

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



UNIVERSAL HEALTH INTERNATIONAL GROUP HOLDING LIMITED

大健康國際集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2211)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

INTERIM RESULTS HIGHLIGHTS

		(Unaudited)		
		Six months ended 31 December		
	Unit	2019	2018	Change
Revenue	RMB million	1,066.8	1,368.9	-22.1%
Gross profit	RMB million	139.9	187.7	-25.5%
Operating loss	RMB million	(180.4)	(123.5)	-56.9
Loss for the period	RMB million	(170.8)	(114.5)	-56.3
EBITDA	RMB million	(162.6)	(111.3)	-51.3
Basic loss per share	RMB cents	(4.43)	(3.68)	-0.75
Gross margin	%	13.1	13.7	-0.6 pp
Operating loss margin	%	(16.9)	(9.0)	-7.9 pp
Net loss margin	%	(16.0)	(8.4)	-7.6 pp

The board (the “**Board**”) of directors (the “**Directors**”) of Universal Health International Group Holding Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 31 December 2019 (the “**Period**”) together with the comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)
Six months ended 31 December
2019 2018
RMB'000 RMB'000

	Note		
Revenue	2	1,066,797	1,368,873
Cost of sales	4	<u>(926,938)</u>	<u>(1,181,188)</u>
Gross profit		139,859	187,685
Selling and marketing expenses	4	(289,700)	(283,637)
Administrative expenses	4	(31,035)	(36,637)
Other income		570	396
Other (losses) gains – net		<u>(92)</u>	<u>8,666</u>
Operating loss		(180,398)	(123,527)
Finance income	5	4,668	7,591
Finance costs	5	<u>(1,205)</u>	<u>(187)</u>
Finance income – net	5	3,463	7,404
Share of post-tax results of joint ventures		171	253
Share of post-tax results of an associate		<u>5,798</u>	<u>2,439</u>
Loss before income tax		(170,966)	(113,431)
Income tax credit (expenses)	6	<u>195</u>	<u>(1,029)</u>
Loss for the period		<u>(170,771)</u>	<u>(114,460)</u>
Other comprehensive loss			
<i>Item that may be reclassified to profit or loss in subsequent periods</i>			
Currency translation differences		<u>(2,468)</u>	<u>(5,472)</u>
Total comprehensive loss for the period		<u>(173,239)</u>	<u>(119,932)</u>
Loss attributable to:			
– Owners of the Company		(170,431)	(112,019)
– Non-controlling interests		<u>(340)</u>	<u>(2,441)</u>
		<u>(170,771)</u>	<u>(114,460)</u>
Total comprehensive loss attributable to:			
– Owners of the Company		(172,899)	(117,491)
– Non-controlling interests		<u>(340)</u>	<u>(2,441)</u>
		<u>(173,239)</u>	<u>(119,932)</u>
Loss per share attributable to owners of the Company for the period (RMB cents)			
– Basic and diluted	7	<u>(4.43)</u>	<u>(3.68)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 December 2019 RMB'000	(Audited) As at 30 June 2019 RMB'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		247,923	255,811
Right-of-use assets		34,350	—
Land use rights		—	5,354
Intangible assets		13,426	14,476
Investments in joint ventures		9,417	9,246
Investment in an associate		313,322	307,524
Equity instruments designated as at fair value through other comprehensive income		23,319	23,319
Biological assets		93,621	93,621
Deferred income tax assets		7,593	7,593
Total non-current assets		742,971	716,944
Current assets			
Trade and other receivables	9	259,710	273,346
Income tax recoverable		44,330	44,330
Inventories		301,502	302,137
Restricted cash		44,150	38,058
Cash and cash equivalents		485,679	628,525
Total current assets		1,135,371	1,286,396
Total assets		1,878,342	2,003,340
EQUITY			
Equity attributable to owners of the Company			
Share capital		24,833	22,942
Reserves		1,734,008	1,720,044
Accumulated loss		(183,246)	(12,815)
		1,575,595	1,730,171
Non-controlling interests		3,282	3,622
Total equity		1,578,877	1,733,793

		(Unaudited) As at 31 December 2019 <i>RMB'000</i>	(Audited) As at 30 June 2019 <i>RMB'000</i>
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		951	1,179
Lease liabilities		<u>14,071</u>	<u>–</u>
Total non-current liabilities		<u>15,022</u>	<u>1,179</u>
Current liabilities			
Trade and other payables	10	273,167	268,354
Lease liabilities		11,231	–
Current income tax liabilities		<u>45</u>	<u>14</u>
Total current liabilities		<u>284,443</u>	<u>268,368</u>
Total liabilities		<u><u>299,465</u></u>	<u><u>269,547</u></u>
Total equity and liabilities		<u><u>1,878,342</u></u>	<u><u>2,003,340</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed consolidated interim financial statements for the six months ended 31 December 2019 has been prepared in accordance with International Accounting Standards (“**IASs**”) 34, “**Interim Financial Reporting**” and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of these condensed consolidated interim financial statements for the six months ended 31 December 2019 in conformity with IAS 34 requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These condensed consolidated interim financial statements for the six months ended 31 December 2019 include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 30 June 2019, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”). They shall be read in conjunction with the consolidated financial statements for the year ended 30 June 2019.

These condensed consolidated interim financial statements for the six months ended 31 December 2019 have been prepared on a historical cost basis, except for equity instruments designated as at fair value through other comprehensive income (“**FVOCI**”) and biological assets which are measured at fair value.

The accounting policies adopted in preparing these condensed consolidated interim financial statements for the six months ended 31 December 2019 are consistent with those in the preparation of the Group’s consolidated financial statements for the year ended 30 June 2019, except for the adoption of the new/ revised standard of IFRSs which are relevant to the Group’s operation and are effective for the Group’s financial year beginning on 1 July 2019 as described below.

Annual improvements	2015 – 2017 cycle
IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 9	Prepayment Features with Negative Compensation

The adoption of the new/revised standard of IFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the current period and prior years except for IFRS 16 as described below.

IFRS 16: Leases

The Group has applied IFRS 16 for the first time at 1 July 2019 (i.e. the date of initial application, the “**DIA**”) using the modified retrospective approach in which comparative information has not been restated and continues to be reported under IAS 17.

The Group also elected to use the transition practical expedient not to reassess whether a contract was, or contained, a lease at the DIA and the Group applied IFRS 16 only to contracts that were previously identified as leases applying IAS 17 and to contracts entered into or changed on or after the DIA that are identified as leases applying IFRS 16.

Upon adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities for leases previously classified as operating leases at the DIA and applied the following practical expedients on a lease-by-lease basis.

- (a) Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- (b) Adjusted the right-of-use assets at the DIA by the provision for onerous leases recognised immediately before the DIA by applying IAS 37, as an alternative to performing an impairment review at the DIA.
- (c) Did not recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the DIA (“**short-term leases**”) and low-value assets.
- (d) Excluded initial direct costs from the measurement of the right-of-use assets at the DIA.
- (e) Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

At the DIA, the right-of-use assets were, on a lease-by-lease basis, measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised immediately before the DIA.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the DIA. The Group has applied weighted average incremental borrowing rate of 8.63% at the DIA.

Reconciliation of operating lease commitments disclosed applying IAS 17 as at 30 June 2019 and lease liabilities recognised at the DIA is as follows:

	(Unaudited) RMB’000
Operating lease commitments as at 30 June 2019	78,362
Less:	
Short-term leases and low-value assets	<u>(49,624)</u>
Gross lease liabilities as at 1 July 2019	28,738
Discounted using the incremental borrowing rate at the DIA	<u>(3,358)</u>
Lease liabilities as at 1 July 2019	<u><u>25,380</u></u>

At the DIA, all right-of-use assets were presented within the line item “right-of-use assets” on the condensed consolidated balance sheet. Besides, lease liabilities were shown separately on the condensed consolidated balance sheet.

	(Audited) Carrying amount on 30 June 2019 under IAS 17 <i>RMB'000</i>	Adjustments <i>RMB'000</i>	(Unaudited) Carrying amount on 1 July 2019 under IFRS 16 <i>RMB'000</i>
Assets			
Right-of-use assets	–	40,801	40,801
Land use rights	5,354	(5,354)	–
Trade and other receivables	46,492	(10,067)	36,425
Liabilities			
Lease liabilities	<u>–</u>	<u>25,380</u>	<u>25,380</u>

2. REVENUE

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

	(Unaudited) Six months ended 31 December 2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue from contracts with customers (a)	<u>1,066,797</u>	<u>1,368,873</u>

(a) Disaggregation of revenue

	(Unaudited)			
	Six months ended 31 December 2019			
	Distributions	Retails I	Retails II	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Major products				
Prescribed drugs	131,137	68,689	21,607	221,433
Non-prescribed drugs	583,674	241,340	40,442	865,456
Healthcare products	80,621	97,301	14,581	192,503
Other pharmaceutical products	36,887	19,240	3,442	59,569
	832,319	426,570	80,072	1,338,961
Eliminations	(272,164)	—	—	(272,164)
Revenue from external customers	<u>560,155</u>	<u>426,570</u>	<u>80,072</u>	<u>1,066,797</u>
Timing of revenue recognition:				
Products transferred at a point in time	<u>560,155</u>	<u>426,570</u>	<u>80,072</u>	<u>1,066,797</u>

	(Unaudited)			
	Six months ended 31 December 2018			
	Distributions	Retails I	Retails II	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Major products				
Prescribed drugs	224,141	88,707	27,419	340,267
Non-prescribed drugs	671,102	302,274	49,234	1,022,610
Healthcare products	121,804	117,807	19,476	259,087
Other pharmaceutical products	57,847	26,562	3,556	87,965
	1,074,894	535,350	99,685	1,709,929
Eliminations	(341,056)	—	—	(341,056)
Revenue from external customers	<u>733,838</u>	<u>535,350</u>	<u>99,685</u>	<u>1,368,873</u>
Timing of revenue recognition:				
Products transferred at a point in time	<u>733,838</u>	<u>535,350</u>	<u>99,685</u>	<u>1,368,873</u>

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 reports 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 in the northeastern region of the PRC. The Group has a large number of customers, which are widely dispersed within the northeastern region of the PRC, no single customer accounted for more than 10% of the Group's total revenues for the six months ended 31 December 2019 and 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 these condensed consolidated interim 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 and share of post-tax results of an associate.

The segment information for the six months ended 31 December 2019 and as at 31 December 2019 is as follows:

	(Unaudited)				
	Six months ended 31 December 2019				
	Distributions	Retails I	Retails II	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	832,319	426,570	80,072	–	1,338,961
Inter-segment revenue	(272,164)	–	–	–	(272,164)
Revenue from external customers	560,155	426,570	80,072	–	1,066,797
Adjusted EBITDA	(59,987)	(79,804)	(20,705)	(2,108)	(162,604)
Depreciation and amortisation	(7,137)	(9,745)	(912)	–	(17,794)
Finance income	590	738	69	3,271	4,668
Finance costs	(95)	(1,033)	(75)	(2)	(1,205)
Share of post-tax results of joint ventures	–	171	–	–	171
Share of post-tax results of an associate	5,798	–	–	–	5,798
Income tax credit	–	195	–	–	195
(Loss) profit for the period	(60,831)	(89,478)	(21,623)	1,161	(170,771)
Additions of non-current assets	1,799	2,491	–	–	4,290

	(Unaudited)				
	As at 31 December 2019				
	Distributions	Retails I	Retails II	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets before eliminations	1,967,415	906,464	78,109	1,522,163	4,474,151
Inter-segment assets	(644,625)	(536,161)	(455)	(1,414,568)	(2,595,809)
Total assets	1,322,790	370,303	77,654	107,595	1,878,342
Total liabilities before eliminations	1,169,834	656,024	143,218	21,050	1,990,126
Inter-segment liabilities	(1,000,054)	(539,107)	(130,596)	(20,904)	(1,690,661)
Total liabilities	169,780	116,917	12,622	146	299,465
Investments in joint ventures	–	9,417	–	–	9,417
Investment in an associate	313,322	–	–	–	313,322

The segment information for the six months ended 31 December 2018 and as at 30 June 2019 is as follows:

	(Unaudited)				
	Six months ended 31 December 2018				Total RMB'000
	Distributions RMB'000	Retails I RMB'000	Retails II RMB'000	Others RMB'000	
Segment revenue	1,074,894	535,350	99,685	–	1,709,929
Inter-segment revenue	(341,056)	–	–	–	(341,056)
Revenue from external customers	<u>733,838</u>	<u>535,350</u>	<u>99,685</u>	<u>–</u>	<u>1,368,873</u>
Adjusted EBITDA	(53,395)	(34,465)	(17,133)	(6,352)	(111,345)
Depreciation and amortisation	(7,099)	(4,692)	(391)	–	(12,182)
Finance income	2,319	1,029	43	4,200	7,591
Finance costs	(71)	(100)	(4)	(12)	(187)
Share of post-tax results of joint ventures	–	253	–	–	253
Share of post-tax results of an associate	2,439	–	–	–	2,439
Income tax expenses	<u>(75)</u>	<u>(867)</u>	<u>(87)</u>	<u>–</u>	<u>(1,029)</u>
Loss for the period	<u>(55,882)</u>	<u>(38,842)</u>	<u>(17,572)</u>	<u>(2,164)</u>	<u>(114,460)</u>
Additions of non-current assets	<u>26</u>	<u>107</u>	<u>–</u>	<u>–</u>	<u>133</u>
	(Audited)				
	As at 30 June 2019				Total RMB'000
	Distributions RMB'000	Retails I RMB'000	Retails II RMB'000	Others 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	<u>1,454,100</u>	<u>376,433</u>	<u>56,245</u>	<u>116,562</u>	<u>2,003,340</u>
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	<u>173,525</u>	<u>86,600</u>	<u>7,703</u>	<u>1,719</u>	<u>269,547</u>
Investments in joint ventures	<u>–</u>	<u>9,246</u>	<u>–</u>	<u>–</u>	<u>9,246</u>
Investment in an associate	<u>307,524</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>307,524</u>

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

4. EXPENSES BY NATURE

	(Unaudited)	
	Six months ended 31 December	
	2019	2018
	RMB'000	RMB'000
Costs of inventories sold	924,699	1,177,788
Employee benefit expenses	136,939	153,777
Advertising and other marketing expenses	91,527	60,012
Lease payments on short-term leases	38,006	–
Lease payments on low-value assets	87	–
Rental expenses for leases previously classified as operating leases under IAS 17	–	49,663
Transportation and related charges	26,884	34,894
Depreciation of property, plant and equipment	10,293	11,064
Depreciation of right-of-use assets	6,451	–
Amortisation of intangible assets	1,050	1,050
Office and communication expenses	4,437	5,529
Other tax expenses	3,500	4,303
License fee of trademarks	–	(4,000)
Professional fees	1,307	3,366
Electricity and other utility fees	599	1,402
Travelling and meeting expenses	636	752
Auditors' remuneration	537	701
Amortisation of land use rights	–	68
Training fees	–	11
Others expenses	721	1,082
Total	<u>1,247,673</u>	<u>1,501,462</u>

5. FINANCE INCOME AND COSTS

	(Unaudited)	
	Six months ended 31 December	
	2019	2018
	RMB'000	RMB'000
Finance income		
Exchange gains	3,289	5,815
Interest income	<u>1,379</u>	<u>1,776</u>
	<u>4,668</u>	<u>7,591</u>
Finance costs		
Interest on lease liabilities	(1,105)	–
Other charges	<u>(100)</u>	<u>(187)</u>
	<u>(1,205)</u>	<u>(187)</u>
Finance income – net	<u>3,463</u>	<u>7,404</u>

6. INCOME TAX CREDIT (EXPENSES)

	(Unaudited)	
	Six months ended 31 December	
	2019	2018
	RMB'000	RMB'000
PRC corporate income tax		
– Current income tax	(34)	(326)
– Overprovision in prior years	–	19
Hong Kong profits tax		
– Current income tax	–	(75)
Deferred income tax	<u>229</u>	<u>(647)</u>
Total income tax credit (expenses)	<u>195</u>	<u>(1,029)</u>

Hong Kong profits tax has not been provided as there were no assessable profits subject to Hong Kong profits tax for the six months ended 31 December 2019 (Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the six months ended 31 December 2018).

The subsidiaries of the Group in the PRC are subject to corporate income tax at a rate of 25% (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 period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	(Unaudited)	
	Six months ended 31 December	
	2019	2018
Loss attributable to owners of the Company (RMB'000)	(170,431)	(112,019)
Weighted average number of ordinary shares in issue (thousands)	<u>3,848,172</u>	<u>3,040,538</u>
Basic loss per share (RMB cents)	<u>(4.43)</u>	<u>(3.68)</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.

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 for the periods are equal to diluted loss per share for the six months ended 31 December 2019 and 2018.

8. DIVIDEND

No interim dividend was declared for the six months ended 31 December 2019 (2018: Nil).

9. TRADE AND OTHER RECEIVABLES

	(Unaudited) As at 31 December 2019 RMB'000	(Audited) As at 30 June 2019 RMB'000
Trade receivables (a)	211,136	210,288
Prepayments	38,810	50,827
Other receivables	9,764	12,231
Total	<u>259,710</u>	<u>273,346</u>

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

- (a) 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 remaining amounts are with credit items of not more than 90 days. The ageing analysis based on recognition date of the trade receivables is as follows:

	(Unaudited) As at 31 December 2019 RMB'000	(Audited) As at 30 June 2019 RMB'000
Up to 3 months	207,759	206,587
4 to 6 months	1,233	1,035
7 to 12 months	2,144	2,506
Over 1 year	—	160
	<u>211,136</u>	<u>210,288</u>

10. TRADE AND OTHER PAYABLES

	(Unaudited) As at 31 December 2019 RMB'000	(Audited) As at 30 June 2019 RMB'000
Trade payables (a)	172,596	170,382
Notes payable (b)	44,150	37,941
Other payables	<u>56,421</u>	<u>60,031</u>
Total	<u><u>273,167</u></u>	<u><u>268,354</u></u>

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

	(Unaudited) As at 31 December 2019 RMB'000	(Audited) As at 30 June 2019 RMB'000
Up to 3 months	169,257	166,998
1 year to 2 years	–	1
2 years to 3 years	509	3,383
Over 3 years	<u>2,830</u>	<u>–</u>
	<u><u>172,596</u></u>	<u><u>170,382</u></u>

(b) As at 31 December 2019, the entire balance of notes payable was secured by restricted cash of RMB44,150,000 (as at 30 June 2019: RMB38,058,000).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2019, the growth of the global economy slowed down, Sino-US trade tension intensified, and global trade fell into a weak trend. However, with the development of economy, the growth of population, the aging of society and increasing public health awareness, the global pharmaceutical industry continued to grow.

The People's Republic of China (the “**PRC**” or “**China**”)’s economy sought progress while maintaining stability, demonstrating a unique bright spot among the major economies in the world, and its economy has shown strong growth potential and resilience. Consumption has been the primary driver of China’s economic growth for six consecutive years, and medical consumption has maintained its momentum of growth.

According to the Ministry of Commerce, the total retail sales of social consumer goods was RMB41.2 trillion in 2019, representing a 8% year-on-year growth, with consumption contributing 57.8% to such economic growth and 3.5 percentage points to GDP growth. Among them, online retail sales of physical goods increased by 19.5%, and the consumption of high-quality, personalized and diversified products increased.

In 2019, the China’s national residents per capita consumption expenditure was RMB21,559, with a nominal increase of 8.6% on a year-on-year basis, of which healthcare expenditure per capita was RMB1,902, representing an increase of 12.9%.

Although the profits of industrial enterprises above designated size in the PRC decreased by 2.1% from January to November 2019, the total profit of pharmaceutical manufacturing industry reached RMB284.28 billion, representing a year-on-year increase of 10%.

Since the outline of “Healthy China 2030” was released, “Healthy China” has been promoted to China’s national strategy, and the medical and health industry has been adjusting and upgrading constantly, bringing huge development opportunities to the industry.

In 2019, China’s pharmaceutical industry underwent continuous changes, with the introduction and promotion of intensive medical policies, and the industry will move towards higher quality and standards. The Chinese government has officially implemented policies such as quantity procurement, negotiated access to the new medical insurance catalogue and the key monitoring of drug catalogue.

China introduced the centralized procurement program and announced trial location of the program in January 2019, indicating the guiding principles, objectives and operational methods. In September 2019, the trial locations for the program is expanded according to the “4+7 urban area quantity procurement”. With the release of relevant supporting policies in many provinces, local governments continued to push forward and achieved remarkable results, facilitating pharmaceutical enterprises to pursue high-quality development.

In 2019, China made it clear that Internet medical services will be included in the payment of medical insurance. Thus accelerating development of “Internet+” medical services, and the emergence of prescription circulation platforms.

In summary , the development and supervision of the pharmaceutical industry by China is guided by standardizing the industry, speeding up listing of new drugs and speeding up the price reduction process of imitated drugs.

Entering 2020, US-China relations and trade disputes have eased slightly, and the global economy is heading for a rebound from the low point. With the further development of quantity procurement, the reform of medical insurance payment method and the continuous progress in the field of innovative medicine, China’s pharmaceutical industry will continue to develop in an innovative and quality-oriented direction.

The Group will continue to keep updated of the policy direction, adjust the sales strategy accordingly, achieve innovative marketing in the sales side, actively respond to population aging, grasp increased consumption and healthcare industry opportunities with continued increasing healthcare demand.

BUSINESS REVIEW

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 also endeavored to explore new business model.

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 continued to keep the division of strategic stores and non-strategic stores and conducted reasonable adjustments in line with the market competition and development. As such, the Group had 850 stores in total at the end of the Period, including 585 strategic stores and 265 non-strategic stores. The sales revenue of retail business decreased by 20.2% as a whole from RMB635.1 million for the corresponding period in 2018 to RMB506.6 million for the Period.

Nationwide Distribution Business

During the Period, the Group had approximately 4,050 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 and held 5 associations in total with strategic cooperation distributors. The Group's sales revenue of distribution business decreased by 23.7% as a whole from RMB733.8 million for the corresponding period in 2018 to RMB560.2 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

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 Period, a net increase of 1 product was recorded. Hence, there were 1,093 branded products in total in operation for the benefit of the Group at the end of the Period.

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, has been played 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

The Group strengthened the influence and competitiveness of the Company and mitigated decline in operating performance by utilizing its advantages in continuous brand promotion and marketing. During the Period, the Group had launched numerous promotional activities for its brands through traditional media platforms, including televisions, broadcasts, newspapers, vehicle advertisement, billboards and leaflets, along with new media platforms including the internet and WeChat. In addition, the Group has been active in charity events to fulfill its corporate social responsibilities develop a positive social image.

Business Institute Training

During the Period, by adhering to the needs of the new era, new form of economy, new developments in technology and new characteristic in the retail industry, the Group continued to optimise the training of the Group’s business institute and made best use of the institute to positively impact the Group’s business development, talent nurturing and public welfare promotion. By taking the lead in establishing its own business institute, the Group has maintained their advantage in strengthening internal cohesion as well as enhanced the employee’s mode of thinking and the adaptability to business transformation. During the Period, the Company held 149 internal trainings in total.

Membership Service

During the Period, the Group had provided follow-up services and promotion benefits to over 1.6 million offline members to enhance their sense of affiliation and encourage activeness while boosting their loyalty and improving the healthy corporate image of the Company. The Group had provided social value-added services in various aspects, such as the provision of public toilets, cold shelters and lost children service centres. The Group had also participated in public welfare activities, such as “Love China” to build up a good corporate image.

Industry Alliance

During the Period, the Company had proactively participated in the alliance activities; the Chairman, vice chairman and chief operating officer had 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 leveraged on its experience and focused on technological innovation for further transformation and upgrade of the Company's business.

Share Option Scheme

In March 2019, the Company granted a total of 300,000,000 share options 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. During the Period, 275,300,000 options were exercised to subscribe for 275,300,000 ordinary shares of the Company at a total consideration of RMB18.3 million, of which RMB1.9 million was credited to share capital and the balance of RMB16.4 million was credited to the share premium account. In addition, RMB9.6 million has been transferred from the share-based payment reserve to the share premium account.

FINANCIAL REVIEW

For the Period, the Group recorded overall revenue of RMB1,066.8 million, representing a decrease of 22.1% as compared with RMB1,368.9 million for the corresponding period in 2018. Loss attributable to owners of the Company was RMB170.4 million while loss attributable to owners of the Company was RMB112.0 million for the corresponding period in 2018. Loss per share for the Period was RMB4.43 cents (for the six months ended 31 December 2018: RMB3.68 cents).

Revenue

For the Period, the Group recorded overall revenue of RMB1,066.8 million, representing a decrease of RMB302.1 million or 22.1% as compared with RMB1,368.9 million for the corresponding period in 2018. The decline in the performance of the Group's retail and distribution businesses for the Period 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, the number of the stores was dropped in the Period compared to the corresponding period in 2018 due to structural adjustment, affecting the performance of the Group for the Period.

Analysis of revenue by business segment

	Revenue (RMB million)			Percentage (%) of total revenue		
	Six months ended 31 December			Six months ended 31 December		
	2019	2018	Change (%)	2019	2018	Change
Retails I	426.5	535.4	-20.3	40.0	39.1	+0.9 pp
Retails II	80.1	99.7	-19.7	7.5	7.3	+0.2 pp
	506.6	635.1	-20.2	47.5	46.4	+1.1 pp
Distributions	560.2	733.8	-23.7	52.5	53.6	-1.1 pp
	1,066.8	1,368.9		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 in allocating 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.

As at 31 December 2019, the Group had 850 retail pharmacies in total (as at 31 December 2018: 873), of which 654 located in Heilongjiang (as at 31 December 2018: 653), 128 in Liaoning (as at 31 December 2018: 132), 67 in Jilin (as at 31 December 2018: 86) and 1 self-operated retail pharmacy in Hong Kong (as at 31 December 2018: 2). As at 31 December 2019, the Group had 1 supermarket in Shenyang (as at 31 December 2018: 1), mainly selling healthcare products and consumer goods. The performance of the supermarket was included and monitored in Retails I.

Distribution Business Segment

The Group adopted a prudent approach in running the distribution business and 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 2019, the Group had reviewed the nationwide distribution network covering approximately 4,050 active customers (as at 31 December 2018: 4,200), among which approximately 2,650 pharmaceutical retailers, hospitals and clinics (as at 31 December 2018: 2,700) and approximately 1,400 distributors (as at 31 December 2018: 1,500).

Gross profit

Gross profit of the Group for the Period was RMB139.9 million, representing a decrease of RMB47.8 million or 25.5% as compared with RMB187.7 million for the corresponding period in 2018. Overall gross margin decreased from 13.7% to 13.1%. The decrease in gross margin was mainly due to the decrease in the gross margin of the revenue of the Group's retail business for the Period.

Analysis of gross profit by business segment

	Gross profit (RMB million)			Gross margin (%)		
	Six months ended 31 December			Six months ended 31 December		
	2019	2018	Change (%)	2019	2018	Change
Retails I	92.4	124.4	-25.7	21.7	23.2	-1.5 pp
Retails II	17.6	22.6	-22.1	22.0	22.7	-0.7 pp
	110.0	147.0	-25.2	21.7	23.1	-1.4 pp
Distributions	29.9	40.7	-26.5	5.3	5.5	-0.2 pp
	139.9	187.7				

The Group's high-margin products consist of licensed products and products with exclusive distribution rights. During the Period, revenue of the Group's high-margin products decreased by 62.4% compared to the corresponding period in 2018 and the gross margin of these high-margin products decreased from 27.4% to 16.2%. As at 31 December 2019, the Group had 445 types of licensed products (as at 31 December 2018: 607) and 648 types of products with exclusive distribution rights (as at 31 December 2018: 645).

Selling and marketing expenses

Selling and marketing expenses for the Period was RMB289.7 million, representing an increase of RMB6.1 million or 2.2% as compared with RMB283.6 million for the corresponding period in 2018 and accounting for 27.2% of the Group's revenue (for the six months ended 31 December 2018: 20.7%). The increase in selling and marketing expenses comparing to the corresponding period in 2018, was mainly due to the increase in advertising and other marketing expenses outweigh the decrease in employee benefit expenses and lease payments for the Period.

Administrative expenses

Administrative expenses for the Period was RMB31.0 million, representing a decrease of RMB5.6 million or 15.3% as compared with RMB36.6 million for the corresponding period in 2018 and accounting for 2.9% of the Group's revenue (for the six months ended 31 December 2018: 2.7%). The decrease in administrative expenses comparing to the corresponding period in 2018, was mainly due to the decrease in lease payments, employee benefit expenses and transportation and related charges.

Finance income – net

Net finance income for the Period was RMB3.5 million (for the six months ended 31 December 2018: RMB7.4 million). The change in net finance income was due to the decrease in exchange gains for the Period.

Income tax credit (expenses)

Income tax credit for the Period was RMB0.2 million (for the six months ended 31 December 2018: Income tax expenses of RMB1.0 million). The effective income tax rate for the Period was -0.1% (for the six months ended 31 December 2018: 0.9%).

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 31 December 2019, the Group's unpledged cash and cash equivalents totalled RMB485.7 million (as at 30 June 2019: RMB628.5 million), and the Group's net current assets were RMB850.9 million (as at 30 June 2019: RMB1,018.0 million).

During the Period, net cash flows used in operating activities amounted to RMB153.0 million (for the six months ended 31 December 2018: RMB168.2 million).

During the Period, the Group had capital expenditure of RMB4.3 million (for the six months ended 31 December 2018: RMB3.3 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 2019, the Group had RMB485.7 million in cash and bank balances of which the equivalent of RMB4.3 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 2019, the capital structure of the Company was constituted of 3,863,134,451 ordinary shares of USD0.001 each.

As at 31 December 2019, the Group had no interest-bearing bank borrowings and no bank borrowings carried annual interest rates (as at 30 June 2019: Nil).

The gearing ratio of the Group as at 31 December 2019, calculated as net debt divided by sum of total equity and net debt, was N/A (as at 30 June 2019: N/A).

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2019, the Group had no significant contingent liabilities (as at 30 June 2019: Nil).

As at 31 December 2019, notes payable of the Group was secured by the time deposits of the Group with net aggregate booking value of RMB44.2 million (as at 30 June 2019: the notes payable of the Group were secured by the time deposits of the Group with net aggregate booking value of RMB38.1 million).

HUMAN RESOURCES

The Group recognises our employees as the key element that contributes to the Group's success. As at 31 December 2019, the Group had 5,628 (as at 31 December 2018: 5,789) full-time employees in Hong Kong China and the mainland China with total employee benefit expenses amounted to RMB136.9 million (for the six months ended 31 December 2018: RMB153.8 million). The Group remunerated its employees based on industry practices and individual performance and experience. On top of the regular remuneration, discretionary bonus and share options would also be granted to selected staff by reference to the Group's performance as well as the individual's performance. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of China. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Other benefits, such as structured training programs are also provided. Meanwhile, the Group endeavours to provide a safe workplace to our employees.

ENVIRONMENTAL, GOVERNANCE AND SOCIAL RESPONSIBILITY

The Group understands that it is important to maintain good relationship with its employees, business partners, suppliers, customers, shareholders, investors and bankers as well as the community to achieve its long-term business growth and sustainable development. 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.

FIGHTING AGAINST COVID-19

Since December 2019, the outbreak of COVID-19 has affected thousands of households. The Group had made special arrangement for the employees to work on rotation during the Chinese New Year. Under the guidance of safe protection, they hold tight to their posts, actively organize supply of goods, arrange 24 hours to send medicine in some areas and provide timely pharmaceutical care for the customers during hard times. On the one hand, the materials to fight against COVID-19 were timely supplied; on the other hand, the operation of the Company was carried out normally. At present, the Company is working overtime, trying every means to integrate resources, mobilize urgently needed drugs and prevention and control materials. In response to the call of the state, the Company is determined not to increase the price of pharmaceutical care in chain pharmacies. In February 2020, certain subsidiaries of the Group in Jilin province, Shenyang area and Heilongjiang area have been entrusted by the epidemic prevention command department of the local governments as the designated units for epidemic preventing medical supplies. In addition, the Company has launched a public welfare support campaign to freely supply over 110,000 masks and some disinfectant alcohol products to community consumers, reflecting the humanistic feelings and social responsibility of a pharmaceutical enterprise in serving the society. For details, please refer to the announcement of the Company dated 10 February 2020.

FUTURE PLAN

Following the leadership of the Chairman in strategic plan and taking the Golden Rules as its guidelines, the management of the Group 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 four 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”); thirdly, “logistics upgrade” strategy; and fourthly, “direct franchise” strategy. 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 six months ended 31 December 2019 (2018: Nil).

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) throughout the Period except for a deviation from code provision A.2.1 of 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 CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the Period, 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 for 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 Period 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 INTERIM RESULTS BY AUDIT COMMITTEE

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

PUBLICATION OF THE INTERIM RESULTS AND 2019/20 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange and the Company, and the 2019/20 Interim Report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company 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, 26 February 2020

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.