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 2020

**ANNUAL RESULTS HIGHLIGHTS**

| | *Unit* | **2020** | 2019 | Change |
|---|---|---|---|---|
| Revenue | *RMB million* | **1,510.1** | 2,424.4 | -37.7% |
| Gross profit | *RMB million* | **188.5** | 326.8 | -42.3% |
| Operating loss | *RMB million* | **(510.5)** | (281.6) | -228.9 |
| Loss for the year | *RMB million* | **(493.5)** | (267.1) | -226.4 |
| Basic loss per share | *RMB cents* | **(12.75)** | (8.58) | -4.17 |
| Gross margin | % | **12.5** | 13.5 | -1.0pp |
| Operating loss margin | % | **(33.8)** | (11.6) | -22.2pp |
| Net loss margin | % | **(32.7)** | (11.0) | -21.7pp |

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 2020 (the "**Year**") together with the comparative figures for the year ended 30 June 2019 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 30 June 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Revenue** | *2* | **1,510,126** | 2,424,416 |
| Cost of sales | *4* | **(1,321,626)** | (2,097,609) |
| **Gross profit** | | **188,500** | 326,807 |
| Selling and marketing expenses | *4* | **(617,318)** | (551,049) |
| Administrative expenses | *4* | **(75,305)** | (79,510) |
| Impairment loss on goodwill and other intangible assets | *4* | **(11,809)** | – |
| Reversal of impairment loss on investment in an associate | *4* | **–** | 4,834 |
| Other income | | **1,930** | 464 |
| Other (losses) gains – net | | **(533)** | 10,954 |
| Change in fair value of biological assets | | **4,041** | 5,931 |
| **Operating loss** | | **(510,494)** | (281,569) |
| Finance income | *5* | **9,586** | 11,573 |
| Finance costs | *5* | **(2,198)** | (298) |
| Finance income – net | *5* | **7,388** | 11,275 |
| Share of post-tax results of joint ventures | | **103** | 363 |
| Share of post-tax results of an associate | | **10,777** | 6,065 |
| | | **10,880** | 6,428 |
| **Loss before income tax** | | **(492,226)** | (263,866) |
| Income tax expenses | *6* | **(1,245)** | (3,237) |
| **Loss for the year** | | **(493,471)** | (267,103) |

| | Note | Year ended 30 June<br>**2020**<br>***RMB'000*** | <br>2019<br>*RMB'000* |
|---|---|---|---|
| **Other comprehensive loss** | | | |
| *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 | | **(8,579)** | (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 | | **(4,712)** | (5,994) |
| | | **(4,712)** | (6,326) |
| **Other comprehensive loss for the year** | | **(13,291)** | (7,612) |
| **Total comprehensive loss for the year** | | **(506,762)** | (274,715) |
| **Loss attributable to:** | | | |
| – Owners of the Company | | **(491,405)** | (265,629) |
| – Non-controlling interests | | **(2,066)** | (1,474) |
| | | **(493,471)** | (267,103) |
| **Total comprehensive loss attributable to:** | | | |
| – Owners of the Company | | **(504,696)** | (273,241) |
| – Non-controlling interests | | **(2,066)** | (1,474) |
| | | **(506,762)** | (274,715) |
| **Loss per share attributable to owners of the Company for the year *(RMB cents)*** | | | |
| – Basic and diluted | *7* | **(12.75)** | (8.58) |

## CONSOLIDATED BALANCE SHEET

| | | As at 30 June | |
|---|---|---|---|
| | | **2020** | 2019 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **340,821** | 255,811 |
| Right-of-use assets | | **27,864** | – |
| Land use rights | | **–** | 5,354 |
| Intangible assets | | **567** | 14,476 |
| Investments in joint ventures | | **9,349** | 9,246 |
| Investment in an associate | | **318,301** | 307,524 |
| Equity instruments designated as at fair value through other comprehensive income | | **15,474** | 23,319 |
| Biological assets | | **97,662** | 93,621 |
| Deferred income tax assets | | **5,203** | 7,593 |
| **Total non-current assets** | | **815,241** | 716,944 |
| **Current assets** | | | |
| Trade and other receivables | *9* | **179,274** | 273,346 |
| Income tax recoverable | | **13,183** | 44,330 |
| Inventories | | **310,858** | 302,137 |
| Restricted cash | | **45,229** | 38,058 |
| Cash and cash equivalents | | **131,317** | 628,525 |
| **Total current assets** | | **679,861** | 1,286,396 |
| **Total assets** | | **1,495,102** | 2,003,340 |

| | Note | As at 30 June 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **24,833** | 22,942 |
| Reserves | | **1,723,185** | 1,720,044 |
| Accumulated loss | | **(504,220)** | (12,815) |
| | | **1,243,798** | 1,730,171 |
| **Non-controlling interests** | | **1,556** | 3,622 |
| **Total equity** | | **1,245,354** | 1,733,793 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | **–** | 1,179 |
| Lease liabilities | | **3,930** | – |
| **Total non-current liabilities** | | **3,930** | 1,179 |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **235,607** | 268,354 |
| Lease liabilities | | **10,211** | – |
| Current income tax liabilities | | **–** | 14 |
| **Total current liabilities** | | **245,818** | 268,368 |
| **Total liabilities** | | **249,748** | 269,547 |
| **Total equity and liabilities** | | **1,495,102** | 2,003,340 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both periods presented, unless otherwise stated.

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 ("**IASs**") and Interpretations and the applicable disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared under the historical cost convention, except for 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:

***Annual Improvements – 2015-2017 Cycle***

IAS 23: Borrowing costs eligible for capitalisation

The amendments clarify that (a) if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of the funds an entity borrows generally and (b) funds borrowed specifically to obtain an asset other than a qualifying asset are included as part of general borrowings.

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

***IFRIC 23: Uncertainty over Income Tax Treatments***

IFRIC 23 supports the requirements in IAS 12 Income Taxes by specifying how to reflect the effects of uncertainty in accounting for income taxes.

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

***Amendments to IAS 19: Employee Benefits***

The amendments require the use of updated assumptions to determine current service cost and net interest for the remainder of the reporting period after a change is made to a plan.

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

***Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures***

The amendments clarify that long-term interests in an associate or joint venture, to which the equity method is not applied, are accounted for using IFRS 9.

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

***Amendments to IFRS 9: Prepayment Features with Negative Compensation***

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss if specified conditions are met.

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

***IFRS 16: Leases***

IFRS 16 replaces IAS 17 and related Interpretations for annual periods beginning on or after 1 January 2019. It significantly changes, among others, 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 all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 also requires enhanced disclosures to be provided by lessees and lessors.

In accordance with the transitional provisions, 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.

*As lessee*

Before the adoption of IFRS 16, lease contracts were classified as operating or finance lease in accordance with the Group's accounting policies applicable prior to the DIA.

Upon adoption of IFRS 16, the Group accounted for the leases in accordance with the transition provisions of IFRS 16 and the Group's accounting policies applicable from the DIA.

*As lessee – leases previously classified as operating leases*

The Group recognised right-of-use assets and lease liabilities for leases previously classified as operating leases at the DIA, except for leases for which the underlying asset is of low value, and the Group 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 lease**");

(d) excluded initial direct costs from the measurement of the right-of-use assets at the DIA; and

(e) used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

At the DIA, 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 weighted average incremental borrowing rate applied to the lease liabilities at the DIA is 8.63%.

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

| | *RMB'000* |
|---|---|
| Operating lease commitments at 30 June 2019 | 78,362 |
| Less: Short-term leases and low-value assets | (49,624) |
| Gross lease liabilities as at 1 July 2019 | 28,738 |
| Less: Discounted using the lessee's incremental borrowing date at the DIA | (3,358) |
| Lease liabilities at 1 July 2019 | 25,380 |

The following table summarises the impact on the Group's consolidated statement of financial position upon the adoption of IFRS 16 at the DIA:

| | Carrying amounts previously reported at 30 June 2019 | Transfer *Increase/ (Decrease)* | Carrying amounts under IFRS 16 at 1 July 2019 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | |
| Right-of-use assets | – | 40,801 | 40,801 |
| Land use rights | 5,354 | (5,354) | – |
| Trade and other receivables | 273,346 | (10,067) | 263,279 |
| **Current liabilities** | | | |
| Lease liabilities | – | 11,245 | 11,245 |
| **Non-current liabilities** | | | |
| Lease liabilities | – | 14,135 | 14,135 |

**(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 2020, 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 will result in any material impact on the consolidated financial statements of the Group.

| | | Effective for annual years beginning on or after |
|---|---|---|
| Amendments to IASs 1 and 8 | Definition of Material | 1 January 2020 |
| Amendments to IAS 39 and IFRSs 7 and 9 | Interest Rate Benchmark Reform - Phase 1 | 1 January 2020 |
| Amendments to IFRS 3 | Definition of a Business | 1 January 2020 |
| Amendment to IFRS 16 | COVID-19-Related Rent Concessions | 1 June 2020 |
| Amendments to IAS 39 and IFRSs 4, 7, 9 and 16 | Interest Rate Benchmark Reform - Phase 2 | 1 January 2021 |
| Amendments to IAS 16 | Proceeds before Intended Use | 1 January 2022 |
| Amendments to IAS 37 | Cost of Fulfilling a Contract | 1 January 2022 |
| Amendments to IFRS 3 | Reference to the Conceptual Framework | 1 January 2022 |
| Annual Improvements to IFRSs | 2018-2020 Cycle | 1 January 2022 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2023 |
| IFRS 17 | Insurance Contracts | 1 January 2023 |
| Amendments to IFRS 10 and IAS 28 | Sale and Contribution of Assets Between an Investor and its Associate or Joint Venture | To be determined |

## 2. REVENUE

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

| | Year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Revenue from contracts with customers *(a)* | **1,510,126** | 2,424,416 |

(a) Disaggregation of revenue

To better reflect current and future business development of the Group, the Retails I and Retails II segments have been aggregated into a single reportable segment as further detailed in Note 3. Accordingly, the comparative figures of the below disaggregation of revenue information have been re-presented in order to conform to the current year's presentation.

| | Year ended 30 June 2020 | | |
|---|---|---|---|
| | **Distributions** | **Retails** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| **Major products** | | | |
| Prescribed drugs | **191,259** | **124,609** | **315,868** |
| Non-prescribed drugs | **803,147** | **395,181** | **1,198,328** |
| Healthcare products | **125,369** | **160,683** | **286,052** |
| Other pharmaceutical products | **57,303** | **33,922** | **91,225** |
| | **1,177,078** | **714,395** | **1,891,473** |
| Eliminations | **(381,347)** | **–** | **(381,347)** |
| Revenue from external customers | **795,731** | **714,395** | **1,510,126** |
| **Timing of revenue recognition:** | | | |
| Products transferred at a point in time | **795,731** | **714,395** | **1,510,126** |

| | Year ended 30 June 2019 | | |
|---|---|---|---|
| | Distributions | Retails | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | *(Restated)* | |
| **Major products** | | | |
| Prescribed drugs | 309,833 | 197,715 | 507,548 |
| Non-prescribed drugs | 1,316,759 | 609,250 | 1,926,009 |
| Healthcare products | 185,151 | 242,999 | 428,150 |
| Other pharmaceutical products | 106,112 | 46,026 | 152,138 |
| | 1,917,855 | 1,095,990 | 3,013,845 |
| Eliminations | (589,429) | – | (589,429) |
| Revenue from external customers | 1,328,426 | 1,095,990 | 2,424,416 |
| **Timing of revenue recognition:** | | | |
| Products transferred at a point in time | 1,328,426 | 1,095,990 | 2,424,416 |

## 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 People's Republic of China (the "**PRC**" or "**China**"). Individual financial information and management reports of the retails with strategic stores ("**Retails I**"), retails consisting of non-strategic stores ("**Retails II**"). To better reflect current and future business development of the Group, the Retails I and Retails II segments have been aggregated into a single reportable segment in order to present a more systematic and structured segment information on the performance of different type of products for the year ended 30 June 2020. The segment information for the year ended 30 June 2019 has been re-presented in order to conform with the current presentation.

Distributions and Others are presented to the Board of Directors to assess their performance and for making respective business decisions. Distributions, Retails and Others are considered to be three 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 years ended 30 June 2020 and 2019. Accordingly, no geographical segment is presented.

Inter-segment sales are charged at cost. 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 2020 and as at 30 June 2020 is as follows:

| | **Year ended 30 June 2020** | | | |
|---|---|---|---|---|
| | **Distributions** *RMB'000* | **Retails** *RMB'000* | **Others** *RMB'000* | **Total** *RMB'000* |
| Segment revenue | **1,177,078** | **714,395** | **–** | **1,891,473** |
| Inter-segment revenue | **(381,347)** | **–** | **–** | **(381,347)** |
| Revenue from external customers | **795,731** | **714,395** | **–** | **1,510,126** |
| Adjusted EBITDA | **(135,395)** | **(313,017)** | **(6,625)** | **(455,037)** |
| Impairment loss on goodwill and other intangible assets | **–** | **(11,809)** | **–** | **(11,809)** |
| Depreciation and amortisation | **(15,691)** | **(27,957)** | **–** | **(43,648)** |
| Finance income | **954** | **1,841** | **6,791** | **9,586** |
| Finance costs | **(167)** | **(2,027)** | **(4)** | **(2,198)** |
| Share of post-tax results of joint ventures | **–** | **103** | **–** | **103** |
| Share of post-tax results of an associate | **10,777** | **–** | **–** | **10,777** |
| Income tax (expenses) credit | **(2,390)** | **1,145** | **–** | **(1,245)** |
| (Loss) profit for the year | **(141,912)** | **(351,721)** | **162** | **(493,471)** |
| Additions of non-current assets (excluding financial assets and deferred tax assets) | **30,813** | **82,951** | **–** | **113,764** |

| | As at 30 June 2020 | | | |
|---|---|---|---|---|
| | **Distributions** | **Retails** | **Others** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Total assets before eliminations | **1,898,920** | **781,190** | **1,438,192** | **4,118,302** |
| Inter-segment assets | **(769,306)** | **(521,178)** | **(1,332,716)** | **(2,623,200)** |
| Total assets | **1,129,614** | **260,012** | **105,476** | **1,495,102** |
| Total liabilities before eliminations | **1,116,682** | **838,069** | **24,491** | **1,979,242** |
| Inter-segment liabilities | **(985,469)** | **(721,239)** | **(22,786)** | **(1,729,494)** |
| Total liabilities | **131,213** | **116,830** | **1,705** | **249,748** |
| Investments in joint ventures | **–** | **9,349** | **–** | **9,349** |
| Investment in an associate | **318,301** | **–** | **–** | **318,301** |

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

| | Year ended 30 June 2019 | | | |
|---|---|---|---|---|
| | Distributions | Retails | Others | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | *(Restated)* | | |
| Segment revenue | 1,917,855 | 1,095,990 | – | 3,013,845 |
| Inter-segment revenue | (589,429) | – | – | (589,429) |
| Revenue from external customers | 1,328,426 | 1,095,990 | – | 2,424,416 |
| Adjusted EBITDA | (80,763) | (129,967) | (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) | (9,652) | – | (23,752) |
| Finance income | 3,456 | 1,789 | 6,328 | 11,573 |
| Finance costs | (123) | (161) | (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) | (2,593) | – | (3,237) |
| Loss for the year | (84,149) | (145,263) | (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 *RMB'000* *(Restated)* | Others *RMB'000* | Total *RMB'000* |
| Total assets before eliminations | 2,139,303 | 1,011,163 | 1,436,890 | 4,587,356 |
| Inter-segment assets | (685,203) | (578,485) | (1,320,328) | (2,584,016) |
| Total assets | 1,454,100 | 432,678 | 116,562 | 2,003,340 |
| Total liabilities before eliminations | 1,273,368 | 721,087 | 28,701 | 2,023,156 |
| Inter-segment liabilities | (1,099,843) | (626,784) | (26,982) | (1,753,609) |
| Total liabilities | 173,525 | 94,303 | 1,719 | 269,547 |
| Investments in joint ventures | – | 9,246 | – | 9,246 |
| Investment in an associate | 307,524 | – | – | 307,524 |

The amounts provided to the Board of Directors with respect to total assets are measured in a manner consistent with that of these 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

| | Year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Costs of inventories sold | **1,318,486** | 2,091,598 |
| Employee benefit expenses | **275,990** | 297,810 |
| Advertising and other marketing expenses | **215,406** | 117,334 |
| Impairment loss on goodwill and other intangible assets | **11,809** | – |
| Reversal of impairment loss on investment in an associate | **–** | (4,834) |
| Lease payments on short-term leases | **75,944** | – |
| Lease payments on low-value assets | **173** | – |
| Rental expenses for leases previously classified as operating leases under IAS 17 | **–** | 96,648 |
| Transportation and related charges | **47,570** | 63,975 |
| Depreciation of property, plant and equipment | **28,611** | 21,515 |
| Depreciation of right-of-use assets | **12,937** | – |
| Amortisation of intangible assets | **2,100** | 2,102 |
| Share-based payment expenses | **–** | 10,439 |
| Other tax expenses | **5,202** | 7,777 |
| Office and communication expenses | **11,256** | 10,014 |
| Training fees | **–** | 12 |
| License fee of trademarks | **–** | (4,000) |
| Auditors' remuneration | **2,547** | 2,636 |
| Electricity and other utility fees | **2,894** | 2,939 |
| Professional fees | **2,164** | 3,667 |
| Travelling and meeting expenses | **896** | 1,198 |
| Amortisation of land use rights | **–** | 135 |
| Donations | **9,782** | – |
| Other expenses | **2,291** | 2,369 |
| | **2,026,058** | 2,723,334 |

## 5. FINANCE INCOME AND COSTS

| | Year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| **Finance income** | | |
| Exchange gains | **6,803** | 8,136 |
| Interest income | **2,783** | 3,437 |
| | **9,586** | 11,573 |
| **Finance costs** | | |
| Interest on lease liabilities | **(2,017)** | – |
| Other charges | **(181)** | (298) |
| | **(2,198)** | (298) |
| Finance income – net | **7,388** | 11,275 |

## 6. INCOME TAX EXPENSES

| | Year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| Hong Kong Profits tax | **–** | 102 |
| PRC corporate income tax | **34** | 329 |
| | **34** | 431 |
| Deferred income tax | **1,211** | 2,806 |
| Total income tax expenses | **1,245** | 3,237 |

Hong Kong profits tax has not been provided as there were no assessable profits subject to Hong Kong profits tax for the year ended 30 June 2020 (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). The subsidiaries of the Group in the PRC are subject to corporate income tax at a rate of 25% (2019: 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 attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | Year ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| Loss attributable to owners of the Company *(RMB'000)* | **(491,405)** | (265,629) |
| Weighted average number of ordinary shares in issue *(thousands)* | **3,855,613** | 3,097,517 |
| Basic loss per share *(RMB cents)* | **(12.75)** | (8.58) |

### (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 years ended 30 June 2020 and 2019.

## 8. DIVIDENDS

The Board does not recommend the payment of any dividend in respect of the year ended 30 June 2020 (2019: Nil).

## 9. TRADE AND OTHER RECEIVABLES

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Trade receivables *(Note)* | | |
| – Due from third parties | **110,963** | 209,829 |
| – Due from related parties | **49** | 459 |
| | **111,012** | 210,288 |
| Prepayments | | |
| – Prepayments to third parties | **56,074** | 48,659 |
| – Tax input credits – value added tax | **3,557** | 2,168 |
| | **59,631** | 50,827 |
| Other receivables | | |
| – Deposits | **2,666** | 2,898 |
| – Consideration receivable | **913** | 4,838 |
| – Others | **5,052** | 4,495 |
| | **8,631** | 12,231 |
| Total | **179,274** | 273,346 |

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 periods of not more than 90 days. The ageing analysis based on recognition date of the trade receivables is as follows:

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Up to 3 months | **109,244** | 206,587 |
| 4 to 6 months | **1,768** | 1,035 |
| 7 to 12 months | **–** | 2,506 |
| Over 1 year | **–** | 160 |
| | **111,012** | 210,288 |

## 10. TRADE AND OTHER PAYABLES

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Trade payables *(a)* | | |
| – Due to third parties | **115,080** | 170,382 |
| Notes payable *(b)* | **45,229** | 37,941 |
| Other payables | **75,298** | 60,031 |
| | **120,527** | 97,972 |
| Total | **235,607** | 268,354 |

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

| | As at 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | ***RMB'000*** | *RMB'000* |
| Up to 3 months | **112,976** | 166,998 |
| 4 to 6 months | **–** | – |
| 7 to 12 months | **–** | – |
| 1 year to 2 years | **–** | 1 |
| Over 2 years | **2,104** | 3,383 |
| | **115,080** | 170,382 |

**(b)** As at 30 June 2020, the entire balance of notes payable was secured by restricted cash of RMB45,229,000 (2019: RMB38,058,000). As at 30 June 2020 and 2019, the notes payable is expected to be settled within one year.

## 11. EVENTS AFTER THE REPORTING PERIOD

After the outbreak of the COVID-19 in early 2020, a series of precautionary and control measures have been continued to be implemented in the PRC which has an adverse impact on the market sentiments and posed challenge to the industry. Given the unpredictability of future developments brought by the pandemic, it is difficult for the management of the Company to precisely assess the financial impact on the Group's financial performance at this stage. The Group will pay close attention to the development of the epidemic and evaluate its impact on its financial position and operating results.

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

In the second half of 2019, the global economy slipped below the normal level in the growth area and fell into a geopolitical risk. Facing the complicated situation of rising risks and challenges both at home and abroad, China maintained the development strategy of seeking progress while maintaining stability for its economic work, and continued to promote supply-side structural reform as a way to actively boost high-quality development. Solid efforts were made to keep employment, the finance sector, foreign trade, foreign and domestic investments, and expectations stable. China's economy was generally stable with the quality of development steadily improving.

China kept deepening the reforms in the medical and health field, making the entire pharmaceutical industry undergo significant structural changes. However, from the overall trend, industry development was still in a downward trend compared with that in 2017 and 2018. In 2019, a series of policy adjustments such as "4+7" quantity procurement, catalog of drugs under close monitoring of rational drug use, medical insurance catalogue, and encouraging the development of "Internet + medical health" continued to promote the development and transformation of the industry. In the second half of 2019, China issued a notice on the Action Plan for Promoting the Quality Development of the Healthcare Industry (2019-2022) (《促進健康產業高質量發展行動綱要(2019-2022年)》), which provided guidance for promoting the high-quality development of the health industry.

In the first half of 2020, China continued to deepen reforms in the pharmaceutical sector, and introduced a series of policies. On 5 March 2020, the Communist Party of China Central Committee and the State Council issued the Opinions on Deepening the Reform of the Medical Insurance System (《關於深化醫療保障制度改革的意見》). On 14 May 2020, the National Medical Products Administration of PRC issued Notice on Implication of the Quality and Efficacy Consistency Evaluation of Generic Chemical Injections (《關於開展化學藥品注射劑仿製藥質量和療效一致性評價工作的公告》). In response to the call of the Guiding Opinions on the Classification and Management of Retail Pharmacies in China (Draft for Comment) (《中國全國零售藥店分類分級管理指導意見(徵求意見稿)》), the establishment of a pharmacy classification and management system is speeded up. It is expected that this year, a classification and management system for retail pharmacies will be established in most provinces and cities in China. In the future, the service level and industry concentration will also be improved to achieve more compliant development.

China's policy support for the pharmaceutical industry is also expected to enhance further, which will therefore further improve industry consolidation. Influenced by market demand, policy guidance, technological innovation and capital, China's pharmaceutical industry is bound to undergo continuous structural adjustment, transformation and upgrading.

The world suffered from the impact of COVID-19 epidemic and geopolitics in the first half of 2020, making the world economy and globalization under unprecedented threats. China's Gross Domestic Product (GDP) in the first quarter of 2020 fell by 6.8% year-on-year. Ensuring the operation of the China's economy in the current situation and guarantee the six priorities became the top priority of China's economic development and reform.

China's economy recorded highlights in areas such as consumption, industrial structure, foreign trade and foreign investment, and employment. Consumption is the first driving force for China's economic growth. Especially in the second half of 2019, the leading position of the consumption engine was further consolidated. From July to December 2019, total retail sales of consumer goods maintained a year-on-year growth of 7.2% to 8.0%. From January to June 2020, the total retail sales of consumer goods were RMB17,225.6 billion, representing a year-on-year decrease of 11.4%; while in the second quarter of 2020, the decline in the total retail sales of consumer goods narrowed by 15.1 percentage points as compared with that of the first quarter of 2020. In the first half of 2020, China's economy gradually overcame the adverse effects caused by the epidemic and achieved gradual recovery.

In June 2020, the added value of China's enterprises of designated size actually increased by 4.8% year-on-year, which was 0.4 percentage points faster than that in May 2020. From January to June 2020, the added value of enterprises of designated size declined by 1.3% year-on-year. In terms of pharmaceutical retailing, as China intensified supervision over the pharmaceutical industry and frequently issued new policies for the industry, pharmaceutical retailing faced both challenges and opportunities. From January to May 2020, the total profits of China's enterprises of designated size amounted to RMB1,843.49 billion, recording a year-on-year decrease of 19.3%, a decline narrowed by 8.1 percentage points as compared with that from January to April 2020. On the other hand, China's retail pharmacy terminals consist of physical pharmacies and online pharmacies. In terms of pharmaceutical e-commerce, users in China's pharmaceutical e-commerce market continued to increase. According to the data from Analysys Qianfan, in March 2020, the number of active users in the pharmaceutical e-commerce field continued to rise, reaching 5.67 million, representing an increase of 7.3% from the previous month, and a year-on-year increase of 86.3% as compared with 3.043 million in the same period of 2019.

The COVID-19 epidemic has had a great impact on global macro economy and major industries. As the main force to fight the epidemic, the pharmaceutical industry has received unprecedented attention while facing the challenges. Since the announcement of the sequence of COVID-19 on 11 January 2020, governments, enterprises, and scientific researchers around the world have been actively involved in the vaccine development for COVID-19. From the perspective of China's domestic market, the year of 2020 is considered by the industry as a critical time point for the development of the traditional Chinese medicine industry.

The pharmaceutical industry is closely related to the life and health of Chinese people and is an inseparable part of their lives since all men are equal when facing disease. Vigorously developing the health industry is an important task for implementing the healthy China strategy and maintaining and guaranteeing the health of the people. It is both a need to improve people's livelihood and a need to build a modern economic system, thus being of great significance. Especially after the COVID-19 epidemic outbreak in 2020, the pharmaceutical industry may usher in another opportunity for development, which will also benefit the development of the Group. The rigidity of domestic demand and the flexibility of external demand for medicine will continue to be maintained in the second half of 2020.

## BUSINESS REVIEW

Under the leadership of Mr. Jin Dongtao, the chairman (the "**Chairman**") and chief executive officer of the Group, and with the efforts of all employees, the Group anchors in and focuses on the pharmaceutical healthcare field, and 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 outbreak of COVID-19 delivers a major blow to economic and social development. Compared with industries such as catering, tourism, film and television, for which the pause button is pressed, pharmaceutical companies have gained a breathing space. The employees of the Group's retail chain stores creatively use plastic film to isolate the display area from the salespersons' activity area, and insist on providing medicine sales services to local people. In some areas, telephone contact for home delivery of medicine, or mobile internet reservation for epidemic products were carried out to maintain business continuity. However, the operation of the Group has still been adversely affected due to movement control and sale of common medications such as those for fever and cough.

### 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 aggregated strategic stores ("**Retails I**") and non-strategic stores ("**Retails II**") into a single reportable segment ("**Retails**"). In order to minimise the impact on performance caused by the COVID-19 epidemic, the Group bucked the trend and completed renovation work of some retail stores and held various promotion activities so as to enhance the Group's regional influence and chain competitiveness. Some stores of the Group were designated by the government as procurement and distribution units for anti-epidemic suppliers in the midst of the epidemic, to effectively contribute to the fight against the epidemic in the region by virtue of the Group's advantages. At the end of the Year, the Group had a total of 849 chain stores (2019: 850 stores). However, the Group's retail business is still suffered from the continuous downturn of regional real economy within the northeastern region of the PRC and the impact of COVID-19 epidemic, the Group recorded sales revenue for retail business of RMB714.4 million for the year (2019: RMB1,096.0 million), representing a year-on-year decrease of 34.8%.

### Nationwide Distribution Business

During the Year, some distribution companies of the Group were designated by local governments as procurement and distribution units for anti-epidemic suppliers to contribute to the public health. The Group has approximately 3,050 distribution customers and 5 large-scale distribution logistics centers. The Group made appropriate promotion in its distribution system, continued to optimise screening and maintaining of quality distributors, and held 5 strategic cooperation parties before the outbreak. However, in the face of the difficult economic environment, the Group's distribution business recorded sales revenue of RMB795.7 million (2019: RMB1,328.4 million), representing a year-on-year decrease of 40.1%.

### 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 416 branded products was recorded. Hence, there were 677 branded products in total in operation for the benefit of the Group at the end of the Year.

**Intelligent Warehouse Construction**

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. During the Year, the Group strengthened the hardware and software maintenance and environmental construction of the logistics centers. On the one hand, intelligent equipment and WMS intelligent sorting software system were added to some pilot logistics centers to increase the technological content of logistics management and promote labor productivity. On the other hand, the Group invested in beautifying the working conditions to improve the work feelings of employees and customers, promote image upgrading, and lay a solid foundation for planning the industrial upgrading and intelligent transformation of the logistics park.

**Brand Image 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 had 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 the Internet and WeChat. In addition, the Group has participated in the charity. Especially during the COVID-19 epidemic period, it carried out activities of free distribution of anti-epidemic supplies as a way 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, 155 internal trainings in total had been held by the Company.

**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, lost children service centres and epidemic prevented station for courier and continued to launch the public welfare activities such as "Love China", with a view to building up its positive corporate image.

**Industry Alliance**

The Company had proactively participated in the alliance activities, with 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-Hainan Free Trade Port (粵港澳大灣區–海南自由貿易港)", the Company gathered industry experience and focused on the technological innovation to seek further transformation and upgrade of the Company's business.

## FINANCIAL REVIEW

The Group recorded revenue of RMB1,510.1 million for the Year (2019: RMB2,424.4 million). Loss attributable to owners of the Company was RMB491.4 million for the Year (2019: RMB265.6 million). Loss per share for the Year was RMB12.75 cents (2019: RMB8.58 cents). The increase in loss attributable to owners of the Company was mainly due to: (i) significant decrease in revenue resulting from, including, the economic downturn; the weakened purchasing power of the people living in the Northeast of China; and the weakened consumer sentiment attributable to the outbreak of the COVID-19; (ii) increase in advertising and marketing expenses of products with exclusive distribution rights; and (iii) the Group made an impairment provision for goodwill and other related non-current assets.

**Revenue**

For the Year, the Group recorded revenue of RMB1,510.1 million (2019: RMB2,424.4 million). The decline in the performance of the Group's retail and distribution businesses for the Year was mainly due to the significant decrease in revenue resulting from, including, the economic downturn; the weakened purchasing power of the people living in the Northeast of China; and the weakened consumer sentiment attributable to the outbreak of the COVID-19, leading to the decrease in the performance of the Group for the Year.

***Analysis of revenue by business segment***

| | Revenue (RMB million) Year ended 30 June | | Percentage (%) of total revenue Year ended 30 June | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | Change |
| Retails | **714.4** | 1,096.0 | **47.3** | 45.2 | +2.1pp |
| Distributions | **795.7** | 1,328.4 | **52.7** | 54.8 | -2.1pp |
| | **1,510.1** | 2,424.4 | **100.0** | 100.0 | |

***Retail Business Segment***

To better reflect current and future business development of the Group, the Retails I and Retails II segments have been aggregated into a single reportable segment in order to present a more systematic and structured segment information on the performance of different type of products for the Year. The segment information for the year ended 30 June 2019 has been re-presented in order to conform with the current presentation. The decline in retail business performance was mainly due to the significant decrease in revenue resulting from, including, the economic downturn; the weakened purchasing power of the people living in the Northeast of China; and the weakened consumer sentiment attributable to the outbreak of the COVID-19, leading to the performance of the retail channel lower than expected.

As at 30 June 2020, the Group had 849 (2019: 850) retail pharmacies in total, of which 654 (2019: 654) located in Heilongjiang, 127 (2019: 128) in Liaoning, 67 (2019: 67) in Jilin and 1 (2019: 1) self-operated retail pharmacy in Hong Kong. In addition, the Group had 1 (2019: 1) supermarket in Shenyang as at 30 June 2020, mainly for selling healthcare products and consumer goods.

***Distribution Business Segment***

Prudent approach has been adopted in running the distribution business of the Group. The Group has taken 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 3,050 active customers (2019: 3,800), among which approximately 2,020 pharmaceutical retailers, hospitals and clinics (2019: 2,500) and approximately 1,030 distributors (2019: 1,300).

## Gross profit

Gross profit of the Group for the Year was RMB188.5 million (2019: RMB326.8 million). Overall gross margin decreased from 13.5% to 12.5%. The decrease in gross margin was mainly due to the increase in procurement costs. Furthermore, the Group offered discounts to customers to fight against the negative impacts on consumer spending caused by the COVID-19 epidemic during the Year, resulting a decline in gross margin.

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

| | Gross profit (RMB million) Year ended 30 June | | Gross margin (%) Year ended 30 June | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | Change |
| Retails | **149.3** | 251.2 | **20.9** | 22.9 | -2.0pp |
| Distributions | **39.2** | 75.6 | **4.9** | 5.7 | -0.8pp |
| | **188.5** | 326.8 | | | |

## Selling and marketing expenses

Selling and marketing expenses for the Year was RMB617.3 million (2019: RMB551.0 million) and accounted for 40.9% (2019: 22.7%) of the Group's revenue. The increase in selling and marketing expenses was mainly due to the increase of advertising and marketing expenses for the purpose of developing advertising for new exclusive distribution products, and partially offset by the decrease of employee benefit expenses and transportation and related charges.

## Administrative expenses

Administrative expenses for the Year was RMB75.3 million (2019: RMB79.5 million) and accounted for 5.0% (2019: 3.3%) of the Group's revenue. The decrease in administrative expenses was mainly due to no share-based payment expenses during the Year.

## Finance income – net

Net finance income for the Year was RMB7.4 million (2019: RMB11.3 million). The decrease in net finance income was mainly due to the increase in interest on lease liabilities and decrease in exchange gains.

## Income tax expenses

Income tax expenses for the Year was RMB1.2 million (2019: RMB3.2 million). The effective income tax rate for the Year was 0.3% (2019: 1.2%).

## 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 2020, the Group's unpledged cash and cash equivalents were RMB131.3 million in aggregate (2019: RMB628.5 million), and the Group's net current assets were RMB434.0 million (2019: RMB1,018.0 million).

During the Year, net cash flows used in operating activities amounted to RMB408.3 million (2019: RMB309.2 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 RMB95.7 million (2019: RMB3.9 million).

Having considered the cash flow from operating activities and existing financial gearing, the management believes that the Group would replenish financial resources in a timely basis to fund its day-to-day operations, capital expenditures and prospective business development projects. The Board will continuously and closely monitor the Group's liquidity position and financial performance and implement measures to improve the Group's cash flows.

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 2020, the Group had RMB131.3 million in cash and bank balances of which the equivalent of RMB5.0 million was denominated in Hong Kong dollars and United States dollars.

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

## CAPITAL STRUCTURE

As at 30 June 2020, the capital structure of the Company was constituted of 3,863,134,451 ordinary shares of USD0.001 each.

During the Year, 275,300,000 options had been 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.

As at 30 June 2020, the Group had no interest-bearing bank borrowings and no bank borrowings carried annual interest rates (2019: Nil).

The gearing ratio of the Group as at 30 June 2020, calculated as net debt divided by sum of total equity and net debt, was N/A (2019: N/A).

## CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 30 June 2020, the Group had no significant contingent liabilities (2019: Nil).

As at 30 June 2020, notes payable of the Group was secured by the time deposits of the Group with net aggregate booking value of RMB45.2 million (2019: RMB38.1 million).

## HUMAN RESOURCES

As at 30 June 2020, the Group had 5,612 (2019: 5,628) full-time employees in Hong Kong China and the mainland China with total employee benefit expenses amounted to RMB276.0 million for the Year (2019: RMB308.2 million). Employees are paid according to their positions, performance, experience and prevailing market practices, and are provided with management and professional training. The Group has implemented a number of initiatives to enhance the productivity of its employees. In particular, the Group conducts periodic performance reviews 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. Meanwhile, the Group endeavours to provide a safe workplace to our employees and also provides structured training programs.

## FIGHTING AGAINST COVID-19

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 adapt to the new situation, concentrate on universal health, focus on the pharmaceutical industry, and deeply cultivate the industry chain. On the basis of stabilizing and optimising the existing retail chain network and distribution system, it will mainly explore the structural transformation and digital upgrading of the "supply-side" reform with focus on the development of the following areas:

Firstly, "Specialization$^{+}$" strategy is adopted to strengthen the service professionalism and improve the Company's operation quality. Taking licensed pharmacists as the core and leveraging on the advantages of the business institute, the Group aims to train employees of the new era, and improve the level of pharmacy services for the public from the aspects of corporate culture, pharmaceutical knowledge, service skills, new marketing methods, or introducing famous doctors, as a way to win customers and develop markets with professionalism, and to shape professional brands in retail chain pharmacies and distribution field.

Secondly, "Platform+" strategy is adopted to expand the value-added service items of stores to meet the growing demand of consumers. With the change in living environment, people pay more attention to health, resulting in increasing demand for prevention and treatment. In particular, the COVID-19 outbreak has further reminded the public of the importance of health care and immunity. The Group will adopt new technological methods according to the new situation, such as introducing AI intelligent diagnostic medical equipment, or introducing resources in the field of universal health in the form of partners, to enhance the service capabilities of terminal stores and adapt to the market needs in the new situation.

Thirdly, "Internet+" strategy is adopted to strengthen the linking capability of Internet to physical stores, and promote online and offline connectivity and integration. According to the development trend of technology and the Internet, the Group will make full use of the new situation of the popularization of mobile Internet terminals, including development of applets, use of short videos and live commerce, moments promotion, group development and bonding members, to develop a network for physical stores, explore a new marketing ecosystem integrating "new business, new retail, and new technology", and build a dynamic and leading competitiveness.

Therefore, by leveraging the network layout advantages of traditional industries and grafting the new economic model, the Group will make efforts to facilitate the optimization and digital transformation of the Group's operation structure, and make plans for a new development cycle with the wing of new engine for the Company, so as to maintain the Group as one of the industrial leaders in terms of the construction of industrial chain ecosystem and operation channel innovation.

## FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 30 June 2020 (2019: Nil).

## CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 7 December 2020 to Thursday, 10 December 2020, both days inclusive, in order to determine the identity of the shareholders of the Company (the "**Shareholders**") who are entitled to attend the forthcoming annual general meeting of the Company to be held on Thursday, 10 December 2020. 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, 4 December 2020.

## 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 Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") 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 as set out in this annual 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. 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 2019/20 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 2019/20 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.

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

Hong Kong, 24 September 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.*