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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)

SECOND INTERIM RESULTS ANNOUNCEMENT FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2017

INTERIM RESULTS HIGHLIGHTS

	Twelve months ended 31 December		Change (%)
	2017	2016	
	<i>RMB Million</i> (Unaudited)	<i>RMB Million</i> (Audited)	
Revenue	2,680.1	3,378.7	-20.7
Gross profit	478.4	874.1	-45.3
Operating loss	(560.6)	(79.9)	601.6
Loss for the period	(557.8)	(87.3)	538.9
EBITDA	(215.7)	96.2	-324.2
Basic loss per share – RMB cents	(20.92)	(3.92)	433.7
Gross margin (%)	17.8	25.9	-8.1pp
Operating loss margin (%)	(20.9)	(2.4)	-18.5pp
Net loss margin (%)	(20.8)	(2.6)	-18.2pp

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 twelve months ended 31 December 2017 (the “**Period**”) together with the comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Twelve months ended 31 December	
		2017	2016
		(Unaudited)	(Audited)
	Note	RMB'000	RMB'000
Revenue	2	2,680,110	3,378,719
Cost of sales	3	<u>(2,201,724)</u>	<u>(2,504,633)</u>
Gross profit		478,386	874,086
Selling and marketing expenses	3	(647,824)	(727,197)
Administrative expenses	3	(98,881)	(91,620)
Goodwill impairment	3	(287,818)	(129,139)
Other income		1,215	2,641
Other losses – net		(3,390)	(8,643)
Changes in fair value of biological assets		<u>(2,290)</u>	<u>–</u>
Operating loss		(560,602)	(79,872)
Finance income	4	11,324	18,715
Finance costs	4	<u>(13,471)</u>	<u>(5,762)</u>
Finance (costs)/income – net	4	(2,147)	12,953
Share of post-tax profits of joint ventures		520	691
Share of post-tax profit of an associate		<u>1,532</u>	<u>3,548</u>
Loss before income tax		(560,697)	(62,680)
Income tax credit/(expenses)	5	<u>2,894</u>	<u>(24,638)</u>
Loss for the period		<u>(557,803)</u>	<u>(87,318)</u>
Loss attributable to:			
– Owners of the Company		(552,936)	(87,811)
– Non-controlling interests		<u>(4,867)</u>	<u>493</u>
		<u>(557,803)</u>	<u>(87,318)</u>
Loss per share attributable to owners of the Company for the period (RMB cents)			
– Basic and diluted	6	<u>(20.92)</u>	<u>(3.92)</u>
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation differences		<u>9,203</u>	<u>(7,938)</u>
Total comprehensive income for the period		<u>(548,600)</u>	<u>(95,256)</u>
Total comprehensive income attributable to:			
– Owners of the Company		(543,733)	(95,749)
– Non-controlling interests		<u>(4,867)</u>	<u>493</u>
		<u>(548,600)</u>	<u>(95,256)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
		(Unaudited)	(Audited)
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		292,870	226,665
Land use rights		5,555	3,619
Intangible assets		211,842	517,681
Investments in joint ventures		8,731	8,211
Investment in an associate		248,156	246,624
Prepayment for construction in progress		–	25,426
Biological assets		82,510	–
Deferred income tax assets		11,499	12,862
Total non-current assets		861,163	1,041,088
Current assets			
Trade and other receivables	8	295,778	545,535
Inventories		325,494	391,756
Restricted cash		39,896	217,131
Cash and cash equivalents		1,063,994	1,107,329
Total current assets		1,725,162	2,261,751
Total assets		2,586,325	3,302,839
EQUITY			
Equity attributable to owners of the Company			
Share capital		17,998	14,878
Reserves		1,625,462	1,524,900
Retained earnings		615,975	1,168,911
		2,259,435	2,708,689
Non-controlling interests		19,894	24,761
Total equity		2,279,329	2,733,450

		As at 31 December	
		2017	2016
		(Unaudited)	(Audited)
<i>Note</i>		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
	Deferred income tax liabilities	<u>36,138</u>	<u>41,282</u>
Current liabilities			
	Borrowings	–	154,550
	Trade and other payables	9 270,858	371,926
	Current income tax liabilities	<u>–</u>	<u>1,631</u>
	Total current liabilities	<u>270,858</u>	<u>528,107</u>
	Total liabilities	<u>306,996</u>	<u>569,389</u>
	Total equity and liabilities	<u>2,586,325</u>	<u>3,302,839</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

On 31 August 2017, the Board of Directors of the Company has resolved to change the financial year end date of the Company from 31 December to 30 June. Since stocktake of the wild ginsengs in the forest land is not practicable due to severe weather condition around winter in the northeastern region of the PRC, this change of financial year end will enable a more accurate reflection of the value of the wild ginsengs. Accordingly, the current interim financial period covers a twelve months period from 1 January 2017 to 31 December 2017 with the comparative financial period from 1 January 2016 to 31 December 2016.

This condensed consolidated interim financial information for the twelve months ended 31 December 2017 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 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 twelve months ended 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 transportation to the market, etc.

The wild ginsengs are accounted for 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 twelve months ended 31 December 2017 do not have a material impact on the Group.

(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
Amendments to IAS 40	Transfers of Investment Property	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

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.

The new standard is mandatory for financial years commencing on or after 1 January 2018. 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 RMB78,244,000. 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 PRC. 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 twelve months ended 31 December 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 of joint ventures and an associate, share-based payment expenses and goodwill impairment.

The segment information for the twelve months ended 31 December 2017 and as at 31 December 2017 is as follows:

	Twelve months ended 31 December 2017				
	Distributions <i>RMB'000</i>	Retails I <i>RMB'000</i>	Retails II <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	1,993,845	1,071,636	203,005	–	3,268,486
Inter-segment revenue	<u>(588,376)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(588,376)</u>
Revenue from external customers	<u>1,405,469</u>	<u>1,071,636</u>	<u>203,005</u>	<u>–</u>	<u>2,680,110</u>
Adjusted EBITDA	(103,433)	(63,891)	(31,989)	(16,428)	(215,741)
Share-based payment expenses	(6,289)	(4,597)	–	(1,743)	(12,629)
Goodwill impairment	(24,294)	(263,524)	–	–	(287,818)
Depreciation and amortisation	(12,737)	(28,433)	(3,198)	(46)	(44,414)
Finance income	5,542	5,243	533	6	11,324
Finance costs	(2,215)	(1,728)	(59)	(9,469)	(13,471)
Share of post-tax profits of joint ventures	–	520	–	–	520
Share of post-tax profit of an associate	1,532	–	–	–	1,532
Income tax credit	<u>927</u>	<u>1,890</u>	<u>77</u>	<u>–</u>	<u>2,894</u>
Loss for the period	<u>(140,967)</u>	<u>(354,520)</u>	<u>(34,636)</u>	<u>(27,680)</u>	<u>(557,803)</u>
Additions of non-current assets	<u>89,589</u>	<u>4,586</u>	<u>–</u>	<u>89,897</u>	<u>184,072</u>
	As at 31 December 2017				
	Distributions <i>RMB'000</i>	Retails I <i>RMB'000</i>	Retails II <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Total assets before eliminations	2,227,213	1,294,884	66,662	1,812,081	5,400,840
Inter-segment assets	<u>(642,824)</u>	<u>(644,814)</u>	<u>(13,713)</u>	<u>(1,513,164)</u>	<u>(2,814,515)</u>
Total assets	<u>1,584,389</u>	<u>650,070</u>	<u>52,949</u>	<u>298,917</u>	<u>2,586,325</u>
Total liabilities before eliminations	1,263,424	594,104	37,553	122,271	2,017,352
Inter-segment liabilities	<u>(1,093,617)</u>	<u>(469,154)</u>	<u>(29,848)</u>	<u>(117,737)</u>	<u>(1,710,356)</u>
Total liabilities	<u>169,807</u>	<u>124,950</u>	<u>7,705</u>	<u>4,534</u>	<u>306,996</u>

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

	Twelve months ended 31 December 2016				Total <i>RMB'000</i>
	Distributions <i>RMB'000</i>	Retails I <i>RMB'000</i>	Retails II <i>RMB'000</i>	Others <i>RMB'000</i>	
Segment revenue	2,419,426	1,398,558	259,468	–	4,077,452
Inter-segment revenue	<u>(698,733)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(698,733)</u>
Revenue from external customers	<u>1,720,693</u>	<u>1,398,558</u>	<u>259,468</u>	<u>–</u>	<u>3,378,719</u>
Adjusted EBITDA	1,193	109,700	(2,420)	(12,275)	96,198
Goodwill impairment	(25,426)	(103,713)	–	–	(129,139)
Depreciation and amortisation	(14,322)	(31,554)	(997)	(58)	(46,931)
Finance income	7,434	3,753	414	7,114	18,715
Finance costs	(4,629)	(755)	(40)	(338)	(5,762)
Share of post-tax profits of joint ventures	–	691	–	–	691
Share of post-tax profit of an associate	3,548	–	–	–	3,548
Income tax credit/(expenses)	<u>2,309</u>	<u>(25,417)</u>	<u>(1,530)</u>	<u>–</u>	<u>(24,638)</u>
Loss for the period	<u>(29,893)</u>	<u>(47,295)</u>	<u>(4,573)</u>	<u>(5,557)</u>	<u>(87,318)</u>
Additions of non-current assets	<u>396,307</u>	<u>30,432</u>	<u>–</u>	<u>112</u>	<u>426,851</u>
As at 31 December 2016					
	Distributions <i>RMB'000</i>	Retails I <i>RMB'000</i>	Retails II <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Total assets before eliminations	2,494,615	1,753,504	121,883	1,530,906	5,900,908
Inter-segment assets	<u>(518,313)</u>	<u>(595,978)</u>	<u>(42,042)</u>	<u>(1,441,736)</u>	<u>(2,598,069)</u>
Total assets	<u>1,976,302</u>	<u>1,157,526</u>	<u>79,841</u>	<u>89,170</u>	<u>3,302,839</u>
Total liabilities before eliminations	1,283,454	715,855	43,581	26,000	2,068,890
Inter-segment liabilities	<u>(929,144)</u>	<u>(511,708)</u>	<u>(37,549)</u>	<u>(21,100)</u>	<u>(1,499,501)</u>
Total liabilities	<u>354,310</u>	<u>204,147</u>	<u>6,032</u>	<u>4,900</u>	<u>569,389</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

	Twelve months ended 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Changes in inventories	2,191,910	2,488,673
Employee benefit expenses	326,537	321,359
Provision for impairment of goodwill	287,818	129,139
Advertising and other marketing expenses	154,949	217,341
Rental expenses	107,365	108,969
Transportation and related charges	64,563	76,439
Depreciation of property, plant and equipment	26,042	27,619
Amortization of intangible assets	18,258	19,218
Share-based payment expenses	12,629	—
Other tax expenses	11,792	18,149
Office and communication expenses	10,546	10,935
License fee of trademarks	8,000	7,260
Electricity and other utility fees	3,728	4,471
Auditors' remuneration	2,750	4,531
Professional fees	2,299	3,387
Travelling and meeting expenses	1,979	1,832
Amortisation of land use rights	114	94
Training fees	—	8,466
Other expenses	4,968	4,707
	<u>3,236,247</u>	<u>3,452,589</u>

4. FINANCE INCOME AND COSTS

	Twelve months ended 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Interest income on bank deposits	11,324	9,452
Exchange gains	—	9,263
	<u>11,324</u>	<u>18,715</u>
Finance costs		
Interest expenses	(3,040)	(5,098)
Exchange losses	(10,063)	—
Other charges	(368)	(664)
	<u>(13,471)</u>	<u>(5,762)</u>
Finance (costs)/income – net	<u>(2,147)</u>	<u>12,953</u>

5. INCOME TAX CREDIT/EXPENSES

	Twelve months ended 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC corporate income tax	(887)	(23,506)
Deferred income tax credit/(charge)	<u>3,781</u>	<u>(1,132)</u>
Total income tax credit/(expenses)	<u>2,894</u>	<u>(24,638)</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 twelve months ended 31 December 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 PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss for the twelve months ended 31 December 2017 and 2016 attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period ended 31 December, excluding ordinary shares purchased under the share award plan.

	Twelve months ended 31 December	
	2017	2016
Loss attributable to owners of the Company (<i>RMB'000</i>)	(552,936)	(87,811)
Weighted average number of ordinary shares in issue (<i>thousands</i>)	<u>2,643,503</u>	<u>2,242,623</u>
Basic loss per share (<i>RMB cents</i>)	<u>(20.92)</u>	<u>(3.92)</u>

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding which are potential dilutive. A calculation is performed to determine the number of ordinary shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the weighted average number of outstanding share options. The weighted average number of ordinary shares calculated above for basic loss per share is increased by the weighted average number of ordinary shares that would have been issued assuming the exercise of the share options at the date later of beginning of the relevant period or the date of issue.

	Twelve months ended 31 December	
	2017	2016
Loss attributable to owners of the Company (<i>RMB'000</i>)	(552,936)	(87,811)
Weighted average number of ordinary shares in issue (<i>thousands</i>)	<u>2,643,503</u>	<u>2,242,623</u>
Weighted average number of ordinary shares for diluted loss per share (<i>thousands</i>)	<u>2,643,503</u>	<u>2,242,623</u>
Diluted loss per share (<i>RMB cents</i>)	<u>(20.92)</u>	<u>(3.92)</u>

7. DIVIDEND

No interim dividend was declared for the twelve months ended 31 December 2017 (2016: nil).

8. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (<i>Note</i>)	161,276	165,486
Prepayments	122,602	259,302
Other receivables	13,674	122,521
Provision for impairment	<u>(1,774)</u>	<u>(1,774)</u>
Total	<u>295,778</u>	<u>545,535</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 day to 90 days. The ageing analysis based on recognition date of the trade receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Up to 3 months	148,863	152,801
4 months to 6 months	4,400	4,559
7 months to 12 months	8,013	8,126
	<u>161,276</u>	<u>165,486</u>

9. TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables (a)	144,128	164,377
Notes payable (b)	39,327	66,129
Other payables	87,403	141,420
Total	<u>270,858</u>	<u>371,926</u>

- (a) As at 31 December 2017, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on recognition date is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Up to 3 months	141,757	156,546
4 months to 6 months	2,178	6,362
7 months to 12 months	–	540
1 year to 2 years	193	929
	<u>144,128</u>	<u>164,377</u>

- (b) As at 31 December 2017, the entire balance of notes payable was secured by restricted cash of RMB39,896,000 (31 December 2016: RMB67,131,000).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Amidst the ever-changing global economic situation in 2017, the economy of the People's Republic of China (the “**PRC**” or “**China**”) continued its supply-side structural reform and deeply implemented the innovation-driven development strategy while insisting on seeking “improvement in stability”. Due to the progress made in terms of financial deleveraging and cutting overcapacity, the overall economy development has stepped into a rising trend at a stable pace.

The PRC's GDP recorded a year-on-year increase of 6.9% during the first three quarters of 2017. According to the information from the China's National Bureau of Statistics, the national industrial enterprises above designated size in the PRC achieved a total profit of RMB6,875.01 billion from January to November 2017, representing a year-on-year increase of 21.9%, and a decrease of 1.4 percentage points of the growth rate compared with January to October 2017. Among them, the pharmaceutical manufacturing industry achieved a total profit of RMB299.78 billion (representing a year-on-year increase of 18.4%) and an operation income of RMB2,616.5 billion (representing a year-on-year increase of 12.1%).

The “Healthy China” national strategy will bring about larger room for development for the universal health industry. The report delivered during the 19th National Congress of the Communist Party of China (the “**19th CPC National Congress**”) has clearly specified to implement the “Healthy China” strategy. People's health is an important milestone of national prosperity and wealth. National health policies shall be refined to provide people with all-round and full-cycle health service.

Reforms in China's pharmaceutical industry and medical system have further deepened. The government has consecutively introduced a number of policies for medical reform, such as accelerating the implementation of the “Two Invoices System”, reducing the proportion of prescription drug in hospitals, lowering prescription drug tender prices and re-negotiation of prices in hospitals, which will bring challenges and opportunities for the development of pharmaceutical industry.

In January 2017, the eight departments including the Office of the Leading Group for Deepening the Health System Reform of the State Council and the National Health and Family Planning Commission of China jointly issued the “Opinions on the Implementation of ‘Two Invoices System’ in the Pharmacy Procurement Process of Public Medical Institutions (Pilot)” (《關於在公立醫療機構藥品採購中推行「兩票制」的施行意見（試行）》), requiring pilot provinces, autonomous regions and municipalities of comprehensive health care reform and pilot cities of public hospitals reform to pioneer the implementation of the “Two Invoices System” in pharmacy procurement and followed by other regions to implement this system by 2018 as permitted in their respective circumstances. On 16 October 2017, implementation regulations in relation to the “Two Invoices System” was duly issued in Tibet Autonomous Region, and subsequently, all province-level administrative regions in China have issued relevant implementation regulations for the “Two Invoices System”. The implementation of the “Two Invoices System” across the country has impacted the sales model of various pharmaceutical enterprises while improving the concentration of the industry.

On 7 March 2017, the General Office of the State Council of China issued the “Work Plan on the Cooperation between Certain Provinces and Cities in Northeastern Region of the PRC and Partner Provinces and Cities in East China” (《東北地區與東部地區部分省市對口合作工作方案》), which represents a new round of major steps taken to revitalize the old industrial bases in northeastern region of the PRC in order to stabilize and promote the economy development in northeastern region of the PRC.

On 17 March 2017, China Food and Drug Administration (the “CFDA”) promulgated the “Decision on Matters Related to Adjusting the Administration of Imported Pharmaceuticals Registration (Draft for Comment)” (《關於調整進口藥品註冊管理有關事項的決定（徵求意見稿）》). On the one hand, domestic pharmaceutical enterprises are encouraged to innovate and create systems; on the other hand, it is intended to introduce international new drugs to China as soon as practical and set up a global ecology and competition pattern for pharmaceutical industry.

In the first half of 2017, the General Office of the State Council of China also issued the “Guiding Opinions on the Pilot Programme for Comprehensive Reform of Urban Public Hospitals” (《關於城市公立醫院綜合改革試點的指導意見》), aiming to reduce the overall percentage of medicines (excluding prepared slices of Chinese medicine) in public hospitals located in pilot cities to around 30% by the end of 2017. In the pilot cities, there will be separation of clinics from pharmacies, abandonment of medicine markups (excluding prepared slices of Chinese medicine) and setting up of scientific compensation mechanisms in all public hospitals.

In May 2017, the CFDA successively issued four policies on encouraging innovations of drugs and medical devices. On 8 October 2017, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council of China issued again the “Opinion on Deepening the Reform of the Examination and Approval System for Encouraging Innovations of Drugs and Medical Devices” (《關於深化審評審批制度改革鼓勵藥品醫療器械創新的意見》), which was regarded as the “Milestone” reform of industrial innovation and development.

The pharmaceutical industry will remain challenging in the short term and subject to the downward pressure of certain regional economies. However, demand in China’s pharmaceutical market will continue to grow due to the aging population, rapid urbanization and universal medical insurance coverage. The Group believes that the higher visibility and gradual implementation of subsequent policies of the China’s medical reform will bring a more structured and healthy development to the industry.

As China’s aging population and the purchasing power of residents continue to grow, the Chinese increasing health awareness will continue to drive the growth of the domestic pharmaceutical market’s scale. Professionals estimate China’s pharmaceutical market will exceed RMB2.2 trillion in 2019.

BUSINESS REVIEW

During the Period, under the leadership of Mr. Jin Dongtao, the chairman of the Group (“**Chairman**”), and with the efforts of all employees, the Group has been actively promoting the development of traditional physical retail chain stores and distribution network while facing intensive competition. The Group also endeavored to explore new business model to facilitate the Group’s “Supply-side” structural transformation and upgrading. During the Period, the Group has acquired land development right and the wild ginsengs planted in a piece of 1,009 mu of forest land situated in Tonghua City, Jilin Province in the PRC, to construct a universal health ecosystem. Meanwhile, the Company has adopted a share option scheme (the “**Share Option Scheme**”) during the Period to enhance the unity of the operation team and cope with the downward pressure of the industry and the regional economy and the 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 which “王” is embodied as “1+1=1, 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, “Sharing” win-win cooperation strategy and “Partnership” of seeking common development.

Chain Retail Business

During the Period, the Group committed to issue-specific management, continued to keep the division of strategic stores and non-strategic stores and conducted reasonable adjustments in line with the market competition and development. During the Period, 8 strategic stores have been closed in due course and 3 non-strategic stores also have been closed. As such, the Group had 926 stores in total at the end of the Period, including 650 strategic stores (31 December 2016: 658 strategic stores) and 276 non-strategic stores (31 December 2016: 279 non-strategic stores). Meanwhile, due to the increased market competition and the continuous downturn of regional real economy with the northeastern region of the PRC experiencing a transition of its second revitalization, sales revenue of retail business decreased by 23.1% as a whole from RMB1,658.0 million for the corresponding period in 2016 to RMB1,274.6 million for the Period.

Nationwide Distribution Business

During the Period, the Group had over 5,000 distribution customers and 5 large-scale distribution hubs. The Group made appropriate promotion in its distribution system, and continued to optimise screening and maintaining of quality distributors. Although, the responsible teams of the Group constantly strived to explore market potential and held 11 associations in total with strategic cooperation distributors, 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 18.3% as a whole from RMB1,720.7 million for the corresponding period in 2016 to RMB1,405.5 million for the Period.

Direct-supply and Sales Model

The Group's Direct-supply Model effectively addressed the issue of traditional heavily overlapped sales process, as well as simplified the supply chain to improve sales efficiency and profitability and provided a higher profit margin from the high-margin products of the Group. Meanwhile, the marketing model advanced to accord with the "Two Invoices System" carried out by the Chinese government, the Group was subject to minor effect of the 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 model covered 29 provinces in China.

Branded Products Operation

During the Period, the Group continued to maintain its operational pattern of its original branded products and adjusted the brand structure according to its actual operational requirements to eliminate certain non-applicable products and add new products, so as to maintain the competitiveness of its original branded products and, on the other hand, increase the influence of its new branded products. During the Period, a net decrease of 607 products was recorded. Hence, there were 2,065 branded products in total for the benefit of the Group in operation.

Warehouse Construction

As of 31 December 2017, the Company has completed the construction work of the large-scale logistic warehouse center in Jiamusi, Heilongjiang Province which started in August 2016 and obtained its completion acceptance, with a total investment of RMB211.8 million. The project will become a large-scale pharmaceutical and diversified commodity distribution logistics warehouse center integrated with "Business, Logistics and Information" in the eastern area of Heilongjiang Province and play an important role in optimising distribution system of the Group. By then, the Group set up five large-scale logistics distribution centers in Shijiazhuang, Shenyang, Changchun, Harbin and Jiamusi, and has established a high-quality distribution system radiating across the whole country and covering the northeastern region of the PRC.

Brand Promotion

With traditional advantages in continuous brand promotion and marketing, the Group strengthened the influence and competitiveness of the Company and mitigated the further decline in operating performance. During the Period, the 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 and WeChat. In addition, the Group has participated in the charity to enhance the reputation of the Company and practice its corporate social responsibilities.

Institute Training

During the Period, according to the characteristics of new era, new economy, new technology and new retail, the Group continued to optimise the training activities of the institute and made best use of the business institute on the Group's business development, talent nurturing and public welfare promotion. Moreover, the Group maintained the advantage of taking the lead in establishing business institute in the industry, strengthened its cohesion as well as enhanced and transformed the mode of thinking of employees in response to the transformation and upgrade of the Company's business. During the Period, the Company held 198 internal trainings in total.

Membership Service

During the Period, the Group had provided follow-up services and promotion benefits for over 1.40 million offline members, so as to enhance the sense of affiliation and positivity of members while boosting their loyalty and thus improve the healthy image of the Company. For example, all of the members are offered super givebacks for their participation in the consumption by deposits or cash of RMB1,000 during the Group's shops celebration activities. Meanwhile, the Group provided social value-added services in various aspects such as the provision of public toilets, cold shelters and lost children service centres and continued to launch the "Love China" public welfare activities, with a view to build up its good corporate image.

Industry Alliance

During the Period, the Company has proactively participated in the alliance activities, while the Chairman, vice chairman and chief operating officer, on its behalf, attended the tours and forums organised by the alliance. Besides, the Company conducted intensive study on the core concepts of the 19th CPC National Congress, so as to seize the theme of era development, keep abreast of the industry information, promote branded products development, strengthen the Company's interaction and exchange with industry alliance and enhance its influence. Meanwhile, leveraging on the China's national strategic guidance of "Healthy China (健康中國)", "Beautiful China (美麗中國)", "Belt and Road (一帶一路)" and "Guangdong-Hong Kong-Macao Greater Bay Area (粵港澳大灣區)", the Company gathered experience and focused on the technological innovation to seek further transformation and upgrade of the Company's business.

Acquisition

In June 2017, the acquisition of a forest land use right and the wild ginsengs planted in the land from an independent third party (the “**Acquisition**” or the “**Ginsengs Project**”) was completed. The forest land is located in Tonghua City, Jilin Province in the PRC. As the Group is principally engaged in the retailing and distribution of pharmaceuticals products and healthcare products, the Acquisition, as part of the strategies of the Group, will be conducive to building up the industrial chain, bridging upstream and downstream resources within the sector, enhancing competitiveness and the interest of the Group as a whole. In addition, in response to the revitalization of the northeast traditional industry base proposed by the Chinese government and to facilitate the policy steer on development of forest economy, the Acquisition would provide the Group with opportunities to develop sources of Chinese herbal medicines effectively, improve “Universal Health + Ecosystem” and open up a new income stream to the Group.

Share Option Scheme

In order to enhance the cohesion of the management team, motivate the initiatives and creativity of the staff and retain the key staff amidst an environment with increasing pressure from regional economic reform, concentration of the industry as well as intensifying competition, in September 2017, the Board resolved that an aggregate of 200,000,000 share options (“**Share Options**”) were granted to and accepted by the grantees of 20 eligible participants that including 4 executive Directors and an associate of an executive Director (the “**Grantees**”). The Grantees are entitled, subject to the terms and conditions of offer and upon exercise, to subscribe for a total of 200,000,000 shares of the Company (the “**Share(s)**”), representing approximately 7% of the total 2,858,137,670 Shares in issue as at the date of offer. Each Share Option shall entitle the Grantees to subscribe for one Share upon exercise of such Share Option at a subscription price of HK\$0.1648 per Share.

Change of Financial Year End Date

During the Period, the financial year end date of the Group was changed from 31 December to 30 June commencing from the financial year ending on 30 June 2018, so as to avoid the infeasibility of conducting stocktaking of wild ginsengs on the acquired forest land under severe winter weather and enable stocktaking in summer to better reflect the value of the ginsengs. It is expected that change of financial year end date will have no material adverse impact on the financial position and operations of the Group. Upon such change, for the unaudited interim results of the Group for the 12 months ended 31 December 2017, relevant results announcement and financial report will be published on or before 28 February 2018 and 31 March 2018, respectively; for the audited annual results of the Group for the 18 months ending 30 June 2018, relevant results announcement and financial report will be published on or before 30 September 2018 and 31 October 2018, respectively.

FINANCIAL REVIEW

For the Period, the Group recorded revenue of RMB2,680.1 million, representing a decrease of 20.7% as compared with RMB3,378.7 million for the corresponding period in 2016. Loss attributable to owners of the Company was RMB552.9 million, as compared with a loss attributable to owners of the Company of RMB87.8 million for the corresponding period in 2016. Loss per Share for the Period was RMB20.92 cents (2016: loss per Share RMB3.92 cents). The loss attributable to owners of the Company was resulted mainly due to the increase in loss of the Group's retail and distribution businesses and impairment on goodwill.

Revenue

For the Period, the Group recorded revenue of RMB2,680.1 million, representing a decrease of RMB698.6 million or 20.7% as compared with RMB3,378.7 million for the corresponding period in 2016. The decrease in revenue of the Group's retail and distribution businesses for the Period was mainly due to the market remains at a very low point as a result of the continuous downturn of regional real economy with the northeastern region of the PRC experiencing a transition of its second revitalization and the competition has intensified, resulting in a decrease in overall revenue of the Group.

Analysis of revenue by business segment

	Revenue (RMB million)			Percentage (%) of total revenue		
	Twelve months ended			Twelve months ended		
	31 December			31 December		
	2017	2016	Change (%)	2017	2016	Change
Retails I	1,071.6	1,398.5	-23.4	40.0	41.4	-1.4pp
Retails II	203.0	259.5	-21.8	7.6	7.7	-0.1pp
	1,274.6	1,658.0	-23.1	47.6	49.1	-1.5pp
Distributions	1,405.5	1,720.7	-18.3	52.4	50.9	+1.5pp
	2,680.1	3,378.7		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 or high growth potential. The Group will timely redesignate the strategic stores to non-strategic stores or close non-strategic stores by assessing the market competition and development. 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 northeastern region of the PRC and the decrease in sales to members during the Period.

As at 31 December 2017, the Group had 926 (31 December 2016: 937) retail pharmacies in total, of which 687 (31 December 2016: 688) located in Heilongjiang, 151 (31 December 2016: 160) in Liaoning, 86 (31 December 2016: 86) in Jilin and 2 (31 December 2016: 3) self-operated retail pharmacies in Hong Kong. In addition, the Group had 1 (31 December 2016: 13) supermarket in Shenyang as at 31 December 2017, mainly for selling healthcare products and consumer goods. The performance of all supermarkets are included and monitored in Retails I.

Distribution Business Segment

The sales volumes in the distribution business was decreased due to the adoption of a prudent approach in running the business of the Group. 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 31 December 2017, the Group had a nationwide distribution network covering approximately 5,000 active customers (31 December 2016: 6,400), among which approximately 3,200 pharmaceutical retailers, hospitals and clinics (31 December 2016: 4,500) and approximately 1,800 distributors (31 December 2016: 1,900).

Gross profit

Gross profit of the Group for the Period was RMB478.4 million, representing a decrease of RMB395.7 million or 45.3% as compared with RMB874.1 million for the corresponding period in 2016. Overall gross margin decreased from 25.9% to 17.8%. The decrease in gross margin was mainly due to upstream suppliers were striking for the Certification of the Good Manufacture Practice of Medical Products and hence devoted in upgrading their supplies, leading to an increase in the cost of purchase; meanwhile, during the Period, the Group has applied various promotion initiatives and organized more member events and different promotional campaigns with discounts offered to consumers in order to ease the significant decrease in sales and to maintain relative competitiveness, which resulted in a decrease in the gross margin of the Group for the Period.

Analysis of gross profit by business segment

	Gross profit (RMB million)			Gross margin (%)		
	Twelve months ended			Twelve months ended		
	31 December			31 December		
	2017	2016	Change (%)	2017	2016	Change
Retails I	305.0	502.0	-39.2	28.5	35.9	-7.4pp
Retails II	59.4	93.6	-36.5	29.3	36.1	-6.8pp
	364.4	595.6	-38.8	28.6	35.9	-7.3pp
Distributions	114.0	278.5	-59.1	8.1	16.2	-8.1pp
	478.4	874.1				

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 30.9% over the corresponding period in 2016 and the gross margin of these high-margin products decreased from 40.3% to 35.6%. As at 31 December 2017, the Group had 355 (31 December 2016: 355) types of licensed products and 1,710 (31 December 2016: 2,317) types of products with exclusive distribution rights.

Selling and marketing expenses

Selling and marketing expenses for the Period was RMB647.8 million, representing a decrease of RMB79.4 million or 10.9% as compared with RMB727.2 million for the corresponding period in 2016 and accounting for 24.2% (2016: 21.5%) of the Group's revenue. The decrease in selling and marketing expenses was mainly due to the decrease in marketing expenses in vehicle advertisement and transportation and related charges.

Administrative expenses

Administrative expenses for the Period was RMB98.9 million, representing an increase of RMB7.3 million or 8.0% as compared with RMB91.6 million for the corresponding period in 2016 and accounting for 3.7% (2016: 2.7%) of the Group's revenue. The increase in administrative expense was mainly because the Group immediately recognised RMB12.6 million as share-based payment expenses in the statement of profit or loss for the fair value of 200,000,000 Share Options on the grant date during the Period.

Impairment on goodwill

Management reviewed the business performance based on types of businesses. The Group's goodwill was attributed to the acquisitions in distribution and retail business in prior years. Accordingly, goodwill was allocated to distribution and retail segments. Based on the result of impairment test at the operating segment level, the Group made a provision for goodwill impairment in Distributions segment and Retails I segment of RMB24.3 million and RMB263.5 million respectively and totally accounted for 10.7% of the Group's revenue.

Finance costs/income – net

Net finance costs for the Period was RMB2.1 million (2016: Net finance income of RMB13.0 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 RMB2.9 million, representing a decrease of RMB27.5 million as compared with income tax expenses of RMB24.6 million for the corresponding period in 2016. The effective income tax rate for the Period was -0.5% (2016: 39.3%).

Acquisition of the Ginsengs Project

The forest land of 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 dated 8 June 2017 entered into between Mr. Lu Baocai (陸寶財先生) and Heilongjiang Province Jintian Aixin Medicine Distribution Co., Ltd. (黑龍江省金天愛心醫藥經銷有限公司), a wholly owned subsidiary of the Company. The forest land use right will expire on 25 May 2069.

LIQUIDITY AND CAPITAL SOURCES

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 31 December 2017, the Group's unpledged cash and cash equivalents totalled RMB1,064.0 million (31 December 2016: RMB1,107.3 million), and the Group's net current assets were RMB1,454.3 million (31 December 2016: RMB1,733.6 million).

During the Period, net cash flows used in operating activities amounted to RMB64.4 million, as compared to net cash flows generated from operating activities amounted to RMB35.3 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 RMB119.3 million (2016: RMB132.2 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 31 December 2017, the Group had RMB1,064.0 million in cash and bank balances of which the equivalent of RMB7.9 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 31 December 2017, the capital structure of the Company was constituted of 2,858,137,670 ordinary shares of USD0.001 each.

During the Period, the Company granted a total of 200,000,000 Share Options to 20 eligible participants which include 4 executive Directors and an associate (as defined under rule 17.06A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”)) of an executive Director, all accepted by the Grantees and the rules under the Share Option Scheme.

The Grantees are entitled, subject to the terms and conditions of offer and upon exercise, to subscribe for a total of 200,000,000 Shares, representing approximately 7.0% of the total 2,858,137,670 Shares in issue as at the date of offer. Each Share Option shall entitle the Grantees to subscribe for one Share upon exercise of such Share Option at a subscription price of HK\$0.1648 per Share.

As at 31 December 2017, the Group had no interest-bearing bank borrowings (31 December 2016: RMB154.6 million). The Group had no bank borrowings carried annual interest rates (2016: 2.8%).

The gearing ratio of the Group as at 31 December 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 31 December 2017, the Group had no significant contingent liabilities (31 December 2016: nil).

As at 31 December 2017, notes payable of the Group was secured by the time deposits of the Group with net aggregate booking value of RMB39.9 million (31 December 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 RMB217.1 million).

HUMAN RESOURCES

As at 31 December 2017, the Group had 6,161 (31 December 2016: 6,226) full-time employees in Hong Kong China, Macao China and the domestic PRC with total employee benefit expenses amounted to RMB326.5 million (2016: RMB321.4 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 on 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 is committed to creating values for stakeholders and the community by a responsible mode of operation, and its major objectives are to maintain the sustainable development of the following factors: (I) environmental protection; (II) working environment; (III) operational management; and (IV) community participation/public welfare.

(I) Environmental Protection

To ensure emission reduction, the Group strives to formulate policies for the effective use of resources. The Group has been actively saving electrical energy and water, vigorously cutting down the use of vehicles and encouraging employees to commute by public transportation. The Group upholds the concept of harmonious development of human and nature.

(II) Working Environment

For optimising the working environment, the Group spares no effort to improve the management in order to meet the relevant China's national regulations on occupational safety and social insurance. The Group is in strict compliance with the labor law, and its employee benefits include statutory paid leaves, medical insurance, employment compensation insurance and Mandatory Provident Fund, etc. The Group establishes management policies and procedures for human resources, aiming to provide the employees with an ideal and safe working environment. For this purpose, the Group also persists in putting resources on improving occupational safety awareness as well as employee development and training.

(III) Operational Management

In order to enhance operation and management, the Group works on simplifying the supply chain management to reduce purchase cost and building a structure that combines upstream and downstream through mergers and acquisitions. For the responsibility in product sales, the Group pays attention to the quality management, complaint handling and customer privacy protection. On the other hand, there are strict internal guidelines within the Group which prohibit the employees' involvement in illegal activities, such as bribery, extortion and fraud.

(IV) Community Participation/Public Welfare

In order to increase the participation in social activities, the Group endeavors to launch more activities for community members and promote the development of public welfare brand "Love China". At the same time, the Group does its best to strengthen corporate governance and integrate its corporate development with public welfare.

The Group is committed to creating sustainable development value through economic, social and environmental aspects to fulfil its corporate social responsibility and achieve long-term sustainable growth of shareholder value. The management of the Group reviews the policy implementation, monitors and measures the progress from time to time to ensure its stated goals achieved in an effective manner.

FUTURE PLAN

Following the leadership of the Chairman in strategic plan and taking the Golden Rules as its guidelines, the management of the Company will, on the basis of stabilizing and optimising the existing retail chain network and distribution system, mainly explore the structural transformation and upgrading of the “supply-side” reform with focus on the development of the following two areas: firstly, “partners+” strategy, and develop a platform featuring “universal health + partners” (which refers to listed company + capital = partners of capital platform → accelerator; listed company + government industrial policy = partners of government guidance platform → local resources; listed company + corporations = partners of the corporation platform → incubator; listed company + public welfare brand = partners of the public welfare platform → reputation); secondly, “N+” strategy, and develop a new channel featuring “single system incorporating industry-wide products” (which refers to the exploration of a new marketing ecosystem featured with “new business, new retail, new technology and new finance”); therefore by leveraging the development trend of traditional industries and grafting the new economic model, the Group will make efforts to facilitate the structural transformation of the Group’s operation and anchor a new development cycle with the wing of new engine for the Company, so as to maintain itself as one of the industrial leaders in terms of ecological integration of industry, finance and capital.

INTERIM DIVIDEND

The Board did not declare any interim dividend for the twelve months ended 31 December 2017 (2016: nil).

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code (the “**CG Code**”) and Corporate Governance Report contained in Appendix 14 of the Listing Rules 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 separated and should not be performed by the same individual. For the period from 23 March 2017 to date of this report, 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 twelve months ended 31 December 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 THE SECOND INTERIM RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (“**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 procedures and financial reporting, risk management and internal control systems of the Company. The Audit Committee had reviewed the unaudited second interim results of the Group for the Period.

The unaudited Group’s second interim results for the Period have been reviewed by the independent auditor of the Company, PricewaterhouseCoopers, 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 SECOND INTERIM RESULTS AND THE SECOND INTERIM REPORT 2017 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 second interim report 2017 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, 27 February 2018

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.