# 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 2017

### INTERIM RESULTS HIGHLIGHTS

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2017** | 2016 | |
| | ***RMB Million*** | *RMB Million* | Change |
| | **(Unaudited)** | (Unaudited) | (%) |
| Revenue | **1,332.1** | 1,903.8 | -30.0 |
| Gross profit | **274.0** | 519.8 | -47.3 |
| Operating (loss)/profit | **(85.6)** | 115.3 | -174.2 |
| (Loss)/profit for the period | **(83.5)** | 87.4 | -195.5 |
| EBITDA | **(62.1)** | 138.1 | -145.0 |
| Basic (loss)/earnings per share – RMB cents | **(3.39)** | 4.12 | -182.3 |
| | | | |
| Gross margin (%) | **20.6** | 27.3 | -6.7pp |
| Operating (loss)/profit margin (%) | **(6.4)** | 6.1 | -12.5pp |
| Net (loss)/profit margin (%) | **(6.3)** | 4.6 | -10.9pp |

The board (the "**Board**") of directors (the "**Directors**") 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 2017 (the "**Period**") together with the comparative figures for the corresponding period in 2016 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | (Unaudited) Six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Revenue** | *2* | **1,332,076** | 1,903,845 |
| Cost of sales | *3* | **(1,058,102)** | (1,384,006) |
| **Gross profit** | | **273,974** | 519,839 |
| Selling and marketing expenses | *3* | **(315,405)** | (360,367) |
| Administrative expenses | *3* | **(43,901)** | (45,374) |
| Other income | | **892** | 1,668 |
| Other losses – net | | **(1,162)** | (417) |
| **Operating (loss)/profit** | | **(85,602)** | 115,349 |
| Finance income | *4* | **5,840** | 7,192 |
| Finance costs | *4* | **(6,919)** | (2,721) |
| Finance (costs)/income – net | *4* | **(1,079)** | 4,471 |
| Share of post-tax profits of joint ventures | | **311** | 441 |
| Share of post-tax profit/(loss) of an associate | | **1,580** | (59) |
| **(Loss)/profit before income tax** | | **(84,790)** | 120,202 |
| Income tax credit/(expenses) | *5* | **1,316** | (32,803) |
| **(Loss)/profit for the period** | | **(83,474)** | 87,399 |
| **(Loss)/profit attributable to:** | | | |
| – Owners of the Company | | **(82,109)** | 85,837 |
| – Non-controlling interests | | **(1,365)** | 1,562 |
| | | **(83,474)** | 87,399 |
| **(Loss)/earnings per share attributable to owners of the Company for the period (RMB cents)** | | | |
| – Basic and diluted | *6* | **(3.39)** | 4.12 |
| **Other comprehensive income/(loss)** | | | |
| *Item that may be reclassified to profit or loss* | | | |
| Currency translation differences | | **4,101** | (2,249) |
| **Total comprehensive income for the period** | | **(79,373)** | 85,150 |
| **Total comprehensive income attributable to:** | | | |
| – Owners of the Company | | **(78,008)** | 83,588 |
| – Non-controlling interests | | **(1,365)** | 1,562 |
| | | **(79,373)** | 85,150 |

## CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | (Unaudited) As at 30 June 2017 RMB'000 | (Audited) As at 31 December 2016 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **224,209** | 226,665 |
| Land use rights | | **5,622** | 3,619 |
| Intangible assets | | **508,699** | 517,681 |
| Investments in joint ventures | | **8,522** | 8,211 |
| Investment in an associate | | **248,204** | 246,624 |
| Prepayment for construction in progress | | **28,009** | 25,426 |
| Biological assets | | **84,800** | – |
| Deferred income tax assets | | **12,896** | 12,862 |
| **Total non-current assets** | | **1,120,961** | 1,041,088 |
| **Current assets** | | | |
| Trade and other receivables | *8* | **522,486** | 545,535 |
| Inventories | | **357,854** | 391,756 |
| Restricted cash | | **208,835** | 217,131 |
| Cash and cash equivalents | | **1,003,677** | 1,107,329 |
| **Total current assets** | | **2,092,852** | 2,261,751 |
| **Total assets** | | **3,213,813** | 3,302,839 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **17,998** | 14,878 |
| Reserves | | **1,607,731** | 1,524,900 |
| Retained earnings | | **1,086,802** | 1,168,911 |
| | | **2,712,531** | 2,708,689 |
| **Non-controlling interests** | | **23,396** | 24,761 |
| **Total equity** | | **2,735,927** | 2,733,450 |

| | Note | (Unaudited) As at 30 June 2017 RMB'000 | (Audited) As at 31 December 2016 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | **38,912** | 41,282 |
| **Current liabilities** | | | |
| Borrowings | | **154,550** | 154,550 |
| Trade and other payables | *9* | **284,183** | 371,926 |
| Current income tax liabilities | | **241** | 1,631 |
| **Total current liabilities** | | **438,974** | 528,107 |
| **Total liabilities** | | **477,886** | 569,389 |
| **Total equity and liabilities** | | **3,213,813** | 3,302,839 |

## 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 2017 has been prepared in accordance with International Accounting Standard ("**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 2016, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). The condensed consolidated interim financial information has been prepared on a historical cost basis, except for the biological assets which are measured at fair value less cost to sell.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, 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 2017.

**(a)** Biological assets

Biological assets are the wild ginsengs that are measured at fair value less cost to sell.

Costs to sell include the incremental selling costs, including the people costs to collect and process the wild ginsengs when harvested, the estimated costs of transport to the market, etc.

The wild ginsengs are accounted for as biological assets until the point of harvest. Harvested wild ginsengs are transferred to inventory at fair value less costs to sell when harvested.

Changes in fair value of biological assets are recognised in the statement of profit or loss.

**(b)** Amendments to IFRSs effective for the financial year ending 31 December 2017 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 years beginning on or after |
|---|---|---|
| Amendment to IFRS 1 | First time adoption of HKFRS | 1 January 2018 |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transaction | 1 January 2018 |
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| Amendment to IAS 28 | Investments in Associates and Joint Ventures | 1 January 2018 |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | 1 January 2018 |
| Amendments to IFRS 4 | Insurance Contracts | 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 |

The Group is in the process of making an assessment of the impact of the new and amended standards and do not expect that the adoption of these new and amended excluding IFRS 15 Revenue from Contracts with Customers and IFRS 16 Lease will result in any material impact on the consolidated financial statements of Group.

*IFRS 15, Revenue from contracts with customers*

The ISAC has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- Rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

*IFRS 16, Leases*

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change. The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB45,662,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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 People's Republic of China (the "**PRC**" or "**China**"). Individual financial information and management report of the retails with strategic stores ("**Retails I**"), retails consisting of non-strategic stores ("**Retails II**"), distributions and others are presented to the Board of Directors to assess their performance and for making respective business decisions. Distributions, Retails I, Retails II and Others are considered to be four segments in accordance with IFRS 8 "Operating Segment". The "Others" segment mainly comprises investment companies.

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 2017 and 2016. 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 loss/earnings before interests, tax, depreciation and amortisation ("**Adjusted EBITDA**"). The measurement basis of Adjusted EBITDA excludes the effect of share of post-tax profits or losses of joint ventures and an associate.

The segment information for the six months ended 30 June 2017 and as at 30 June 2017 is as follows:

| | (Unaudited) Six months ended 30 June 2017 | | | | |
|---|---|---|---|---|---|
| | **Distributions** | **Retails I** | **Retails II** | **Others** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue | **972,597** | **528,987** | **103,555** | **–** | **1,605,139** |
| Inter-segment revenue | **(273,063)** | **–** | **–** | **–** | **(273,063)** |
| Revenue from external customers | **699,534** | **528,987** | **103,555** | **–** | **1,332,076** |
| Adjusted EBITDA | **(31,768)** | **(14,946)** | **(11,748)** | **(3,650)** | **(62,112)** |
| Depreciation and amortisation | **(6,415)** | **(15,310)** | **(1,739)** | **(26)** | **(23,490)** |
| Finance income | **3,104** | **2,458** | **275** | **3** | **5,840** |
| Finance costs | **(2,473)** | **(1,047)** | **(46)** | **(3,353)** | **(6,919)** |
| Share of post-tax profits of joint ventures | **–** | **311** | **–** | **–** | **311** |
| Share of post-tax profit of an associate | **1,580** | **–** | **–** | **–** | **1,580** |
| Income tax (expenses)/credit | **(427)** | **1,807** | **(64)** | **–** | **1,316** |
| Loss for the period | **(36,399)** | **(26,727)** | **(13,322)** | **(7,026)** | **(83,474)** |
| Additions of non-current assets | **89,295** | **3,571** | **–** | **10,062** | **102,928** |

| | (Unaudited) As at 30 June 2017 | | | | |
|---|---|---|---|---|---|
| | **Distributions** | **Retails I** | **Retails II** | **Others** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Total assets before eliminations | **2,469,541** | **1,767,888** | **63,889** | **1,670,544** | **5,971,862** |
| Inter-segment assets | **(592,484)** | **(625,431)** | **(17,070)** | **(1,523,064)** | **(2,758,049)** |
| Total assets | **1,877,057** | **1,142,457** | **46,819** | **147,480** | **3,213,813** |
| Total liabilities before eliminations | **1,190,743** | **711,426** | **42,996** | **188,289** | **2,133,454** |
| Inter-segment liabilities | **(1,011,869)** | **(517,654)** | **(39,339)** | **(86,706)** | **(1,655,568)** |
| Total liabilities | **178,874** | **193,772** | **3,657** | **101,583** | **477,886** |

The segment information for the six months ended 30 June 2016 and as at 31 December 2016 is as follows:

| | (Unaudited) Six months ended 30 June 2016 | | | | |
|---|---|---|---|---|---|
| | Distributions | Retails I | Retails II | Others | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue | 1,333,035 | 794,019 | 147,959 | – | 2,275,013 |
| Inter-segment revenue | (371,168) | – | – | – | (371,168) |
| Revenue from external customers | 961,867 | 794,019 | 147,959 | – | 1,903,845 |
| 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 post-tax loss of an associate | (59) | – | – | – | (59) |
| Income tax expenses | (6,604) | (25,620) | (579) | – | (32,803) |
| Profit/(loss) for the period | 23,626 | 70,416 | (1,510) | (5,133) | 87,399 |
| Additions of non-current assets | 243,169 | 19,759 | – | 100 | 263,028 |

| | (Audited) As at 31 December 2016 | | | | |
|---|---|---|---|---|---|
| | Distributions | Retails I | Retails II | Others | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Total assets before eliminations | 2,494,615 | 1,753,504 | 121,883 | 1,530,906 | 5,900,908 |
| Inter-segment assets | (518,313) | (595,978) | (42,042) | (1,441,736) | (2,598,069) |
| Total assets | 1,976,302 | 1,157,526 | 79,841 | 89,170 | 3,302,839 |
| Total liabilities before eliminations | 1,283,454 | 715,855 | 43,581 | 26,000 | 2,068,890 |
| Inter-segment liabilities | (929,144) | (511,708) | (37,549) | (21,100) | (1,499,501) |
| Total liabilities | 354,310 | 204,147 | 6,032 | 4,900 | 569,389 |

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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Changes in inventories | **1,052,680** | 1,374,538 |
| Employee benefit expenses | **163,926** | 157,853 |
| Advertising and other marketing expenses | **67,894** | 104,448 |
| Rental expenses | **54,517** | 53,257 |
| Transportation and related charges | **30,348** | 40,369 |
| Depreciation of property, plant and equipment | **14,298** | 12,813 |
| Amortisation of intangible assets | **9,145** | 9,936 |
| Other tax expenses | **6,374** | 10,624 |
| Office and communication expenses | **5,588** | 5,090 |
| License fee of trademarks | **4,000** | 3,260 |
| Electricity and other utility fees | **1,821** | 2,032 |
| Auditors' remuneration | **1,380** | 1,600 |
| Professional fees | **1,287** | 1,660 |
| Travelling and meeting expenses | **894** | 862 |
| Amortisation of land use rights | **47** | 47 |
| Training fees | **–** | 8,424 |
| Other expenses | **3,209** | 2,934 |
| Total | **1,417,408** | 1,789,747 |

## 4. FINANCE INCOME AND COSTS

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **Finance income** | | |
| Interest income on bank deposits | **5,840** | 4,406 |
| Exchange gains | **–** | 2,786 |
| | **5,840** | 7,192 |
| **Finance costs** | | |
| Exchange losses | **(4,585)** | – |
| Interest expenses | **(2,134)** | (2,324) |
| Other charges | **(200)** | (397) |
| | **(6,919)** | (2,721) |
| Finance (costs)/income – net | **(1,079)** | 4,471 |

## 5. INCOME TAX CREDIT/EXPENSES

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| – PRC corporate income tax | **(1,013)** | (29,770) |
| – Hong Kong profits tax | **(75)** | (423) |
| Deferred income tax credit/(charge) | **2,404** | (2,610) |
| Total income tax credit/(expenses) | **1,316** | (32,803) |

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 2017 (2016:16.5%). 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. LOSS/EARNINGS PER SHARE

### (a) Basic

Basic loss/earnings per share is calculated by dividing the loss/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 | |
|---|---|---|
| | **2017** | 2016 |
| (Loss)/profit attributable to owners of the Company *(RMB'000)* | **(82,109)** | 85,837 |
| Weighted average number of ordinary shares in issue *(thousands)* | **2,425,311** | 2,083,516 |
| Basic (loss)/earnings per share *(RMB cents)* | **(3.39)** | 4.12 |

### (b) Diluted

As there were no dilutive potential ordinary shares outstanding for the six months ended 30 June 2017 and 2016, the diluted loss/earnings per share for the periods is equal to basic loss/earnings per share.

## 7. DIVIDEND

No interim dividend was declared for the six months ended 30 June 2017 (2016: nil).

## 8. TRADE AND OTHER RECEIVABLES

| | **(Unaudited) As at 30 June 2017** ***RMB'000*** | (Audited) As at 31 December 2016 *RMB'000* |
|---|---|---|
| Trade receivables *(Note)* | **158,548** | 165,486 |
| Prepayments | **241,668** | 259,302 |
| Other receivables | **124,044** | 122,521 |
| Provision for impairment | **(1,774)** | (1,774) |
| Total | **522,486** | 545,535 |

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 day to 90 days. The ageing analysis based on recognition date of the trade receivables is as follows:

| | **(Unaudited) As at 30 June 2017** ***RMB'000*** | (Audited) As at 31 December 2016 *RMB'000* |
|---|---|---|
| Up to 3 months | **153,896** | 152,801 |
| 4 months to 6 months | **3,626** | 4,559 |
| 7 months to 12 months | **1,026** | 8,126 |
| | **158,548** | 165,486 |

## 9. TRADE AND OTHER PAYABLES

| | **(Unaudited) As at 30 June 2017** ***RMB'000*** | (Audited) As at 31 December 2016 *RMB'000* |
|---|---|---|
| Trade payables *(a)* | **145,687** | 164,377 |
| Notes payable *(b)* | **58,096** | 66,129 |
| Other payables | **80,400** | 141,420 |
| Total | **284,183** | 371,926 |

(a) As at 30 June 2017, the aging 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 2017** | (Audited) As at 31 December 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Up to 3 months | **135,263** | 156,546 |
| 4 months to 6 months | **7,658** | 6,362 |
| 7 months to 12 months | **1,646** | 540 |
| 1 year to 2 years | **1,120** | 929 |
| | **145,687** | 164,377 |

(b) As at 30 June 2017, the entire balance of notes payable was secured by restricted cash of RMB58,835,000 (31 December 2016: RMB67,131,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

In the first half of 2017, the PRC released a series of significant policies, including establishing "Xiong'an New Area", planning "Guangdong-Hong Kong-Macao Greater Bay Area", deepening "1+3+7" Free Trade Zone, intensifying the "Belt and Road" Initiative, enhancing the reform of state-owned enterprises, and implementing the mixed ownership reform of state-owned enterprises, continued to carry forward supply-side structural reform unswervingly, and in depth implementation of innovation-driven development strategy. China's national economy maintains stable development and moves forward steadily.

The pharmaceutical industry is an important component of China's national economy. At present, China's pharmaceutical industry is undergoing a new medical reform and supply-side structural reform. The medical reform policies mainly focus on medical insurance and pricing system, which has exerted profound influence on the pharmaceutical industry. The industry has entered into a new norm characterized by slower growth rate and optimized structure. Affected by the slower growth rate of the pharmaceutical market under the new medical reform, the pharmaceutical circulation industry also experienced slower growth.

In the first quarter of 2017, China's GDP recorded a year-on-year increase of 6.9%. According to the data from China's National Bureau of Statistics, from January 2017 to May 2017, the national industrial enterprises above designated size achieved a total profit of RMB2,904.76 billion, representing a year-on-year increase of 22.7%, 1.7 percentage points lower than the growth rate of the first four months of 2017. Among which, the operating income from the pharmaceutical manufacturing industry in the first five months of 2017 reached RMB1,170.99 billion with a year-on-year increase of 11.9%, and the total profit reached RMB125.52 billion with a year-on-year increase of 15.7%, lower than the average growth rate of industrial enterprises.

In the first five months of 2017, the total retail sales of consumer goods reached RMB14,256.1 billion with a year-on-year increase of 10.3%, 0.1 percentage point higher than the growth rate of the first four months of 2017 and the corresponding period of last year. Among which, the absolute amount of Chinese and Western drugs reached RMB366.5 billion in the first five months of 2017 with a year-on-year increase of 11.7%.

The online retail sales has experienced rapid and continuous growth. According to the data from China's National Bureau of Statistics, the national online retail sales reached RMB2,466.3 billion with a year-on-year increase of 32.5% for the period from January 2017 to May 2017. The national online retail sales of physical commodities represented a year-on-year increase of 26.5%, 0.6 percentage point higher than the growth rate of the first four months of 2017, and 16.2% higher than the growth rate of the total sales of consumer goods in the corresponding period; accounted for 13.2% of the total sales of consumer goods, 0.3 percentage point higher than the first four months of 2017, and 1.9 percentage points higher than the corresponding period of last year.

In terms of policies, 2015 and 2016 were the years of policy formulation for the pharmaceutical industry. The policy enacted become more systematic and executable, covering the whole operational cycle, i.e. vetting, production, circulation and payment. The reform of the pharmaceutical industry evolves from quantitative variations to qualitative variations. The year of 2017 will be the year of policy implementation.

In 2016, the "Two Invoices System" was firstly proposed in the key work of the pharmaceuticals and health system reform. On 9 January 2017, the Medical Reform Office of the State Council officially published the *Opinions on Implementation of Advancement of "Two Invoices System" in the Drug Procurement of the Public Medical Institutions (Trial)* (《公立醫療機構藥品採購中推行「兩票制」的實施意見(試行)》), and enacted successively in 23 cities and provinces in China. The Two Invoices System requires that, when the drugs are sold from manufacturers to circulation enterprises, only one instance of invoices needs to be issued, when the drugs are sold from circulation enterprises to medical institutions, only one instance of invoices needs to be issued. It basically reduces the room for survival of small and medium dealers and further enhances the concentration of the pharmaceutical circulation industry.

It is pointed out in the *Several Opinions on Further Reforming and Improving the Policies concerning Production, Circulation and Usage of Drugs* (《關於進一步改革完善藥品生產流通使用政策的若干意見》) promulgated by the General Office of the State Council on 9 February 2017 that, efforts shall be made to resolve prominent problems in the pharmaceutical field, eliminate the root causes of the problem, promote integration and coordination, come up with systematic reform measures covering pharmaceutical manufacturing, circulation and usage, improve the quality and curative effect of drugs supplied, guarantee the prompt supply of drugs, promote the reasonable drug price, apply drugs in the cure of diseases, and establish a standardised and orderly drug supply safeguards system, in order to better satisfy people's demands for medical advice and treatment, and construct a healthy China.

On 23 February 2017, the Ministry of Human Resources and Social Security of PRC released the new version of the *Medicines List for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2017 Version)* (《國家基本醫療保險、工傷保險和生育保險藥品目錄(二零一七年版)》) on its website, which includes 2,535 Western and Chinese patent medicines, with an increase of 339 medicines, approximately 15.4%, compared with the 2009 version. Among which, 1,297 are Western patent medicines and 1,238 are Chinese patent medicines. The proportion of Chinese medicines to Western medicines is approximating 1:1 after the inclusion of the new medicines.

On 28 June 2017, the General Office of the State Council printed and issued the *Guiding Opinions on Further Deepening the Reform in the Mode of Payment of the Basic Medical Insurance* (《關於進一步深化基本醫療保險支付方式改革的指導意見》), stipulating that, since 2017, we shall further strengthen the budget management of the medical insurance fund, and comprehensively popularize the diversified and combined modes of payment centered on the payment by type of disease. By 2020, the reform of the mode of payment of medical insurance will be conducted in all the medical institutions and medical service with an obvious decrease in the payment by medical treatment.

In the short run, the pharmaceutical industry experiences fluctuation under the influence of the reform. But in the long run, China's pharmaceutical industry is on the track of rapid standardised development. Considering the factors stimulating the stable growth of pharmaceutical demands in the market such as accelerated aging population, vigorous public demands of drugs, increased consuming capacity of residents, and enhanced health consciousness, it is predicted that the pharmaceutical industry will maintain a steady growth in 2017.

## BUSINESS REVIEW

During the Period, under the leadership of Mr. Jin Dongtao, the Chairman, and with the efforts of the management and all our employees, the Group solidly implemented the operation and management of traditional retail chain store business and distribution network. In terms of strategy, the Group has also established and upgraded into "Industry + Finance + Capital" from the traditional industry and actively addressed the effect from the slower growth rate of economic and industry development on the Group's business. The Group has acquired the land development right, which is a piece of 1,009 Mu of forest land situated in Si Peng Xiang San Ren Ban Cun, Tonghua County, Tonghua City, Jilin Province in the PRC, to create its own ecosystem and build an international brand operator in the universal 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 cooperation strategy.

### Nationwide Distribution Business

During the Period, the Group had over 4,000 nationwide active distribution customers and 5 large-scale distribution hubs. The Group made appropriate promotion in its distribution system, and continued to screening and maintaining distributors, provide training and follow-up work, fully implementing the policy of "Two Invoices System" and increasing interaction with distributors to seize favourable opportunities. Meanwhile, given the new round of Northeast Area Revitalization Plan (東北地區振興規劃) in the PRC is now in an early stage, which intensifies the competition in the pharmaceutical circulation market and the decrease in the residents' consuming capacity, the Group will endeavor to mitigate the resulting impact. During the Period, the Group held 11 associations in total with strategic cooperation of distribution system, but subject to the development environment of real economy and the transformation of the Company's strategies, the Group's sales revenue of distribution business decreased by 27.3% as a whole from RMB961.9 million for the corresponding period in 2016 to RMB699.5 million for the Period.

**Chain Retail Business**

During the Period, the Group optimized management strategy, accelerated the upgrade of operation, continued to keep the division of strategic stores and non-strategic stores and closed 18 strategic stores in due course so as to centralize its strengths and resources for accelerating the upgrade of strategic stores. As such, the Group had 936 stores in total including 657 strategic stores (2016: 675 strategic stores) at the end of the Period and 279 non-strategic stores (2016: 279 non-strategic stores) at the end of the Period. Meanwhile, affected by macro environment as a whole, sales revenue of retail business decreased by 32.8% as a whole from RMB941.9 million for the corresponding period in 2016 to RMB632.6 million for the Period.

**Direct-supply and Sales Model**

The Group's Direct-supply Model effectively eliminated and reduced the traditional heavily overlapped sales process, as well as simplified the supply chain to improve the sales efficiency and profitability and provided a higher profit margin for the Group. At the same time, the model with primacy accorded to the management system of "Two Invoices System" carried out by the government and subject to minor effect of policy change. During the Period, the Group's management took all necessary actions to safeguard the direct supply of branded products and its direct supply mode of branded products with higher gross profit covering 29 provinces in China.

**Branded Products Operation**

During the Period, the Company continued to maintain its operational pattern of branded products which build a multi-layer upstream network consisting of original equipment manufacturers "OEM" products, domestic brand products and international brand products. Apart from the products under Yushi brand, there were 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. There were 2,506 branded products in total for the benefit of the Company's development in the operation, of which included 355 licensed products and 2,151 products that we had obtained exclusive distribution rights.

**Brand Promotion**

Brand promotion and marketing were powerful weapons to strengthen influence and enhance competitiveness of the Company. Taking advantage of the Group's resource and network, 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, WeChat as well as charity. Therefore, appropriate promotional costs were invested in the operation to cope with the uncertainties resulted from the economic transition and market competition.

**Institute Training**

Taken the lead in establishing business institute in the industry is an important characteristic that makes the Group develop rapidly and acquire high margin. During the Period, the Group continued to enhance its internal training activities. Internal training focused on the expansion of management ideas 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, the range of policies issued in the PRC and the reform of transformation and upgrade of the Company's business, so as to correspond to the business operation. During the Period, the Company held 100 internal trainings in total.

**Membership Service**

During the Period, the Group had over 1.36 million offline members and has motivated its customer members through membership promotion activities. It has also actively launched the "Love China" Public Welfare Activities to improve its healthy image. Branches of the Company strengthened the holding of membership activities by offering continuous membership benefits or rewards during shops and holiday celebration activities. Moreover, social value-added services were offered in various aspects such as the provision of cold shelters and lost children service centre as well as a database of members' consumption history, so as to retain the cohesion of the members and their willingness to buy from the Group.

**Industry Alliance**

During the Period, the Company has attended summits and forums of the alliance proactively so as to keep abreast of the industry information, promote branded products construction, strengthen the Company's interaction with industry alliance and enhance its influence. Meanwhile, the Company strengthened the interaction with the Hong Kong Cross-Border E-Commerce Association and promoted the diversification of product channels and the feasibility of developing Southeast Asian markets leveraging on the national strategy of "Belt and Road".

**Acquisition**

On 8 June 2017, the Group entered into an agreement to acquire a forest land use right and the wild ginsengs planted in this forest land from an independent third party (the "**Acquisition**" or the "**Ginsengs Project**"). The Acquisition was completed on 21 June 2017. The forest land is located in Tonghua City, Jilin Province in the PRC.

The Group is principally engaged in the retailing and distribution of pharmaceuticals. As part of the strategies of the Group, the acquisition will help achieving the ecological merger and acquisition of resources of upstream and downstream of the medical sectors, which will be beneficial for building up the industrial chain, enhancing competitiveness and the interest of the Group as a whole. In response to the revitalization of the northeast traditional industry base proposed by the PRC Government and to facilitate the policy steer on development of forest economy, the acquisition would provide the Group with a more effective control on the sources of Chinese herbal medicines, perfect "Universal Health + Ecosystem" and open up a new income segment to the Group.

### Warehouse Construction

In order to further strengthen the foundation of chain-store operation and respond to the local government's call for industrial development, the Group invested approximately RMB201.2 million in Jiamusi, Heilongjiang by the end of August 2016 with the efforts from the executive Directors, thus to establish a large-scale logistic warehouse center covering the eastern area of Heilongjiang Province, with more than 75% of works currently completed and progressed smoothly. It is expected that the completion acceptance of this project would be obtained by the end of 2017. After completion, this project will become a diversified and intensified logistic warehouse center integrated with "Business, Logistics and Information" and play an important role in optimizing distribution system of the Group.

## FINANCIAL REVIEW

For the Period, the Group recorded revenue of RMB1,332.1 million, representing a decrease of 30.0% as compared with RMB1,903.8 million for the corresponding period in 2016. Loss attributable to owners of the Company was RMB82.1 million, as compared with a profit attributable to owners of the Company of RMB85.8 million last year. Loss per share for the Period was RMB3.39 cents (2016: earnings per share RMB4.12 cents). The loss attributable to owners of the Company was resulted mainly due to the decrease in profit of the Group's retail and distribution businesses.

### Revenue

For the Period, the Group recorded revenue of RMB1,332.1 million, representing a decrease of RMB571.7 million or 30.0% as compared with RMB1,903.8 million for the corresponding period in 2016. The decrease in revenue of the domestic retail and distribution businesses for the Period was mainly due to the new round of the Northeast Area Revitalization Plan in the PRC (中國東北地區振興規劃) is now in an early stage, which intensifies the competition in the pharmaceutical circulation market and affects the consuming capacity, resulting in a decrease in overall revenue of the Group.

*Analysis of revenue by business segment*

| | Revenue (RMB million) Six months ended 30 June | | | Percentage (%) of total revenue Six months ended 30 June | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change (%) | **2017** | 2016 | Change |
| Retails I | **529.0** | 794.0 | -33.4 | **39.7** | 41.7 | -2.0pp |
| Retails II | **103.6** | 147.9 | -30.0 | **7.8** | 7.8 | -0.0pp |
| | **632.6** | 941.9 | -32.8 | **47.5** | 49.5 | -2.0pp |
| Distributions | **699.5** | 961.9 | -27.3 | **52.5** | 50.5 | +2.0pp |
| | **1,332.1** | 1,903.8 | | **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 revenue in the retail business was mainly due to the decline of the people's purchasing power in traditional channels in the northeast China and the decrease in sales to members during the Period.

As at 30 June 2017, the Group had 936 (2016: 954) retail pharmacies in total, of which 687 (2016: 688) located in Heilongjiang, 160 (2016: 168) in Liaoning, 86 (2016: 94) in Jilin and 3 (2016: 4) self-operated retail pharmacies in Hong Kong. In addition, the Group had 6 (2016: 13) supermarkets in Shenyang as at 30 June 2017, mainly for selling healthcare products and consumer goods. The performance of all supermarkets are monitored in Retails I.

*Distribution Business Segment*

The sales volumes in the distribution business was decreased due to the Group continued to adopt a 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 2017, the Group had a nationwide distribution network covering approximately 4,000 active customers (2016: 4,700), among which approximately 2,700 pharmaceutical retailers (2016: 3,400), hospitals and clinics and approximately 1,300 distributors (2016: 1,300).

## Gross profit

Gross profit of the Group for the Period was RMB274.0 million, representing a decrease of RMB245.8 million or 47.3% as compared with RMB519.8 million for the corresponding period in 2016. Overall gross profit margin decreased from 27.3% to 20.6%. The decrease in gross profit margin was mainly due to the decrease in the consuming capacity of the residents in the northeastern region of China, the Group has applied various promotion measures during the Period, such as more member activities and various promotion activities to provide discounts to the customers, in order to mitigate the decrease in revenue and to maintain relative competitiveness, which resulted in a decrease in the gross profit margin of the high-margin profit products as well as the change of the product mix also led to the Group's gross profit margin decreased for the Period.

***Analysis of gross profit by business segment***

| | Gross profit (RMB million) Six months ended 30 June | | | Gross profit margin (%) Six months ended 30 June | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change (%) | **2017** | 2016 | Change |
| Retails I | **166.2** | 304.5 | -45.4 | **31.4** | 38.3 | -6.9pp |
| Retails II | **33.1** | 44.8 | -26.1 | **31.9** | 30.3 | +1.6pp |
| | **199.3** | 349.3 | -42.9 | **31.5** | 37.1 | -5.6pp |
| Distributions | **74.7** | 170.5 | -56.2 | **10.7** | 17.7 | -7.0pp |
| | **274.0** | 519.8 | | | | |

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 33.6% over the corresponding period in 2016 and the gross profit margin of these high-margin products decreased from 45.5% to 37.6%. As at 30 June 2017, the Group had 355 (2016: 360) types of licensed products and 2,151 (2016: 2,357) types of products with exclusive distribution rights.

## Selling and marketing expenses

Selling and marketing expenses for the Period was RMB315.4 million, representing a decrease of RMB45.0 million or 12.5% as compared with RMB360.4 million for the corresponding period in 2016 and accounting for 23.7% (2016: 18.9%) of the Group's revenue. The decrease of selling and marketing expenses was mainly due to the decrease in marketing expenses in vehicle advertisement.

**Administrative expenses**

Administrative expenses for the Period was RMB43.9 million, representing a decrease of RMB1.5 million or 3.3% as compared with RMB45.4 million for the corresponding period in 2016 and accounting for 3.3% (2016: 2.4%) of the Group's revenue. The decrease in administrative expenses was mainly due to the management continued to optimise the cost control of the Group by introducing some cost control measures.

**Finance costs/income – net**

Net finance costs for the Period was RMB1.1 million (2016: Net finance income of RMB4.5 million). Net finance costs was resulted due to the increase in exchange losses for the Period.

**Income tax credit/expenses**

Income tax credit for the Period was RMB1.3 million, representing a decrease of RMB34.1 million or 104.0% as compared with RMB32.8 million for the corresponding period in 2016. The effective income tax rate for the Period was -1.6% (2016: 27.3%).

**Acquisition of the Ginsengs Project**

The forest land under the Ginsengs Project is located in Tonghua City, Jilin Province in the PRC. The total consideration is valued at RMB86.9 million upon completion and the consideration is partially settled by cash consideration in the amount of RMB5.0 million (equivalent to approximately HK$5.7 million) and the balance of the consideration is settled by the issuance of the consideration shares to the transferor or its nominee(s) upon completion of the transaction contemplated under the agreement. The forest land use right will expire on 25 May 2069.

## 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 2017, the Group's unpledged cash and cash equivalents totalled RMB1,003.7 million (31 December 2016: RMB1,107.3 million), and the Group's net current assets were RMB1,653.9 million (31 December 2016: RMB1,733.6 million).

During the Period, net cash flows used in operating activities amounted to RMB46.5 million, as compared to net cash flows generated from operating activities amounted to RMB199.8 million for the corresponding period in 2016. The decrease was in line with the Group's operating performance.

During the Period, the Group had capital expenditure of RMB69.1 million (2016: RMB46.9 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 2017, the Group had RMB1,003.7 million in cash and bank balances of which the equivalent of RMB6.0 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 2017, the capital structure of the Company was constituted of 2,858,137,670 ordinary shares of USD0.001 each.

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

As at 30 June 2017, the Group had certain interest-bearing bank borrowings of RMB154.6 million (31 December 2016: RMB154.6 million). Bank borrowings carried annual interest rates at 2.8% (31 December 2016: 2.8%). All the bank borrowings were sourced from China and denominated in Renminbi.

The gearing ratio of the Group as at 30 June 2017, calculated as net debt divided by sum of total equity and net debt, was N/A (31 December 2016: N/A).

## CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 30 June 2017, the Group has no significant contingent liabilities (31 December 2016: Nil).

As at 30 June 2017, the bank borrowings and notes payable of the Group were secured by the time deposits of the Group with net aggregate booking value of RMB208.8 million (31 December 2016: RMB217.1 million).

## HUMAN RESOURCES

As at 30 June 2017, the Group had 6,224 (2016: 6,356) full-time employees in Hong Kong and the PRC with total employee benefit expenses amounted to RMB163.9 million (2016: RMB157.9 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 China. 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.

## ENVIRONMENTAL, GOVERNANCE AND SOCIAL RESPONSIBILITY

The Group adheres to the concept of environmental protection for sustainable development. Firstly, to protect environment, the Group advocates electricity and water conservation, reduces vehicle use and waste emissions, protects natural resources and upholds the concept of harmonious development of human and nature; secondly, to optimize work environment, it spares no effort to improve the employee and employment guidelines, attaches great importance to occupational safety, development and training; thirdly, to enhance operation and management, it strengthens its supply chain management, builds a structure that combines upstream and downstream through mergers and acquisitions and focuses on the product liability and anti-corruption mechanism; fourthly, it endeavours to launch more activities for community members and promote the development of its public welfare brand "Love China" to increase its community participation and improve social welfare. At the same time, the Group does its best to strengthen corporate governance and integrate its development with public welfare, so as to fulfil its social responsibility.

## FUTURE PLAN

Taking the Golden Rules as its guidelines and following the leadership of the Chairman in strategic plan, the management of the Company will: firstly stabilize and optimize the existing retail chain network and distribution system; secondly motivate and retain stakeholders from key staff of business, technology and suppliers, with its share option scheme and share incentive scheme to withstand the pressure of real economic downturn; thirdly actively establish and upgrade the three areas, namely, "Industry + Finance + Capital", and develop a platform featuring "universal health + partners (health segment)" (which refers to listed companies + corporations = partners of the corporation platform – incubator; listed companies + capital = partners of capital platform – accelerator; listed companies + government industrial policy = partners of government guidance platform – local resources), with an aim to maintain itself as one of the industrial leaders in terms of integration and development of internet and cross-border, industry, capital and resources by facilitating the structural transformation of the Group's operation.

## 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 2017, the net proceeds from the initial public offering 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 | Proceeds used | Proceeds unused |
|---|---|---|---|
| | | *RMB million* | |
| For acquisitive expansion | 347.2 | (347.2) | – |
| For organic growth | 260.4 | (260.4) | – |
| For brand promotion | 173.6 | (173.6) | – |
| For working capital | 86.9 | (86.9) | – |
| Total | 868.1 | (868.1) | – |

## INTERIM DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2017 (2016: nil).

## CORPORATE GOVERNANCE

The Company has complied with the code provisions (the "**CG Code**") as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange throughout the Period except for a deviation from code provision A.2.1 of CG Code.

Under code provision A.2.1 of CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. For the period from 23 March 2017 to date of this results announcement, despite the responsibilities of the chairman and the chief executive officer of the Company vested in Mr. Jin Dongtao, all major decisions are made in consultation with the Board. The Board considers that there is sufficient balance of power; and the current corporate arrangement maintains a strong management position of the Company.

Save as the deviation from the code provision A.2.1 of the CG Code, in the opinion of the Directors, the Company has complied with all code provisions as set out in the CG Code throughout the six months ended 30 June 2017 and, where appropriate, the applicable recommended best practices of 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) (resigned on 20 July 2017), Mr. Zou Haiyan (Chairman) (appointed on 20 July 2017), 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 Engagements 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 2017 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 2017 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, 31 August 2017

*As at the date of this announcement, the Board comprises four executive directors, namely, Mr. Jin Dongtao, Mr. Jin Dongkun, Mr. Zhao Zehua and Mr. Sun Libo and three independent non-executive directors, namely, Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Mr. Zou Haiyan.*