed 418,491,516 shares and 98,500,000 CPS to Golden Prince Group Limited (“Golden Prince”) and Mr. Ng Leung Ho respectively. The issued capital of Golden Prince is wholly-owned by Mr. Ng Leung Ho. Mr. Ng Leung Ho is deemed to be interested in the 418,491,516 shares and is interested in the 98,500,000 CPS.

Note 3: The issued share capital of New Hope International (Hong Kong) Limited is owned as to 75% by Southern Hope Enterprise Co., Ltd.[#] which is in turn owned as to 51% by New Hope Group Co., Ltd.[#] and as to 49% by Tibet Hengye Feng Industrial Co., Ltd.[#]. Both New Hope Group Co., Ltd.[#] and Tibet Hengye Feng Industrial Co., Ltd.[#] are owned as to 62.34% by Mr. Liu Yonghao, as to 36.35% by Ms. Liu Chang and as to 1.31% by Ms. Li Wei. Mr. Liu Yonghao, Ms. Liu Chang and Ms. Li Wei are deemed to be interested in the shares in which New Hope International (Hong Kong) Limited is interested in.

Note 4: Kingfull is interested in 320,000,000 shares. The issued share capital of Kingfull is wholly-owned by Mr. Lin Jinzong. Mr. Lin Jinzong is deemed to be interested in the shares in which Kingfull is interested.

Save as disclosed above, as at 30 September 2016, 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 2016, there were 66,132,253 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			
	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	43,660,000
Total			<u>66,132,253</u>



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

During the six months ended 30 September 2016, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 September 2016, none of the Directors or their respective associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

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 2016.

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 2016, save for the deviation from code provision E.1.3 of the CG Code which stipulates that the Company should arrange for the notice to shareholders to be sent for annual general meeting at least 20 clear business days before the meeting. The Company's notice for the 2015 annual general meeting (the "2015 AGM") was despatched on 23 July 2015, and the 2015 AGM was held on 17 August 2015, which deviated from code provision E.1.3 of the CG Code. The Board was not aware of the deviation and failed to report the same in the subsequent first quarterly, interim, third quarterly and annual results announcements, and first quarterly, interim, third quarterly and annual reports for the period from 1 April 2015 to 31 March 2016. As a result, the Company was not in compliance with Rule 17.101 of the GEM Listing Rules. The deviation was only an isolated event, and the Company had adopted preventive measures to ensure future compliance with the CG Code.

REMUNERATION COMMITTEE

The remuneration committee of the Company (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 four independent non-executive Directors, namely Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian, Prof. Lu Chuanzhen and Prof. Zhang Bin. 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 of the Company (the “**Nomination and Corporate Governance Committee**”) in place and stead 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 four independent non-executive Directors, namely Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian, Prof. Lu Chuanzhen and Prof. Zhang Bin. 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 of the Company (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 four members including Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian, Prof. Lu Chuanzhen and Prof. Zhang Bin. 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 has not been audited by the auditor of the Company, but has been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal 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, 7 November 2016

The English transliteration of the Chinese name(s) in this report, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).