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UNIVERSAL HEALTH INTERNATIONAL GROUP HOLDING LIMITED

大健康國際集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2211)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

INTERIM RESULTS HIGHLIGHTS

	Six months ended 30 June		Change (%)
	2016 <i>RMB Million</i> (Unaudited)	2015 <i>RMB Million</i> (Unaudited)	
Revenue	1,903.8	2,570.9	-25.9
Gross profit	519.8	736.1	-29.4
Operating profit	115.3	331.0	-65.2
Profit for the period	87.4	248.4	-64.8
EBITDA	138.1	354.2	-61.0
Basic earnings per share – RMB cents	4.12	12.34	-66.6
Gross margin (%)	27.3	28.6	-1.3pp
Operating margin (%)	6.1	12.9	-6.8pp
Net margin (%)	4.6	9.7	-5.1pp

The board of directors (the “**Board**”) of Universal Health International Group Holding Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2016 (the “**Period**”) together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited)	
		Six months ended 30 June	
		2016	2015
	Note	RMB'000	RMB'000
Revenue	2	1,903,845	2,570,945
Cost of sales	3	<u>(1,384,006)</u>	<u>(1,834,871)</u>
Gross profit		519,839	736,074
Selling and marketing expenses	3	(360,367)	(358,813)
Administrative expenses	3	(45,374)	(46,628)
Other income		1,668	414
Other losses – net		<u>(417)</u>	<u>(10)</u>
Operating profit		115,349	331,037
Finance income	4	7,192	4,523
Finance costs	4	<u>(2,721)</u>	<u>(4,632)</u>
Finance income/(costs) – net	4	4,471	(109)
Share of post-tax profits of joint ventures		441	545
Share of loss of an associate		<u>(59)</u>	<u>–</u>
Profit before income tax		120,202	331,473
Income tax expenses	5	<u>(32,803)</u>	<u>(83,098)</u>
Profit for the period		<u>87,399</u>	<u>248,375</u>
Profit attributable to:			
– Owners of the Company		85,837	244,678
– Non-controlling interests		<u>1,562</u>	<u>3,697</u>
		<u>87,399</u>	<u>248,375</u>
Earnings per share attributable to owners of the Company for the period (RMB cents)			
– Basic and diluted	6	<u>4.12</u>	<u>12.34</u>
Other comprehensive loss			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation differences		<u>(2,249)</u>	<u>–</u>
Total comprehensive income for the period		<u>85,150</u>	<u>248,375</u>
Total comprehensive income attributable to:			
– Owners of the Company		83,588	244,678
– Non-controlling interests		<u>1,562</u>	<u>3,697</u>
		<u>85,150</u>	<u>248,375</u>

CONDENSED CONSOLIDATED STATEMENT OF BALANCE SHEET

		(Unaudited) As at 30 June 2016 RMB'000	(Audited) As at 31 December 2015 RMB'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		109,436	103,167
Land use rights		3,666	3,713
Intangible assets		662,119	672,055
Investments in joint ventures		7,961	7,520
Investments in an associate		243,017	—
Deferred income tax assets		14,042	19,297
Total non-current assets		1,040,241	805,752
Current assets			
Trade and other receivables	8	354,845	442,853
Inventories		371,745	398,605
Restricted cash		207,228	227,414
Cash and cash equivalents		1,515,961	1,333,320
Total current assets		2,449,779	2,402,192
Total assets		3,490,020	3,207,944
EQUITY			
Equity attributable to owners of the Company			
Share capital		14,878	12,259
Other reserves		1,530,589	1,319,669
Retained earnings		1,342,559	1,256,722
		2,888,026	2,588,650
Non-controlling interests		31,282	29,720
Total equity		2,919,308	2,618,370

		(Unaudited) As at 30 June 2016 <i>RMB'000</i>	(Audited) As at 31 December 2015 <i>RMB'000</i>
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		<u>43,940</u>	<u>46,585</u>
Current liabilities			
Borrowings		173,330	166,920
Trade and other payables	9	349,424	373,464
Current income tax liabilities		<u>4,018</u>	<u>2,605</u>
Total current liabilities		<u>526,772</u>	<u>542,989</u>
Total liabilities		<u>570,712</u>	<u>589,574</u>
Total equity and liabilities		<u>3,490,020</u>	<u>3,207,944</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standards (“IAS”) 34, ‘Interim Financial Reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except as described below and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2016.

(a) Associates

An associate is an entity over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition. The group’s investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the group’s share of the net fair value of the associate’s identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group’s share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to “share of loss of an associate” in the income statement.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group’s financial statements only to the extent of unrelated investor’s interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Gains or losses on dilution of equity interest in associates are recognised in the income statement.

- (b) Amendments to IFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(c) **New and amended standards issued but not yet adopted by the Group**

		Effective for annual year beginning on or after
Amendments to IAS 7	Statement of Cash Flows	1 January 2017
Amendments to IAS 12	Income Taxes	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Lease	1 January 2019
Amendments to IFRS 10 and IAS 28	Sale and Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

There are no other new and amended standards that are not yet effective that would be expected to have a material impact on the Group.

2. REVENUE AND SEGMENT INFORMATION

The Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

The Group is principally engaged in the distributions and retails of drugs and other pharmaceutical products in the northeastern region of the Peoples' Republic of China (the "PRC"). In the second half of year 2015, in order to respond to the change in economic environment in the areas where the Group operates, the Group has adjusted the mid-long strategic plan for its operations and development. In prior periods, management operated and monitored the retail business as a single operating segment. Following the change to the new strategy in the second half of 2015, the operation and management of the retail business was divided into two groups according to their economic characteristics under the new strategy that enable the Group to execute their new strategy and do the resource allocation accordingly. As a result, the Group separates the original segment of retails into two separate segments: retails I – strategic stores ("Retails I") and retails II – non-strategic stores ("Retails II"). Retails I segment are retail business with higher future development potential and strategic focus by the Group when allocating the resources, while Retails II segment are retail business located in the areas without strategic importance and high growth potential. Individual financial information and management report of the Retails I segment, Retails II segment, Distributions and others are presented to the Board of Directors to assess their performance and for making respective business decisions. Accordingly, for the period ended 30 June 2016, the composition of reportable segments in accordance with IFRS 8 "Operating Segment" has changed to four segments, the Distributions, Retails I, Retails II and others. The Group also re-presented its corresponding information for the period ended 30 June 2015 accordingly.

The Group's principal market is the northeastern region of the PRC. The Group has a large number of customers, which are widely dispersed within the northeastern region of the PRC, no single customer accounted for more than 10% of the Group's total revenues for the six months ended 30 June 2016 and 2015. Accordingly, no geographical segment is presented.

Sales between segments are carried out at arm's length. The revenue from external customers and the costs, the total assets and the total liabilities are measured in a manner consistent with that of the Group's consolidated financial statements.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted earnings before interests, tax, depreciation and amortisation (“**Adjusted EBITDA**”). The measurement basis of Adjusted EBITDA excludes the effect of share of profits or losses of joint ventures and an associate.

The segment information for the six months ended 30 June 2016 and as at 30 June 2016 is as follows:

	(Unaudited)				
	Six months ended 30 June 2016				
	Distributions	Retails I	Retails II	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	1,333,035	794,019	147,959	–	2,275,013
Inter-segment revenue	<u>(371,168)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(371,168)</u>
Revenue from external customers	<u>961,867</u>	<u>794,019</u>	<u>147,959</u>	<u>–</u>	<u>1,903,845</u>
Adjusted EBITDA	36,607	109,203	(828)	(6,837)	138,145
Depreciation and amortisation	(7,547)	(14,839)	(381)	(29)	(22,796)
Finance income	3,385	1,455	285	2,067	7,192
Finance costs	(2,156)	(224)	(7)	(334)	(2,721)
Share of post-tax profits of joint ventures	–	441	–	–	441
Share of loss of an associate	(59)	–	–	–	(59)
Income tax expenses	<u>(6,604)</u>	<u>(25,620)</u>	<u>(579)</u>	<u>–</u>	<u>(32,803)</u>
Profit/(loss) for the period	<u>23,626</u>	<u>70,416</u>	<u>(1,510)</u>	<u>(5,133)</u>	<u>87,399</u>
Additions of non-current assets	<u>243,169</u>	<u>19,759</u>	<u>–</u>	<u>100</u>	<u>263,028</u>

	(Unaudited)				
	As at 30 June 2016				
	Distributions	Retails I	Retails II	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets before eliminations	2,305,602	1,870,322	144,936	1,576,761	5,897,621
Inter-segment assets	<u>(627,100)</u>	<u>(302,586)</u>	<u>–</u>	<u>(1,477,915)</u>	<u>(2,407,601)</u>
Total assets	<u>1,678,502</u>	<u>1,567,736</u>	<u>144,936</u>	<u>98,846</u>	<u>3,490,020</u>
Total liabilities before eliminations	1,041,225	697,445	72,927	67,247	1,878,844
Inter-segment liabilities	<u>(700,830)</u>	<u>(495,470)</u>	<u>(58,300)</u>	<u>(53,532)</u>	<u>(1,308,132)</u>
Total liabilities	<u>340,395</u>	<u>201,975</u>	<u>14,627</u>	<u>13,715</u>	<u>570,712</u>

The segment information for the six months ended 30 June 2015 and as at 31 December 2015 is as follows:

	(Unaudited)				
	Six months ended 30 June 2015 (Note *)				
	Distributions	Retails I	Retails II	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	1,860,382	1,048,170	192,337	–	3,100,889
Inter-segment revenue	(529,944)	–	–	–	(529,944)
Revenue from external customers	<u>1,330,438</u>	<u>1,048,170</u>	<u>192,337</u>	<u>–</u>	<u>2,570,945</u>
Adjusted EBITDA	108,439	226,010	30,958	(11,213)	354,194
Depreciation and amortisation	(7,160)	(15,179)	(755)	(63)	(23,157)
Finance income	2,371	1,503	120	529	4,523
Finance costs	(1,300)	(2,152)	(645)	(535)	(4,632)
Share of post-tax profits of joint ventures	–	545	–	–	545
Income tax expenses	(24,325)	(51,353)	(7,420)	–	(83,098)
Profit/(loss) for the period	<u>78,025</u>	<u>159,374</u>	<u>22,258</u>	<u>(11,282)</u>	<u>248,375</u>
Additions of non-current assets	<u>1,021</u>	<u>2,498</u>	<u>–</u>	<u>–</u>	<u>3,519</u>

*Note**

The composition of reportable segments for the period ended 30 June 2016 has changed to four segments in accordance with IFRS 8 “Operating Segment”: the Distributions, Retails I, Retails II and others. Accordingly, the Group also re-presented its corresponding information for the period ended 30 June 2015 on a consistent basis.

	(Audited)				
	As at 31 December 2015				
	Distributions	Retails I	Retails II	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets before eliminations	2,029,389	1,901,592	170,782	1,349,148	5,450,911
Inter-segment assets	<u>(614,231)</u>	<u>(415,816)</u>	<u>(21,061)</u>	<u>(1,191,859)</u>	<u>(2,242,967)</u>
Total assets	<u>1,415,158</u>	<u>1,485,776</u>	<u>149,721</u>	<u>157,289</u>	<u>3,207,944</u>
Total liabilities before eliminations	785,785	711,540	49,006	48,691	1,595,022
Inter-segment liabilities	<u>(415,605)</u>	<u>(507,798)</u>	<u>(39,569)</u>	<u>(42,476)</u>	<u>(1,005,448)</u>
Total liabilities	<u>370,180</u>	<u>203,742</u>	<u>9,437</u>	<u>6,215</u>	<u>589,574</u>

The amounts provided to the Board of Directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the assets.

3. EXPENSE BY NATURE

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Changes in inventories	1,374,538	1,820,590
Employee benefit expenses	157,853	141,233
Advertising and other marketing expenses	104,448	121,250
Rental expenses	53,257	50,236
Transportation and related charges	40,369	47,088
Other tax expenses	10,624	15,594
Depreciation of property, plant and equipment	12,813	13,083
Amortisation of intangible assets	9,936	10,027
Training fees	8,424	—
Office and communication expenses	5,090	5,958
Professional fees	1,660	4,545
License fee of trademarks	3,260	3,240
Electricity and other utility fees	2,032	2,428
Auditors' remuneration	1,600	1,600
Travelling and meeting expenses	862	978
Amortisation of land use rights	47	47
Other expenses	2,934	2,415
Total	<u>1,789,747</u>	<u>2,240,312</u>

4. FINANCE INCOME AND COSTS

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Finance income		
Interest income on bank deposits	4,406	4,523
Exchange gains	<u>2,786</u>	<u>—</u>
	<u>7,192</u>	<u>4,523</u>
Finance costs		
Interest expenses	(2,324)	(4,097)
Exchange losses	—	(332)
Other charges	<u>(397)</u>	<u>(203)</u>
	<u>(2,721)</u>	<u>(4,632)</u>
Finance income/(costs) – net	<u><u>4,471</u></u>	<u><u>(109)</u></u>

5. INCOME TAX EXPENSES

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	29,770	101,849
– Hong Kong profits tax	423	215
Deferred income tax charge/(credit)	<u>2,610</u>	<u>(18,966)</u>
Total income tax expenses	<u><u>32,803</u></u>	<u><u>83,098</u></u>

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2016 (2015: 16.5%). The subsidiaries of the Group in the PRC are subject to corporate income tax at a rate of 25% on its taxable income or deemed profit method as determined in accordance with the relevant PRC income tax rules and regulations.

6. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit for the period of six months ended 30 June attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period of six months ended 30 June, excluding ordinary shares purchased under the Share Award Plan.

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
Profit attributable to owners of the Company (<i>RMB'000</i>)	<u>85,837</u>	<u>244,678</u>
Weighted average number of ordinary shares in issue (<i>thousands</i>)	<u>2,083,516</u>	<u>1,983,007</u>
Basic earnings per share (<i>RMB cents</i>)	<u>4.12</u>	<u>12.34</u>

(b) Diluted

As there were no dilutive potential ordinary shares outstanding for the six months ended 30 June 2016 (2015: nil), the diluted earnings per share for the periods is equal to basic earnings per share.

7. DIVIDEND

No interim dividend was declared for the six months ended 30 June 2016 (2015: RMB24,593,000).

8. TRADE AND OTHER RECEIVABLES

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (<i>Note</i>)	221,194	248,676
Prepayments	116,325	109,521
Other receivables	19,100	86,430
Provision for impairment	<u>(1,774)</u>	<u>(1,774)</u>
Total	<u>354,845</u>	<u>442,853</u>

The carrying amounts of receivables approximate their fair values.

Note: Retail sales at the Group's pharmacies are usually made in cash or debit or credit cards. For distribution to distributors, there is no concentration of credit risk with respect to trade receivables, as the majority of the Group's sales are settled in cash on delivery of goods. The remaining amounts are with credit items of 0 to 90 days. The ageing analysis based on recognition date of the trade receivables is as follows:

	(Unaudited) As at 30 June 2016 RMB'000	(Audited) As at 31 December 2015 RMB'000
Up to 3 months	214,907	229,920
4 to 6 months	5,046	5,813
7 to 12 months	1,241	12,943
	<u>221,194</u>	<u>248,676</u>

9. TRADE AND OTHER PAYABLES

	(Unaudited) As at 30 June 2016 RMB'000	(Audited) As at 31 December 2015 RMB'000
Trade payables (a)	182,495	184,541
Notes payable (b)	58,446	94,662
Other payables	108,483	94,261
Total	<u>349,424</u>	<u>373,464</u>

- (a) As at 30 June 2016, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on recognition date is as follows:

	(Unaudited) As at 30 June 2016 RMB'000	(Audited) As at 31 December 2015 RMB'000
Up to 3 months	172,651	183,468
4 to 6 months	8,257	1,051
7 to 12 months	1,587	1
1 year to 2 years	—	21
	<u>182,495</u>	<u>184,541</u>

- (b) As at 30 June 2016, the entire balance of notes payable was secured by restricted cash of RMB57,228,000 (31 December 2015: RMB77,414,000).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the Period, the economy of the PRC remained at a new normal stage, and achieved a stable performance while staying low. Overall, consumables market in the PRC maintained a steady growth. In terms of medicine policies, the PRC government has been vigorously reforming the medical and health system.

According to the data from the National Bureau of Statistic of the PRC, during the period from January to May 2016, total retail of social consumer goods in the PRC has reached RMB12,928.1 billion, representing a nominal growth rate of 10.2%, but a decrease of 0.5 percentage point as compared with that of 2015. The actual growth rate in relevant month decreased from 10.7% in December 2015 to 9.7% in May 2016. Moreover, the actual growth rate in April 2016 was only 9.3%, which fell to the lowest level since 2005 excluding the effect of the Chinese New Year. From January to May 2016, the retail sales amounted to RMB11,550.5 billion, representing an increase of 10.1%, among which sales revenue of Chinese and western drugs amounted to RMB326.7 billion, representing an increase of 13.9% on a year-on-year basis.

Under the new business model, sales of new products and certain products with respect to consumption upgrade maintained a rapid growth. Online retail sales nationwide amounted to RMB1,808.9 billion, representing an increase of 27.7% on a year-on-year basis. Online sales of tangible commodities reached RMB1,463.3 billion, representing an increase of 25.9%, accounting for 11.3% of the total retail of social consumer goods. Among the online sales of tangible commodities, sales of food, clothing and consumables increased by 36.5%, 16.2% and 29.3%, respectively.

In terms of healthcare policies, a range of policies and schemes were put forward in the first half of 2016. Chinese Premier Li Keqiang chaired the executive meeting of the State Council held on 6 April 2016. At the meeting, the *Programme on Equipment Manufacturing Industry Standardization and Quality Enhancement* (《裝備製造業標準化和質量提升規劃》) was determined to be implemented to guide the upgrade of the manufacturing industry in the PRC; deploy and advance the “Internet + Distribution” measures so as to reduce costs, boost domestic demand and create new jobs; specify that pilot provinces carrying out medical and health system reforms shall promote the “Two Invoices System”, and that the system must be implemented in such provinces in the current year; propose further reformation of the medical and health system in 2016 to enable more people to benefit from such reform.

On 3 June 2016, according to the Ministry of Commerce of the PRC, it is expected that the pace of merger, reorganization and listing of enterprises in the drug distribution industry will accelerate in 2016, and the pharmaceutical service supply chain management will be further enhanced, the competency of universal health management and service of retail enterprises will be further enhanced, and that cross-border integration of the “Internet + Drug Distribution” with both online and offline network will be further reinforced. The whole development of the drug distribution industry will enter a new phase characterised by slow growth, superior structure and driving-force transformation.

The General Office of the State Council issued the *Guiding Opinions for Promoting and Regulating Healthcare Big Data Application and Development* (《關於促進和規範健康醫療大數據應用發展的指導意見》) (hereinafter referred to as the “Guiding Opinions”) on 24 June 2016, which vigorously promotes the interconnection, integration, disclosure and sharing of the governmental healthcare information systems and the public healthcare data, with the aim to eliminate the deficiency of information, actively foster an environment which would promote the safe and innovative application of the healthcare data, explore new service models and cultivate new development patterns through “Internet + Healthcare”.

The Guiding Opinions state that, the development goal is to establish a platform to provide the national and provincial population with health information and national-wide platform for drug bidding and procurement business, basically, forming an inter-departmental healthcare information sharing pattern by the end of 2017. By 2020, establish a tiered public platform with national medical and health information, thus achieving remarkable effects in inter-departmental and inter-regional sharing of basic information such as population, legal person and geographic space and the integration of related data resources including medical treatment, medicine, healthcare and health information. In a regional setting, establishing 100 regional clinical information demonstration centers with the existing resources, enabling the possession of electronic health data and health cards for the urban and rural residents and constantly improving policies and regulations, safety protection and refining the system.

During the Period, guidelines on fully revitalizing old industrial areas in the northeast and other parts of the PRC were also put forward, among which are acceleration of the development of tourism, pension, health, culture, sports activities, leisurer, etc., these are beneficial to the Company given that its retail businesses are mainly operated in three provinces in northeast China. The Opinions on Comprehensive Revitalization of Old Industrial Bases in *Northeast and Other Parts of China by the CPC Central Committee and the State Council* (《中共中央國務院關於全面振興東北地區等老工業基地的若干意見》) proposes that its core activities shall include enhancing quality and efficiency of economic development, strengthening the supply-side structural reform, constantly invigorating the development vitality, internal growth and overall competitiveness of these old industrial bases so as to ensure their full revitalization.

BUSINESS REVIEW

During the Period, under the leadership of the chairman of the Group, Mr. Jin Dongtao and with the endeavor of the management, the Group has established and upgraded into three major areas—“Industry + Finance + Capital” from the traditional industry and, through interaction and promotion of the “Internet + Universal Health” and by putting “Industry Chain of Traditional Chinese Medicine” into the strategic scope, the Company aims to fulfill the strategic transformation of the industry, create a new vision of the new growth point of operation and build an international brand operation in the health industry.

The Golden Rules (王道哲學)

The Golden Rules, an operation philosophy with strategic vision, is put forward by Mr. Jin Dongtao, the chairman of the Group, of which “王” is embodied as “1+1=11, 1+1=101, 1+1=王, 1+1=田”. The Golden Rules advocates “team-work” cooperation spirit, “platform” for multilateral cooperation, “empathy” at multi-level and multi-dimension and “sharing” win-win strategy.

Branded Products: During the Period, the Group continued to promote the operation of branded products and build a multi-layer upstream network consisting of original equipment manufacturers (“OEM”) products, domestic brand products and international brand products. Apart from products under Yushi brand, there are other categories and brands of products, such as traditional Chinese medicine products, nutritional food, maternity and baby products, and products targeting different consumers including middle-aged and elderly people, children, female and male consumers as well as health and treatment products for different parts of the body. More promotional costs were invested in the operation to deal with uncertainties resulting from economic downturn.

Brand Promotion: Three-dimensional promotional activities have been launched for product brands and enterprise brands by continuously leveraging on traditional media including televisions, broadcasts, newspapers, vehicle advertisement, billboards and leaflets, along with new media platforms including internet, we media of WeChat as well as charity.

Institute Training: During the Period, the Group continued to enhance external and internal training activities. External training mainly focused on the continuous output of branded products, while the internal training focused on the extension of management concepts and employees’ ideological education. These training activities were designed to enhance and transform the mode of thinking of employees in response to the economic downturn pressure and the range of policies issued in the PRC, so as to match the business operation.

Membership Service: During the Period, branches of the Group worked to strengthen membership activities and offered continuous membership benefits or rewards during shops and holiday celebrations. Moreover, social value-added services were offered in various aspects, for example, shelters for the cold were provided in winter, so as to further enhance the membership cohesion and degree of voluntary consumption.

Industry Alliance: During the Period, the Group has enhanced the level of participation in industry alliance. Mr. Chu Chuanfu (Chief Executive Officer) attended summits and forums of the alliance in person so as to master the industry information, promote branded products construction, strengthen the Group's interaction and exchange in industry alliance and enhance its impact.

Industry Chain of Chinese Medicine: By leveraging on a new round of rejuvenation in the old industrial base in the northeast part of the PRC, development of under-forest economy in the northeast China was further advanced. In such case, planting typical traditional Chinese medicinal materials under forest in the northeast China was policy-supported by government at all levels. The Group will definitely seize this historical opportunity to develop the business of planting traditional Chinese medicinal materials under forest as and when appropriate, involving in extraction, processing and marketing by virtue of the Group's own multi-layer network. The Group strives to join in or develop a future platform dealing with Chinese medicinal materials so as to explore new profit growth opportunity.

Distribution System: During the Period, the Group kept promoting its distribution system, and continued to select and optimize distributors, providing training and follow-up work, fully implementing the policy of "Two Invoices System" to seize historical opportunities and endeavor to mitigate the downward impact of the macro environment.

Retail System: During the Period, the Group stepped up training efforts in developing the retail chain system, proactively transforming the mode of thinking, strengthening the development and assessment of incentive mechanisms, demonstrating enthusiasm, initiative and creativity in regional management, and at the same time, maintained input in promotion so as to restrain the downward impact arising from the real economy. The Group has continued to integrate with the "Internet +" mode and made intensive efforts to advance precise marketing and membership activities so as to enhance membership cohesion and stimulate consumption.

Online Pharmacies: Based on the characteristics of pharmaceutical marketing, the Group boosted its click through rate in its existing network on JD.com and Tmall.com, while focusing particularly on implementing the "Internet +" strategy, proactively promoted and guided offline experience and sales so as to bring into play a two-wheel drive mode by further integrating network marketing with offline physical store marketing, which also plays a great role in brand building.

Cross-Border Trade: The Group exhibits cross-border advantages in the industry, leveraging on overseas platforms such as the Hong Kong Cross-Border E-Commerce Association, the Federation of Industry and Commerce and overseas benchmarking stores of Universal Health and collected global superior resources in upstream suppliers, so as to smoothly coordinate with the corresponding overseas platforms through the channels of overseas third-party cross-border logistics, the self-supported cross-border logistics and contracted warehouse and by means of the third-party mobile phone or PC network platform, self-operated mobile phone or PC network platform and "Future Store" placing at home. Besides, the Company took the advantages of network, brand and members of physical stores to build a new experience for cross-border e-commerce. The purchase department of the Group in Hong Kong has confirmed the cooperation with Halykoo of Switzerland, Spring Leaf of Australia and Prince of Peace of USA, and served as the agent and promoter for the co-brand by applying the new conception

and new strategy of “Internet + Resources Integration +” as well as the operation strategy combining online stores and offline physical stores. Products under these three brands are available in pharmacy stores in Hong Kong and Macau, and cross-border e-commerce platforms.

Future Store: The Group vigorously develops the “Future Store” network. The “Future Store” means the integration of real business and virtual channel on the backdrop of internet age through Online-to-offline (“O2O”) model, thus to form the trinity structure (multi-framework cloud e-mall) with “E-mall”, “Industry O2O” and “WeChat-Marketing”, which integrates the shopping terminals comprising online and offline communication, including site experience, online selecting and purchasing, mobile payment, store pick-up or logistics and post-delivery. The features of “Future Store” are light asset, low cost, focusing on experience, low inventory and high capacity. Furthermore, the “Future Store” has more flexibility as it can use the existing chain store network and also develop the community network.

Sharing Rule: The “Sharing Rule”, a component of the Golden Rules, is an important clue that spans through each platform. In the phase of business repositioning, we should attach more importance to the value created by strategic cooperation. Internally, the management of “Profit Center” may be deemed as “Profit Creating Partners”; the management of “Expense Center” as “Economy Partners”. Externally, take the “Projects Cooperation System” and “Company’s Share Consolidation” as the cooperation basis with upstream suppliers, e-commerce providers and financial project providers. Take the brand and network advantages of the Group and create new profit growth point by developing dominate projects so as to realize the transformation and upgrade of a new development mode – “Industry + Finance + Capital”.

Strategic Mergers and Acquisitions: During the Period, the Company acquired 36.38% of equity interest of Jilin Wenhui Capsules Limited (吉林文輝膠囊有限公司) (“Jilin Wenhui”) through the issuance of 400,000,000 shares of the Company and partial payment in cash as consideration. As part of the Group’s strategy, the realization of ecological mergers and acquisitions for upstream and downstream resources played a positive role in promoting enterprise competitiveness, improving the status of original equipment manufacturer of branded products, increasing the level of gross margin, improving the overall interests of the Group and underpinning the “Internet +” and internationalization strategy. The merger and acquisition of this company helps integrate commercial and production resources of the Group and give full play to advantages of pharmaceutical industry in northeast China across the country in developing an upstream capsule industrial park base, so as to inject a new force for the Group’s future development.

Universal Health Industry Fund: The Group strives to establish universal health industry fund to combining industry and finance. “Healthy China” has become the PRC’s state strategy, which renders the universal health industry an accelerated development phase supported by the following three engines: firstly, residents’ potential demand for health care and medical treatment increased due to ageing population and environmental pollution; secondly, the raising health awareness of the residents increased health care expenditures; thirdly, the governmental policy promoted the construction of “Healthy China”. The establishment of the universal health industry fund, through professional operation to seek suitable universal health enterprises, could reserve high-quality objects for merger and acquisition for the Group and lay a foundation for the Group to further expand in the universal health field by investment and fostering.

FINANCIAL REVIEW

For the Period, the Group recorded revenue of RMB1,903.8 million, representing a decrease of 25.9% as compared with RMB2,570.9 million for the corresponding period in 2015. Profit attributable to owners of the Company was RMB85.8 million, representing a decrease of 64.9% as compared with RMB244.7 million for the corresponding period in 2015. Earnings per share for the Period was RMB4.12 cents (2015: RMB12.34 cents). The decrease in profit attributable to owners of the Company was mainly due to the decrease in profit of the Group's retail and distribution businesses.

Revenue

For the Period, the Group recorded revenue of RMB1,903.8 million, representing a decrease of RMB667.1 million or 25.9% as compared with RMB2,570.9 million for the corresponding period in 2015. The decrease in revenue of the domestic retail and distribution businesses was mainly due to the decline in the people's purchasing power in traditional channels as a result of environmental factors such as downward pressure in the real economy in traditional industry and the development of Internet economy during the Period.

Analysis of revenue by business segment

	Revenue (RMB million)			Percentage (%) of total revenue		
	Six months ended 30 June			Six months ended 30 June		
	2016	2015	Change (%)	2016	2015	Change
Retails I	794.0	1,048.2	-24.2	41.7	40.8	+0.9pp
Retails II	147.9	192.3	-23.1	7.8	7.5	+0.3pp
	941.9	1,240.5	-24.1	49.5	48.3	+1.2pp
Distributions	961.9	1,330.4	-27.7	50.5	51.7	-1.2pp
	1,903.8	2,570.9		100.0	100.0	

Retail Business Segment

The Group operates two retails reportable segments: retails with strategic stores (“**Retails I**”) and retails consisting of non-strategic stores (“**Retails II**”). Retails I are retail business with higher future development potential and strategic focus by the Group when allocating the resources, while Retails II are retail business located in remote areas without strategic importance and high growth potential. The decrease in the retail business was mainly due to the decline in the people's purchasing power in traditional channels in northeast China and the decrease in the sales to members during the Period. As at 30 June 2016, the Group had 954 (2015: 953) retail pharmacies in total, of which 688 (2015: 688) located in Heilongjiang, 168 (2015: 168) in Liaoning, 94 (2015: 93) in Jilin and 4 (2015: 4) self-

operated retail pharmacies in Hong Kong. In addition, the Group had 13 (2015: 16) supermarkets in Shenyang as at 30 June 2016, mainly selling healthcare products and consumer goods.

Distribution Business Segment

The sales in the distribution business decreased since the Group continued to adopted a more prudent approach in running this business. The Group took appropriate actions to mitigate credit risks by strengthening the credit management of sales and minimising trade receivables in order to lower the risk of bad debts. As at 30 June 2016, the Group had a nationwide distribution network covering approximately 4,700 active customers (2015: 6,500), including approximately 3,400 pharmaceutical retailers (2015: 4,300), hospitals and clinics and approximately 1,300 distributors (2015: 2,200).

Gross profit

Gross profit of the Group for the Period was RMB519.8 million, representing a decrease of RMB216.3 million or 29.4% as compared with RMB736.1 million for the corresponding period in 2015. The decrease in gross profit margin was mainly due to the decrease in the overall revenue. Overall gross profit margin decreased from 28.6% to 27.3%. The decrease in gross profit margin was mainly due to the change of product mix and drop in the gross margin of high-margin products.

Analysis of gross profit by business segment

	Gross profit (RMB million)		Changes	Gross profit margin (%)		
	Six months ended 30 June			Six months ended 30 June		Changes
	2016	2015	(%)	2016	2015	
Retails I	304.5	400.2	-23.9	38.3	38.2	+0.1pp
Retails II	44.8	76.4	-41.4	30.3	39.7	-9.4pp
	349.3	476.6	-26.7	37.1	38.4	-1.3pp
Distributions	170.5	259.5	-34.3	17.7	19.5	-1.8pp
	519.8	736.1				

The Group's high-margin products consists of licensed products and products with exclusive distribution rights. During the Period, revenue of the Group's high-margin products decreased by 4.3% over the corresponding period in 2015 and the gross profit margin of these high-margin products decreased from 49.8% to 45.5%. As at 30 June 2016, the Group had 360 (2015: 360) types of licensed products and 2,357 (2015: 2,386) types of products with exclusive distribution rights.

Selling and marketing expenses

Selling and marketing expenses for the Period was RMB360.4 million, representing an increase of RMB1.6 million or 0.4% over the corresponding period in 2015 and accounting for 18.9% (2015: 14.0%) of the Group's revenue. The increase of selling and marketing expenses was mainly due to the increase in employee benefit expenses and training fees to retain specialized pharmacy staffs and improve their quality and, at the same time, reduce staff turnover, but partially offset by the decrease in vehicle advertisement and marketing expenses.

Administrative expenses

Administrative expenses for the Period was RMB45.4 million, representing a decrease of RMB1.3 million or 2.7% over the corresponding period in 2015 and accounting for 2.4% (2015: 1.8%) of the Group's revenue. The decrease was mainly due to the management continuing to optimise the cost control of the Group by introducing cost control measures.

Finance income/cost – net

Net finance income for the Period was RMB4.5 million (2015: Net finance cost of RMB0.1 million). Net finance income was resulted due to exchange gains and the decrease in interest expenses for the Period.

Income tax expenses

Income tax expenses for the Period was RMB32.8 million, representing a decrease of RMB50.3 million or 60.5% over the corresponding period in 2015. The effective income tax rate for the Period was 27.3% (2015: 25.1%).

Acquisition of an associate

On 9 May 2016, the Company entered into an agreement with an independent third party, pursuant to which the Company acquired 36.38% of equity interest of Jilin Wenhui by a combination of cash and the issuance of 400,000,000 consideration shares. On 24 May 2016, issue of consideration shares was completed. Subsequent to the completion, Jilin Wenhui became an associate of the Group.

For further details, please refer to the announcement of the Company dated 9 May 2016.

LIQUIDITY AND CAPITAL RESOURCES

The Company's treasury function formulated financial risk management procedures, which are also subject to periodic review by the senior management of the Company.

This treasury function operates as a centralized service for managing financial risks, including interest rate and foreign exchange rate risks, reallocating surplus financial resources within the Group, procuring cost-efficient funding and targeting yield enhancement opportunities. The treasury function regularly and closely monitors its overall cash and debt positions, proactively reviews its funding costs and maturity profiles to facilitate timely refinancing, if appropriate.

As at 30 June 2016, the Group's unpledged cash and cash equivalents totalled RMB1,516.0 million (31 December 2015: RMB1,333.3 million), and the Group's net current assets were RMB1,923.0 million (31 December 2015: RMB1,859.2 million).

During the Period, net cash flows generated from operating activities amounted to RMB199.8 million, as compared to RMB310.3 million for the corresponding period in 2015. The decrease was in line with the Group's operating performance.

During the Period, the Group had capital expenditure of RMB46.9 million (2015: RMB18.8 million).

Having considered the cash flow from operating activities, existing financial gearing and banking facilities available to the Group, the management believes that the Group's financial resources are sufficient to fund its debt payments, day-to-day operations, capital expenditures and prospective business development projects.

The Group mainly operates in the PRC, with most of its transactions denominated and settled in Renminbi. The Group's currency risk arises from certain bank deposits that are denominated in Hong Kong dollars and United States dollars. As at 30 June 2016, the Group had RMB1,516.0 million in cash and bank balances of which the equivalent of RMB17.9 million was denominated in Hong Kong dollars and United States dollars.

The Group did not use financial instruments for financial hedging purpose during the Period.

CAPITAL STRUCTURE

As at 30 June 2016, the capital structure of the Company was constituted of 2,400,000,000 ordinary shares of USD0.001 each.

There was no movements in the Company's share options during the Period.

As at 30 June 2016, the Group had certain interest-bearing bank borrowings of RMB173.3 million (31 December 2015: RMB166.9 million). Bank borrowings carried annual interest rates at 3.1% (31 December 2015: 3.6%). Among the bank borrowings, except RMB6.4 million were denominated in Hong Kong dollars, the remaining were denominated in Renminbi.

The gearing ratio of the Group as at 30 June 2016, calculated as net debt divided by sum of total equity and net debt, was N/A (31 December 2015: N/A).

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 30 June 2016, the Group has no significant contingent liabilities (31 December 2015: Nil).

As at 30 June 2016, the bank borrowings and notes payable of the Group were secured by the time deposits of the Group with net aggregate booking value of RMB207.2 million (31 December 2015: RMB227.4 million).

HUMAN RESOURCES

As at 30 June 2016, the Group had 6,356 (2015: 6,405) full-time employees in Hong Kong and the PRC with total employee benefit expenses amounted to RMB157.9 million (2015: RMB141.2 million). Employees are paid according to their positions, performance, experience and prevailing market practices, and are provided with management and professional training. The Group has implemented a number of initiatives to enhance the productivity of its employees. In particular, the Group conducts periodic performance reviews of most of the employees, and their compensation is tied to their performance. Further, the Group's compensation structure is designed to incentivize its employees to perform well by linking a portion of their compensation to their performance and the overall performance of the Group. The performance-based portion depends on the employee's job function and seniority. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of the PRC. The Company has adopted a share option scheme and a share award plan for the purpose of providing incentives to participants for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

ENVIRONMENT, GOVERNANCE AND SOCIAL RESPONSIBILITY

The Group always adheres to the environmental protection concept of sustainable development, such as caring for the environment, reducing vehicle use, energy-saving lighting. At the same time, the management strengthening enterprise management to ensure the Group's operations have best practices in the combination of governance and efficiency. The public welfare brand of "Caring China" is the best platform for the Group to fulfill its social responsibility.

FUTURE PLAN

The Group will take the Golden Rules as its guidelines, and strive for breakthrough and integration advantages in the development of cross-border e-commerce, "Future Store" and universal health industry fund, respectively. During the transitional period of economic transformation lasting one to two years, the Group has adopted the multilateral cooperation by employing the "Sharing Rule" and continues to take a leading position in Chinese medicine industry chain and industrial merger and acquisition.

USE OF PROCEEDS FROM SHARE OFFER

The shares of the Company were listed on 12 December 2013 on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The total net proceeds amounted to approximately RMB868.1 million (equivalent to approximately HK\$1,101.6 million). As at 30 June 2016, the net proceeds from the IPO were used for purposes which were consistent with those set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 2 December 2013 and as set out below:

Use of proceeds	Net Proceeds	<i>RMB million</i>	
		Proceeds used	Proceeds unused
For acquisitive expansion	347.2	(347.2)	–
For organic growth	260.4	(100.7)	159.7
For brand promotion	173.6	(173.6)	–
For working capital	86.9	(77.5)	9.4
Total	<u>868.1</u>	<u>(699.0)</u>	<u>169.1</u>

As at 30 June 2016, the unused net proceeds were placed with banks in the PRC as short-term deposits or term deposits.

INTERIM DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2016 (2015: HK1.5 cents per share).

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders of the Company (the “Shareholders”) and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code and the Corporate Governance Report (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange throughout the Period. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code throughout the Period.

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

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") is comprised of three independent non-executive Directors, namely Ms. Hao Jia (Chairman), Mr. Cheng Sheung Hing and Ms. Chiang Su Hui Susie. The main duties of the Audit Committee are to examine, review and monitor the financial reporting procedure and financial reporting, risk management and internal control systems of the Company. The Audit Committee had reviewed the unaudited interim results of the Group for the Period.

PricewaterhouseCoopers, the independent auditor of the Company, has reviewed but not audited the Group's interim results for the Period in accordance with International Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the entity" issued by the International Auditing and Assurance Standards Board.

PUBLICATION OF THE INTERIM RESULTS AND 2016 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange and the Company, and the 2016 Interim Report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.uhighl.com) in due course.

By order of the Board
Universal Health International Group Holding Limited
Jin Dongtao
Chairman

Hong Kong, 25 August 2016

As at the date of this announcement, the Board of the Company comprises four executive Directors, namely, Mr. Jin Dongtao, Mr. Jin Dongkun, Mr. Chu Chuanfu and Mr. Zhao Zehua and three independent non-executive Directors, namely, Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Ms. Hao Jia.