大健康
UNIVERSAL HEALTH

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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2019

ANNUAL RESULTS HIGHLIGHTS

	Unit	**For the year ended 30 June 2019**	For the eighteen months ended 30 June 2018
Revenue	*RMB million*	**2,424.4**	3,968.9
Gross profit	*RMB million*	**326.8**	652.1
Operating loss	*RMB million*	**(281.6)**	(966.2)
Loss for the year/period	*RMB million*	**(267.1)**	(924.8)
Basic loss per share	*RMB cents*	**(8.58)**	(33.67)
Gross margin	%	**13.5**	16.4
Operating loss margin	%	**(11.6)**	(24.3)
Net loss margin	%	**(11.0)**	(23.3)

The board (the "**Board**") of directors (the "**Directors**") of Universal Health International Group Holding Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 30 June 2019 (the "**Year**") together with the comparative figures for the eighteen months ended 30 June 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**For the year ended 30 June 2019** *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Revenue	*2*	**2,424,416**	3,968,907
Cost of sales	*4*	**(2,097,609)**	(3,316,816)
Gross profit		**326,807**	652,091
Selling and marketing expenses	*4*	**(551,049)**	(955,723)
Administrative expenses	*4*	**(79,510)**	(146,582)
Impairment loss on goodwill and other intangible assets	*4*	**–**	(489,447)
Reversal of (Provision for) impairment loss on investment in an associate	*4*	**4,834**	(27,430)
Other income		**464**	1,432
Other gains (losses) – net		**10,954**	(3,440)
Change in fair value of biological assets		**5,931**	2,890
Operating loss		**(281,569)**	(966,209)
Finance income	*5*	**11,573**	13,244
Finance costs	*5*	**(298)**	(12,490)
Finance income – net	*5*	**11,275**	754
Share of post-tax results of joint ventures		**363**	672
Share of post-tax results of an associate		**6,065**	905
		6,428	1,577
Loss before income tax		**(263,866)**	(963,878)
Income tax (expenses) credit	*6*	**(3,237)**	39,087
Loss for the year/period		**(267,103)**	(924,791)

	Note	**For the year ended 30 June 2019** *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Other comprehensive (loss) income			
Item that will not be reclassified to profit or loss:			
Fair value changes in equity instruments designated as at fair value through other comprehensive income		**(1,286)**	–
Items that are or may be reclassified to profit or loss in subsequent periods:			
Release of other reserves upon disposal of subsidiaries		**(332)**	–
Currency translation differences		**(5,994)**	8,122
		(6,326)	8,122
Other comprehensive (loss) income for the year/period		**(7,612)**	8,122
Total comprehensive loss for the year/period		**(274,715)**	(916,669)
Loss attributable to:			
– Owners of the Company		**(265,629)**	(917,007)
– Non-controlling interests		**(1,474)**	(7,784)
		(267,103)	(924,791)
Total comprehensive loss attributable to:			
– Owners of the Company		**(273,241)**	(908,885)
– Non-controlling interests		**(1,474)**	(7,784)
		(274,715)	(916,669)
Loss per share attributable to owners of the Company for the year/period *(RMB cents)*			
– Basic and diluted	*7*	**(8.58)**	(33.67)

CONSOLIDATED BALANCE SHEET

	Note	**As at 30 June 2019** *RMB'000*	As at 30 June 2018 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**255,811**	278,572
Land use rights		**5,354**	5,489
Intangible assets		**14,476**	16,560
Investments in joint ventures		**9,246**	8,883
Investment in an associate		**307,524**	220,099
Available-for-sale financial assets		**–**	22,869
Equity instruments designated as at fair value through other comprehensive income		**23,319**	–
Biological assets		**93,621**	87,690
Deferred income tax assets		**7,593**	11,498
Total non-current assets		**716,944**	651,660
Current assets			
Trade and other receivables	*9*	**273,346**	253,408
Income tax recoverable		**44,330**	46,429
Inventories		**302,137**	303,525
Restricted cash		**38,058**	45,147
Cash and cash equivalents		**628,525**	929,161
Total current assets		**1,286,396**	1,577,670
Total assets		**2,003,340**	2,229,330

	Note	As at 30 June 2019 RMB'000	As at 30 June 2018 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**22,942**	19,167
Reserves		**1,720,044**	1,645,885
(Accumulated loss) Retained earnings		**(12,815)**	251,904
		1,730,171	1,916,956
Non-controlling interests		**3,622**	20,419
Total equity		**1,733,793**	1,937,375
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**1,179**	1,636
Current liabilities			
Trade and other payables	*10*	**268,354**	290,255
Current income tax liabilities		**14**	64
Total current liabilities		**268,368**	290,319
Total liabilities		**269,547**	291,955
Total equity and liabilities		**2,003,340**	2,229,330

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

On 31 August 2017, the Board of Directors of the Company resolved to change the financial year end date of the Company from 31 December to 30 June with immediate effect. 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 People's Republic of China (the "**PRC**" or "**China**"), this change of financial year end will enable a more accurate reflection of the value of the wild ginsengs. Accordingly, the current financial reporting period covers a twelve months period from 1 July 2018 to 30 June 2019 with the comparative financial reporting period covers a eighteen months period from 1 January 2017 to 30 June 2018, and therefore they may not be entirely comparable.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable IFRSs, International Accounting Standards ("**IAS**") and Interpretations and the applicable disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, equity instruments designated as at fair value through other comprehensive income ("**FVOCI**") and biological assets which are measured at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the financial reporting period beginning on or after 1 July 2018:

Amendments IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendments provides requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transaction; share-based payment transaction with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash settled to equity settled.

The application of these amendments does not have any significant impact on the consolidated financial statements.

IFRS 9: Financial instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading or contingent consideration for business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

On 1 July 2018, the directors of the Company has assessed which business models apply to the financial assets held by the Group at the date of initial application of IFRS 9 and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

		Measurement category		**Carrying amount**	
	Note	Original (IAS 39)	New (IFRS 9)	Original *RMB'000*	New *RMB'000*
Financial assets					
Unlisted equity instruments		Available-for-sale, at fair value	Equity instruments designated as at FVOCI	22,869	22,869
Trade receivables	*(a)*	At amortised cost	At amortised cost	170,602	170,602
Other receivables	*(a)*	At amortised cost	At amortised cost	10,461	10,461
Restricted cash	*(a)*	At amortised cost	At amortised cost	45,147	45,147
Cash and cash equivalents	*(a)*	At amortised cost	At amortised cost	929,161	929,161

Note (a): Impairment based on expected credit loss model on these financial assets has no significant financial impacts.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction contracts" and the related interpretations. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The adoption of IFRS 15 did not have any significant impact on recognition of revenue. However, the application of IFRS 15 results in the additional disclosures in Note 2.

International Financial Reporting Interpretations Committee ("IFRIC") 22: Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognised the non-monetary asset or non-monetary liability arising from the advance consideration.

The adoption of IFRIC 22 does not have any significant impact on the consolidated financial statements.

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

A number of new and amended standards are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these consolidated financial statements. The Group will apply the new and amended standards when they become effective. The Group is in the process of making an assessment of the impact of the new and amended standards and does not expect that the adoption of these new and amended standards (except for IFRS 16 Leases as set out below) will result in any material impact on the consolidated financial statements of the Group.

		Effective for annual years beginning on or after
Annual improvements	2015 – 2017 cycle	1 January 2019
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to IASs 1 and 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020
IFRS 17	Insurance contracts	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale and Contribution of Assets Between an Investor and its Associate or Joint Venture	To be determined

<u>IFRS 16: Leases</u>

IFRS 16 significantly changes the lessee accounting by replacing the dual model under IAS 17 with a single model which requires a lessee to recognise right-of-use assets and lease liabilities for the rights and obligations created by leases with a term of more than 12 months, unless the underlying assets is of low value. Besides, among other changes, it requires enhanced disclosures to be provided by lessees and lessors. Based on the preliminary assessment, the management is of the opinion that the leases of certain properties by the Group which are currently classified as operating leases under IAS 17 will trigger the recognition of right-of-use assets and lease liabilities in accordance with IFRS 16. In subsequent measurement, depreciation (and, if applicable, impairment loss) and interest will be recognised on the right-of-use assets and the lease liabilities respectively, of which the amount in total for each reporting period is not expected to be significantly different from the periodic operating lease expenses recognised under IAS 17. Apart from the effects as outlined above, it is not expected that IFRS 16 will have a material impact on the future financial position, financial performance and cash flows of the Group upon adoption.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 July 2019 and will not restate the comparative information.

At 30 June 2019, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of office premises amounted to approximately RMB78,362,000. The management of the Company does not expect the adoption of IFRS 16 as compared with the current accounting policy will result in significant impact on the Group's financial performance but it is expected that the Group has to separately recognise the interest expenses on the lease liabilities and the depreciation expense on the right-of-use assets, and that certain portion of the future minimum lease payments under the Group's operating leases will be required to be recognised in the Group's consolidated balance sheet as right-of-use assets and lease liabilities. The Group will also be required to re-measure the lease liabilities upon the occurrence of certain events such as a change in the lease term and recognise the amount of the re-measurement of the lease liabilities as an adjustment to the right-of-use assets. In addition, payments for the principal portion of the lease liabilities will be presented within financing activities in the Group's consolidated cash flow statement.

2. REVENUE

The Group has recognised the following amounts relating to revenue in profit or loss:

	For the year ended 30 June 2019	For the eighteen months ended 30 June 2018
	RMB'000	*RMB'000*
Revenue from contracts with customers *(a)*	**2,424,416**	3,968,907

(a) Disaggregation of revenue

	For the year ended 30 June 2019			
	Distributions	**Retails I**	**Retails II**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Major products				
Prescribed drugs	**309,833**	**150,525**	**47,190**	**507,548**
Non-prescribed drugs	**1,316,759**	**524,973**	**84,277**	**1,926,009**
Healthcare products	**185,151**	**211,126**	**31,873**	**428,150**
Other pharmaceutical products	**106,112**	**38,817**	**7,209**	**152,138**
	1,917,855	**925,441**	**170,549**	**3,013,845**
Eliminations	**(589,429)**	**–**	**–**	**(589,429)**
Revenue from external customers	**1,328,426**	**925,441**	**170,549**	**2,424,416**
Timing of revenue recognition:				
Products transferred at a point in time	**1,328,426**	**925,441**	**170,549**	**2,424,416**

	For the eighteen months ended 30 June 2018			
	Distributions	Retails I	Retails II	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Major products				
Prescribed drugs	499,444	214,331	44,375	758,150
Non-prescribed drugs	2,022,447	878,264	169,065	3,069,776
Healthcare products	341,445	350,762	60,243	752,450
Other pharmaceutical products	139,549	153,059	26,714	319,322
	3,002,885	1,596,416	300,397	4,899,698
Eliminations	(930,791)	–	–	(930,791)
Revenue from external customers	2,072,094	1,596,416	300,397	3,968,907
Timing of revenue recognition:				
Products transferred at a point in time	2,072,094	1,596,416	300,397	3,968,907

3. 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 10% or more of the Group's total revenues for the year ended 30 June 2019 and for the eighteen months ended 30 June 2018. Accordingly, no geographical segment is presented.

Inter-segment sales are charged at cost or cost plus a percentage mark-up. 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 before interests, tax, depreciation and amortisation ("**Adjusted EBITDA**"). The measurement basis of Adjusted EBITDA excludes the effect of share of post-tax results of joint ventures, share of post-tax results of an associate, share-based payment expenses, impairment loss or its reversal on goodwill and other intangible assets and impairment loss or its reversal on investment in an associate.

The segment information for the year ended 30 June 2019 and as at 30 June 2019 is as follows:

	For the year ended 30 June 2019				
	Distributions *RMB'000*	**Retails I** *RMB'000*	**Retails II** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment revenue	**1,917,855**	**925,441**	**170,549**	**–**	**3,013,845**
Inter-segment revenue	**(589,429)**	**–**	**–**	**–**	**(589,429)**
Revenue from external customers	**1,328,426**	**925,441**	**170,549**	**–**	**2,424,416**
Adjusted EBITDA	**(80,763)**	**(91,645)**	**(38,322)**	**(41,482)**	**(252,212)**
Share-based payment expenses	**(2,874)**	**(5,042)**	**–**	**(2,523)**	**(10,439)**
Reversal of impairment loss on investment in an associate	**4,834**	**–**	**–**	**–**	**4,834**
Depreciation and amortisation	**(14,100)**	**(8,995)**	**(657)**	**–**	**(23,752)**
Finance income	**3,456**	**1,697**	**92**	**6,328**	**11,573**
Finance costs	**(123)**	**(154)**	**(7)**	**(14)**	**(298)**
Share of post-tax results of joint ventures	**–**	**363**	**–**	**–**	**363**
Share of post-tax results of an associate	**6,065**	**–**	**–**	**–**	**6,065**
Income tax expenses	**(644)**	**(1,632)**	**(961)**	**–**	**(3,237)**
Loss for the year	**(84,149)**	**(105,408)**	**(39,855)**	**(37,691)**	**(267,103)**
Additions of non-current assets (excluding financial assets and deferred tax assets)	**46**	**108**	**–**	**–**	**154**

	As at 30 June 2019				
	Distributions *RMB'000*	**Retails I** *RMB'000*	**Retails II** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Total assets before eliminations	**2,139,303**	**940,220**	**70,943**	**1,436,890**	**4,587,356**
Inter-segment assets	**(685,203)**	**(563,787)**	**(14,698)**	**(1,320,328)**	**(2,584,016)**
Total assets	**1,454,100**	**376,433**	**56,245**	**116,562**	**2,003,340**
Total liabilities before eliminations	**1,273,368**	**602,533**	**118,554**	**28,701**	**2,023,156**
Inter-segment liabilities	**(1,099,843)**	**(515,933)**	**(110,851)**	**(26,982)**	**(1,753,609)**
Total liabilities	**173,525**	**86,600**	**7,703**	**1,719**	**269,547**
Investments in joint ventures	**–**	**9,246**	**–**	**–**	**9,246**
Investment in an associate	**307,524**	**–**	**–**	**–**	**307,524**

The segment information for the eighteen months ended 30 June 2018 and as at 30 June 2018 is as follows:

	For the eighteen months ended 30 June 2018				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue	3,002,885	1,596,416	300,397	–	4,899,698
Inter-segment revenue	(930,791)	–	–	–	(930,791)
Revenue from external customers	2,072,094	1,596,416	300,397	–	3,968,907
Adjusted EBITDA	(161,552)	(132,065)	(53,999)	(21,445)	(369,061)
Share-based payment expenses	(6,037)	(4,849)	–	(1,743)	(12,629)
Impairment loss on investment in an associate	(27,430)	–	–	–	(27,430)
Impairment loss on goodwill and other intangible assets	(47,661)	(441,786)	–	–	(489,447)
Depreciation and amortisation	(23,924)	(40,266)	(3,390)	(62)	(67,642)
Finance income	6,622	6,060	553	9	13,244
Finance costs	(4,156)	(1,858)	(57)	(6,419)	(12,490)
Share of post-tax results of joint ventures	–	672	–	–	672
Share of post-tax results of an associate	905	–	–	–	905
Income tax credit (expenses)	3,434	35,717	(64)	–	39,087
Loss for the period	(259,799)	(578,375)	(56,957)	(29,660)	(924,791)
Additions of non-current assets (excluding financial assets and deferred tax assets)	178,002	18,106	–	–	196,108

	As at 30 June 2018				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total assets before eliminations	2,336,942	1,042,660	24,189	1,623,418	5,027,209
Inter-segment assets	(574,225)	(709,668)	(478)	(1,513,508)	(2,797,879)
Total assets	1,762,717	332,992	23,711	109,910	2,229,330
Total liabilities before eliminations	1,380,828	527,156	51,725	25,326	1,985,035
Inter-segment liabilities	(1,193,173)	(433,097)	(43,063)	(23,747)	(1,693,080)
Total liabilities	187,655	94,059	8,662	1,579	291,955
Investments in joint ventures	–	8,883	–	–	8,883
Investment in an associate	220,099	–	–	–	220,099

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

4. EXPENSES BY NATURE

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Costs of inventories sold	**2,091,598**	3,303,747
Employee benefit expenses	**297,810**	485,152
Advertising and other marketing expenses	**117,334**	221,972
Impairment loss on goodwill and other intangible assets	**–**	489,447
(Reversal of) Provision for impairment loss on investment in an associate	**(4,834)**	27,430
Rental expenses	**96,648**	159,956
Transportation and related charges	**63,975**	96,715
Depreciation of property, plant and equipment	**21,515**	39,624
Amortisation of intangible assets	**2,102**	27,838
Share-based payment expenses	**10,439**	12,629
Other tax expenses	**7,777**	15,931
Office and communication expenses	**10,014**	16,030
Training fees	**12**	36
License fee of trademarks	**(4,000)**	12,000
Auditors' remuneration	**2,636**	5,374
Electricity and other utility fees	**2,939**	5,828
Professional fees	**3,667**	3,024
Travelling and meeting expenses	**1,198**	4,039
Amortisation of land use rights	**135**	180
Donations	**–**	1,902
Other expenses	**2,369**	7,144
Total	**2,723,334**	4,935,998

5. FINANCE INCOME AND COSTS

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Finance income		
Exchange gains	**8,136**	–
Interest income	**3,437**	13,244
	11,573	13,244
Finance costs		
Interest expense on loans	**–**	(3,080)
Exchange losses	**–**	(8,881)
Other charges	**(298)**	(529)
	(298)	(12,490)
Finance income – net	**11,275**	754

6. INCOME TAX EXPENSES (CREDIT)

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Current income tax		
Hong Kong Profits tax	**102**	125
PRC corporate income tax	**329**	820
	431	945
Deferred income tax	**2,806**	(40,032)
Total income tax expenses (credit)	**3,237**	(39,087)

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 30 June 2019 (Eighteen months ended 30 June 2018: 16.5%). The subsidiaries of the Group in the PRC are subject to corporate income tax at a rate of 25% (Eighteen months ended 30 June 2018: 25%) on its taxable income or deemed profit method as determined in accordance with the relevant PRC income tax rules and regulations.

7. LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss for the year/period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year/period.

	For the year ended 30 June 2019	For the eighteen months ended 30 June 2018
Loss attributable to owners of the Company *(RMB'000)*	**(265,629)**	(917,007)
Weighted average number of ordinary shares in issue *(thousands)*	**3,097,517**	2,723,838
Basic loss per share *(RMB cents)*	**(8.58)**	(33.67)

(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.

As the effect of the assumed conversion of the potential ordinary shares from exercising the Company's share options is anti-dilutive, the basic loss per share are equal to diluted loss per share for the year ended 30 June 2019 and eighteen months ended 30 June 2018.

8. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 30 June 2019 (Eighteen months ended 30 June 2018: Nil).

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Trade receivables *(Note)*		
– Due from third parties	**209,829**	169,930
– Due from related parties	**459**	672
	210,288	170,602
Prepayments		
– Prepayments to third parties	**48,659**	69,436
– Tax input credits – value added tax	**2,168**	2,909
	50,827	72,345
Other receivables		
– Deposits	**2,898**	6,085
– Consideration receivable	**4,838**	–
– Others	**4,495**	4,376
	12,231	10,461
Trade and other receivables	**273,346**	253,408

The carrying amounts of trade and other receivables approximate their fair values.

Note: Retail sales at the Group's pharmacies are usually settled in cash or by debit or credit cards. For distribution sales, there is no concentration of credit risk with respect to trade receivables, as the majority of the Group's sales are settled upon delivery of goods. The trade receivables are with credit items of not more than 90 days. The ageing analysis based on recognition date of the trade receivables is as follows:

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Up to 3 months	**206,587**	169,061
4 to 6 months	**1,035**	1,127
7 to 12 months	**2,506**	14
Over 1 year	**160**	400
	210,288	170,602

10. TRADE AND OTHER PAYABLES

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Trade payables *(a)*		
– Due to third parties	**170,382**	158,645
Notes payable *(b)*	**37,941**	44,858
Other payables	**60,031**	86,752
	97,972	131,610
Total	**268,354**	290,255

(a) Details of ageing analysis based on recognition date of trade payables are as follows:

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Up to 3 months	**166,998**	155,254
4 to 6 months	**–**	75
7 to 12 months	**–**	1
1 year to 2 years	**1**	2,929
Over 2 years	**3,383**	386
	170,382	158,645

(b) As at 30 June 2019, the entire balance of notes payable was secured by restricted cash of RMB38,058,000 (2018: RMB45,147,000).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Faced with a complicated international environment and a challenging and onerous mission of domestic reform and stable development, China adhered to the principle of steady progress in 2018 and the first half of 2019.

According to the China's National Bureau of Statistics, the GDP of 2018 was RMB90.03 trillion, representing a year-on-year increase of 6.6%. The National Bureau of Statistics of China said that the main expected targets for China's economic and social development in 2018 were completed, the three tough battles were off to a good start, the supply-side structural reforms were further advanced, the reform and opening up was intensified, the people's lives continued to improve, while the national economy maintained a reasonable level of stability and progress.

The market size of China's pharmaceutical industry has been expanding gradually over the years, yet at the same time the growth rate is decreasing year by year. In 2018, the main business income of pharmaceutical industry reached RMB2,398.6 billion, a year-on-year increase of 12.6%. The total profit of pharmaceutical manufacturing industry reached RMB309.42 billion in 2018, increased by 9.5%.

In the first half of 2019, China's GDP reached RMB45.09 trillion, a year-on-year increase of 6.3% at comparable prices. This growth rate is in line with the expected development target of 6.0% to 6.5% at the beginning of the year, but the growth rate has decreased compared with the past, which is the lowest GDP growth rate since 1990. The business income and total profit of pharmaceutical industry were RMB1.22 trillion and RMB160.82 billion, representing an increase of 8.5% and 9.4% year-on-year respectively. The total retail sales of social consumer goods was RMB19.52 trillion, up 8.4% year-on-year. The national online retail sales increased by 17.8% to RMB4.82 trillion, of which the online retail sales of physical goods increased by 21.6% to RMB3.82 trillion, accounting for 19.6% of the total retail sales of social consumer goods.

The pharmaceutical industry is an important part of China's national economy. It plays a pivotal role in the entire consumer market and is the most fundamental and also a core part of the universal health industry. Looking back over the past year, factors such as Sino-US trade friction, vaccine incidents, quantity procurement, medical insurance control fees, and bidding price reduction brought mixed prospects to the pharmaceutical industry.

Since 2018, there has been frequent introduction of policies in the pharmaceutical industry, most of the pharmaceutical companies have been affected and productivity has declined. The income of the core business of the pharmaceutical industry continued to grow, mainly due to the volume of tenders for some products of pharmaceutical companies and the new medical insurance. The transformation of the drug marketing model brought about an increase in apparent income and the price increase of some products.

On 28 August 2018, the General Office of the State Council issued the "Notice on Main Tasks of Healthcare System Reform in the Second Half of 2018", proposing 50 tasks in the second half of 2018, including: adjust the national essential drug list, formulate and guide the national essential drug system, and promote the priority use of essential drug; promote the development of "Internet + medical health"; strengthen the monitoring and early warning of the shortage of supply of medicines in the country, and establish a system for the suspension of production of out-of-stock drugs and drug substance; formulate the guidance documents for the classification and management of retail pharmacies; cooperate with the anti-cancer drug tax reduction policy, promote the centralized procurement of anti-cancer drugs in the medical insurance catalogues of all provinces (autonomous regions and municipality), negotiate the introduction of exclusive anti-cancer drugs which are not within the medical insurance catalogue into the medical insurance, deepen the reform of medical insurance payment methods, etc.

The year 2018 marks the fully launch of the "Two Invoices System". Since its implementation, the entire pharmaceutical circulation landscape has undergone major adjustments. Corporations have accelerated the integration of upstream and downstream resources in the industry, and there were frequent overseas mergers and acquisitions in the capital market.

In the first half of 2019, the medical reform has been further deepened. There were frequent introduction of policies in the field of medicine and health, the pace of reform has been accelerated in the medical reform. On 17 January 2019, the General Office of the State Council published the "Pilot Program of the Centralized Procurement and Use of Drugs Organized by the State", and carried out the pilot work in 11 cities such as Beijing, Tianjin and Shanghai. On 12 March 2019, Mr. Ma Xiaowei, director of the National Health Commission, said in an interview in the Great Hall of the People, the scope of the "4+7" procurement will be further expanded and promoted nationwide. On 17 April 2019, the National Healthcare Security Administration issued the "Work Plan for 2019 National Medical Insurance Drug Catalogue Adjustment". The catalogue adjustment aims to optimize the structure of medicines, improve the level of protection of the medical insurance drugs as well as alleviate the problem of difficulty and cost in the usage of drug of the insured persons. On 28 May 2019, the National Health Commission and the National Administration of Traditional Chinese Medicine jointly issued the "Pilot Work Plan for Urban Medical Complex Construction" and the "Notice on Promoting the Construction of a Compact County Health Community".

In the future, with the implementation of policies such as quantity procurement and national promotion, it is expected that the pharmaceutical industry will still be under greater performance pressure. However, as the pharmaceutical industry began to vigorously implement the healthy China 2030 strategy, it promoted supply-side structural reforms, the "Belt and Road" initiative has been promoted on all fronts, the growth rate of the pharmaceutical market in the developed economies has rebounded; the demand for the pharmaceutical market in emerging economies has been strong; domestic health consumption has been upgraded; and various policy benefits persist. It is expected that China's pharmaceutical industry will see a good general operation trend, and will maintain a development trend at a relatively high speed.

BUSINESS REVIEW

During the Year, under the leadership of Mr. Jin Dongtao, the chairman of the Group (the "**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. Meanwhile, the Group endeavored to explore new business model to facilitate the Group's "Supply-side" structural transformation and upgrading. During the Year, the Group acquired additional 7.4% equity interest in Jilin Jintian Universal Health Group Capsules Limited* (吉林金天大健康集團膠囊有限公司)("**Jilin Jintian**"), and in turn owned 43.78% of its shares, which would further leverage on the integration of upstream resources to construct a universal health ecosystem. After the acquisition, the Group continued to classify with Jilin Jintian as an associate. In addition, the Company has granted 300,000,000 share options under the rules of the share option scheme of the Company amended and effective on 20 December 2018 (the "**Share Option Scheme**") during the Year to cope with the downward pressure of the regional economy and the industry and enhance the unity of the operation team.

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 Year, the Group committed to issue-specific management, continued to keep the division of strategic stores and non-strategic stores and conducted reasonable adjustments and reformatory elimination in line with the market competition and development. During the Year, 67 stores have been closed in due course. As such, the Group had 850 stores in total at the end of the Year, including 584 strategic stores (2018: 648 strategic stores) and 266 non-strategic stores (2018: 269 non-strategic stores). Meanwhile, due to the continuous downturn of regional real economy with the northeastern region of the PRC and the strategic transformation of the Group, the Group recorded sales revenue for retail business of RMB1,096.0 million for the Year (Eighteen months ended 30 June 2018: RMB1,896.8 million).

Nationwide Distribution Business

During the Year, the Group had approximately 3,800 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, subject to the development environment of real economy and the transformation of the Company's strategies, the Group recorded sales revenue for distribution business of RMB1,328.4 million for the Year (Eighteen months ended 30 June 2018: RMB2,072.1 million).

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 so as to reduce the effect of the policy change of the Group. During the Year, 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

The Group continued to maintain the operational pattern of the original branded products and adjusted the brand structure according to actual operational requirements to eliminate certain non-applicable products and add new products, so as to maintain the competitiveness of the original branded products, on the other hand, increase the influence of new branded products. During the Year, a net decrease of 649 products was recorded. Hence, there were 1,092 branded products in total for the benefit of the Group in operation at the end of the Year.

Warehouse Construction

The logistics warehouse center in Jiamusi, Heilongjiang Province is 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 plays an important role in optimising distribution system of the Group. By then, the Group has 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 and has provided a solid foundation for the industrial upgrading of the logistic park.

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 Year, 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

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 takes the advantage of 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 Year, the Company held 162 internal trainings in total.

Membership Service

During the Year, the Group had provided follow-up services and promotion benefits for approximately 1.6 million offline members, enhancing the sense of affiliation and positivity of members while boosting their loyalty, and thus promoting a healthy image of the Company. 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 public welfare activities such as "Love China", with a view to build up its positive corporate image.

Industry Alliance

The Company had proactively participated in the alliance activities, the Chairman and vice chairman, chief operating officer attended the tours and forums organised by the alliance on behalf of the Group, to seize the theme of era development, keep abreast of the industry information, promote development of branded products, strengthen the Company's interaction and exchange with industry alliance and enhance the Group's 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 April 2019, the Group entered into the Agreement with an independent third party, pursuant to which the Group acquired additional 7.4% equity interest of Jilin Jintian (the "**Acquisition**"). Jilin Jintian is an advanced capsules production corporation in the northeastern region of the PRC. The acquisition has further enhanced the integration of the upstream and downstream resources. It is in the interest of the Group's strategy to consolidate resources of upstream and downstream of the pharmaceutical sector for the better development and use of the platform of the Group, and will be beneficial for the development of the Group and further enhance its performance. The acquisition was completed in May 2019 and the Group holds 43.78% equity interest in the Jilin Jintian in aggregate upon completion. The Group continued to classify Jilin Jintian as an associate.

Share Option Scheme

In order to enhance the cohesion of the management team, motivate the initiatives and creativity of the staff, retain the key staff and build a friendly upstream and downstream ecosystem amidst an environment with increasing pressure from regional economic reform, concentration of the industry as well as intensifying competition, in March 2019, the Board resolved that an aggregate of 300,000,000 share options (the "**Share Options**") were granted to 50 eligible participants, including 4 executive Directors, 3 independent non-executive Directors and an associate of an executive Director (the "**Grantees**"), all of which were accepted by the Grantees. The Grantees are entitled, subject to the terms and conditions of offer and upon exercise, to subscribe for a total of 300,000,000 shares of the Company (the "**Share(s)**"), representing approximately 9.87% of the total 3,040,537,670 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$0.074 per Share.

FINANCIAL REVIEW

The Group recorded revenue of RMB2,424.4 million for the year ended 30 June 2019 (Eighteen months ended 30 June 2018: RMB3,968.9 million). Loss attributable to owners of the Company was RMB265.6 million for the Year (Eighteen months ended 30 June 2018: RMB917.0 million). Loss per share for the Year was RMB8.58 cents (Eighteen months ended 30 June 2018: RMB33.67 cents). The loss attributable to owners of the Company was mainly due to the continuous downturn pressure on regional real economy in the northeastern region of the PRC, the Group continued to apply various promotion initiatives and offer special discounts to consumers and actively restrain the diminishing rate in retail and distribution and resulted in a decrease in gross profit.

Revenue

For the year ended 30 June 2019, the Group recorded revenue of RMB2,424.4 million (Eighteen months ended 30 June 2018: RMB3,968.9 million). The decline in the performance of the Group's retail and distribution businesses for the Year was mainly due to the market doldrums as a result of the continuous downturn of regional real economy in the northeastern region of the PRC and the competition has intensified, meanwhile, some of the stores were closed in the Year due to structural adjustment, affecting the performance of the Group for the Year.

Analysis of revenue by business segment

	Revenue (RMB million)		Percentage (%) of total revenue		
	For the year ended 30 June 2019	For the eighteen months ended 30 June 2018	**For the year ended 30 June 2019**	For the eighteen months ended 30 June 2018	Change
Retails I	**925.4**	1,596.4	**38.2**	40.2	-2.0 pp
Retails II	**170.6**	300.4	**7.0**	7.6	-0.6 pp
	1,096.0	1,896.8	**45.2**	47.8	-2.6 pp
Distributions	**1,328.4**	2,072.1	**54.8**	52.2	+2.6 pp
	2,424.4	3,968.9	**100.0**	100.0	

Retail Business Segment

The Group operates two retails reportable segments: retails with strategic stores ("**Retails I**") and retails consisting of non-strategic stores ("**Retails II**"). Retails I are retail business with higher future development potential and strategic focus by the Group when allocating the resources, while Retails II are retail business located in remote areas with lower strategic importance and lower 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 decline in performance of 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 weaker than expected performance of the retail channel during the Year.

As at 30 June 2019, the Group had 850 (2018: 917) retail pharmacies in total, of which 654 (2018: 692) located in Heilongjiang, 128 (2018: 137) in Liaoning, 67 (2018: 86) in Jilin and 1 (2018: 2) self-operated retail pharmacy in Hong Kong. In addition, the Group had 1 (2018: 1) supermarket in Shenyang as at 30 June 2019, mainly for selling healthcare products and consumer goods. The performance of the supermarket was included and monitored in Retails I.

Distribution Business Segment

Prudent approach has been adopted in running the distribution 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.

During the Year, the Group had a nationwide distribution network covering approximately 3,800 active customers (Eighteen months ended 30 June 2018: 6,200), among which approximately 2,500 pharmaceutical retailers, hospitals and clinics (Eighteen months ended 30 June 2018: 4,100) and approximately 1,300 distributors (Eighteen months ended 30 June 2018: 2,100).

Gross profit

Gross profit of the Group for the year ended 30 June 2019 was RMB326.8 million (Eighteen months ended 30 June 2018: RMB652.1 million). Overall gross margin decreased from 16.4% to 13.5%. The Group has applied various promotion initiatives and put more effort on different promotional campaigns with special discounts offered to consumers in order to ease the decrease in revenue and to maintain relative competitiveness during the Year, meanwhile, revenue and gross margin of the Group's high-margin products decreased, which resulted in a decrease in gross margin of the Group for the Year.

Analysis of gross profit by business segment

	Gross profit (RMB million)		**Gross margin (%)**		
	For the year ended 30 June 2019	For the eighteen months ended 30 June 2018	**For the year ended 30 June 2019**	For the eighteen months ended 30 June 2018	Change
Retails I	**214.1**	420.4	**23.1**	26.3	-3.2 pp
Retails II	**37.1**	80.7	**21.7**	26.9	-5.2 pp
	251.2	501.1	**22.9**	26.4	-3.5 pp
Distributions	**75.6**	151.0	**5.7**	7.3	-1.6 pp
	326.8	652.1			

The Group's high-margin products consist of licensed products and products with exclusive distribution rights. During the Year, revenue of the Group's high-margin products was RMB142.9 million and the gross margin of these high-margin products decreased from 33.8% to 28.9%. This is mainly attributable to the increase in cost of purchase. As at 30 June 2019, the Group had 445 (2018: 303) types of licensed products and 647 (2018: 1,438) types of products with exclusive distribution rights.

Selling and marketing expenses

Selling and marketing expenses for the Year was RMB551.0 million (Eighteen months ended 30 June 2018: RMB955.7 million) and accounted for 22.7% (Eighteen months ended 30 June 2018: 24.1%) of the Group's revenue. The Group's selling and marketing expenses recorded a decrease as compared to the eighteen months ended 30 June 2018, was mainly due to decrease in employee benefit expenses, rental expenses, advertising and other marketing expenses, etc.

Administrative expenses

Administrative expenses for the Year was RMB79.5 million (Eighteen months ended 30 June 2018: RMB146.6 million) and accounted for 3.3% (Eighteen months ended 30 June 2018: 3.7%) of the Group's revenue. The Group's administrative expenses recorded a decrease as compared to the eighteen months ended 30 June 2018, was mainly due to the decrease in amortisation of intangible assets and employee benefit expenses, etc.

Finance income – net

Net finance income for the Year was RMB11.3 million (Eighteen months ended 30 June 2018: RMB0.8 million). Net finance income was recorded an increase as compared to the eighteen months ended 30 June 2018, which was mainly due to the increase in exchange gains.

Income tax (expenses) credit

Income tax expenses for the Year was RMB3.2 million (Eighteen months ended 30 June 2018: income tax credit of RMB39.1 million). The effective income tax rate for the Year was 1.2% (Eighteen months ended 30 June 2018:-4.1%).

Acquisition of equity interest of Jilin Jintian

On 29 April 2019, the Group further acquired 7.4% equity interest in Jilin Jintian through the issuance of 547,296,781 consideration shares of the Company. The acquisition was completed in May 2019, and Jilin Jintian is owned as to 43.78% in aggregate by the Group upon completion. The Group continued to classify Jilin Jintian as an associate.

Merger and acquisition of Jilin Jintian helps integrate commercial and production resources of the Group and give full play to advantages of pharmaceutical industry in northeast China, so as to inject a new force for the Group's future development.

Disposal of subsidiaries

On 2 October 2018, Heilongjiang Jintian Aixin Pharmaceutical 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 Group, entered into a share transfer agreement with Ms. Cao Lijuan (曹麗娟) ("**Ms. Cao**"), who was a non-controlling shareholder of Hegang Ji Shi Tang Pharmacy Chain Co., Ltd.* (鶴崗市濟世堂醫藥連鎖零售有限公司) ("**Hegang**"), pursuant to which the Group agreed to sell and Ms. Cao agreed to purchase 51% equity interests of Hegang (the "**Disposal of Hegang**"), at a total consideration of RMB7.5 million. The completion of the Disposal of Hegang took place on 9 October 2018.

On 20 December 2018, Neo Century Holdings Limited (新世紀控股有限公司), a wholly-owned subsidiary of the Group, entered into a share transfer agreement with an independent third party, Allways Health-Care Corporation Limited ("**Allways**") (永盛國際企業有限公司), pursuant to which the Group agreed to sell and Allways agreed to purchase 100% equity interests of Hong Kong Wing Ming Medical Limited (香港永明藥業有限公司) (the "**Disposal of Wing Ming**"), at a total consideration of RMB7.5 million. The completion of the Disposal of Wing Ming took place on 1 April 2019. In April 2019, the Group completed the disposal of 51% equity interests in three drug stores, namely Suibin Lao Bai Xing Drug Store, Suibin Bai Xing Drug Store and Suibin Jintian Drug Store to their non-controlling shareholders at a consideration of Nil.

Aggregate gain on disposal of subsidiaries amounting to RMB7.9 million was recognised as other gain in the profit or loss.

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 2019, the Group's unpledged cash and cash equivalents totalled RMB628.5 million (2018: RMB929.2 million), and the Group's net current assets were RMB1,018.0 million (2018: RMB1,287.4 million).

During the Year, net cash flows used in operating activities amounted to RMB309.2 million (Eighteen months ended 30 June 2018: RMB183.8 million). The incessant increase in net cash flows used in operating activities was mainly attributable to the Group's weakening operating performance.

During the Year, the Group had capital expenditure of RMB3.9 million (Eighteen months ended 30 June 2018: RMB124.6 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 2019, the Group had RMB628.5 million in cash and bank balances of which the equivalent of RMB3.7 million was denominated in Hong Kong dollars and United States dollars.

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

CAPITAL STRUCTURE

As at 30 June 2019, the capital structure of the Company was constituted of 3,587,834,451 ordinary shares of USD0.001 each.

During the Year, the Company granted a total of 300,000,000 Share Options to 50 eligible Grantees which include 4 executive Directors, 3 non-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 300,000,000 Shares, representing approximately 9.87% of the total 3,040,537,670 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$0.074 per Share.

As at 30 June 2019, the Group had no interest-bearing bank borrowings and no bank borrowings carried annual interest rates (2018: Nil).

The gearing ratio of the Group as at 30 June 2019, calculated as net debt divided by sum of total equity and net debt, was N/A (2018: N/A).

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 30 June 2019, the Group had no significant contingent liabilities (2018: Nil).

As at 30 June 2019, notes payable of the Group was secured by the time deposits of the Group with net aggregate booking value of RMB38.1 million (2018: RMB45.1 million).

HUMAN RESOURCES

As at 30 June 2019, the Group had 5,628 (2018: 6,068) full-time employees in Hong Kong China and the mainland China with total employee benefit expenses (including share based payment expenses) amounted to RMB308.2 million for the Year (Eighteen months ended 30 June 2018: RMB497.8 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 on 18 November 2013 (as amended on 20 December 2018) and a share award plan for the purpose of providing incentives to participants for their contributions to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

FUTURE PLAN

The management of the Company will take the Golden Rules as its guidelines, follow the leadership of the Chairman in strategic plan, stabilize and optimize the existing retail chain network and distribution system and strive for breakthrough and integration advantages in the development of platform cooperation, logistic upgrade and universal health industry fund, respectively. After certain years of the ongoing economic transformation, the Company has adopted the multilateral cooperation by employing the "Partners + Mechanism" and continues to take a leading position in Chinese medicine industry chain and industrial merger and acquisition. The details are as follow:

Reform the Institutional Mechanism and Promote the Partners + Mechanism and Expand the Extended Space

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

In terms of chain development, we develop our brand-new cooperative chain stores with our partnership mind, expand our chained space regionally, and enhance our competitiveness, forming a new network perspective through the extension.

Aim at Industry Chain of Traditional Chinese Medicine ("TCM") and Foster a New Industrial Ecosphere

By leveraging on the opportunity of TCM legislation and a new round of rejuvenation in the old industrial base in the northeast part of the PRC, development of under-forest economy in the northeast China was further advanced. In such case, planting typical traditional Chinese herbal medicines under forest in the northeast China was policy-supported by government at all levels. The Company will definitely seize this historical opportunity to develop the business of planting traditional Chinese herbal medicines under forest in time, gradually involving in extraction, processing and marketing by virtue of the Group's own multi-layer network, so as to explore new profit growth opportunity.

Explore "N+" Strategy, Cultivate New Business Model and Create New Driver for Internal Development

The Company develops a new channel featuring "single system incorporating industry-wide products", increasing its introduction of new formats and new counters in its chain store system as well as developing new brands and products in its distribution system, i.e. the new sales ecosystem of "new commerce, new retails, new technologies 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.

Improve the "Tencent Mini Apps" application, enrich the promotion of new sales channels, online and offline linkage

The Company explores the basic usage of the "Mini Apps", and increases the licenses of the subsidiaries regarding the Qualification Certificate for Providing Internet Pharmaceutical Information Services to develop the application scenarios of "Mini Apps" for respective stores. It is the first to realize the advantages of terminal promotion through the application of the "Mini Apps", and can purchase and pay for the commodities by mobile phone, thus to improve the convenience of the public, to form a further integration of online and offline physical stores, and to build a new competitive advantage of the Company under the informatization.

Enhance logistic levels, develop external economy

The headquarters of the Company is located in the eastern central region of Heilongjiang, adjacent to the trade ports with Russia (such as Tongjiang and Fuyuan). The Company increases its effort to increase the capacity of logistics warehousing at the headquarters, establish a storage and transportation base for trade transit. It would further achieve the joint delivery effect of the Group's four major logistics centers in Harbin, Changchun, Shenyang and Shijiazhuang, take advantage of the trading of rich resources in the Russian Far East, as well as increase the categories of and substitute traditional Chinese herbal medicines, luxury medicines and other trading items. The diffusion of market from the frontier to the inland region will have significant significance in building a new economic access model and enhancing economic and social efficiency.

Plan for Universal Health Industry Fund, Explore Financial and Capital Advantages, and Expanding Fundamental Services for the Industry

The Company strives to establish universal health industry fund to look for the combination between industry and finance. The universal health industry witnesses an accelerated development phase supported by the following three engines: (1) domestic potential demand for health care and medical treatment increased due to ageing population and environmental pollution; (2) the raising health awareness of the public increased health care expenditures; and (3) the government policy promoted the construction of "Healthy China". The planning and establishment of the universal health industry fund, through professional operation to seek suitable universal health enterprises, could reserve high-quality targets for merger and acquisition for the Company and lay a foundation for the Company to further expand in the universal health field by investment and education.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 30 June 2019 (eighteen months ended 30 June 2018: Nil).

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 9 December 2019 to Thursday, 12 December 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming annual general meeting of the Company to be held on Thursday, 12 December 2019. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, 6 December 2019.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules throughout the Year, except for deviation from code provision A.2.1 of the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Under code provision A.2.1 of the 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 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 during the Year and, where appropriate, the applicable recommended best practices of the CG Code.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. Zou Haiyan (chairman of the Audit Committee), 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 data and financial reporting procedure of the Group, and overseeing the Group's financial reporting system, risk management and internal control systems. The Audit Committee had reviewed the annual results of the Group for the Year.

SCOPE OF WORK OF MAZARS CPA LIMITED

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income, and the related notes thereto for the year ended 30 June 2019 as set out in the preliminary results announcement have been agreed by the Group's auditor, Mazars CPA Limited ("**Mazars**"), to the amounts set out in the Group's draft audited consolidated financial statements for the year ended 30 June 2019. The work performed by Mazars in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Mazars on the preliminary results announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct regarding directors' securities transactions. Specific enquiries has been made with all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code throughout the Year.

During the Year, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PUBLICATION OF THE ANNUAL RESULTS AND 2018/19 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange and the Company, and the 2018/19 annual report containing all the information required by the Listing Rules will be despatched 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.

* *For identification purpose only*

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

Hong Kong, 26 September 2019

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.