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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

INTERIM RESULTS HIGHLIGHTS

		(Unaudited) Six months ended 31 December		
	Unit	**2020**	2019	Change
Revenue	*RMB million*	**587.4**	1,066.8	-44.9%
Gross profit	*RMB million*	**66.6**	139.9	-52.4%
Operating loss	*RMB million*	**(249.2)**	(180.4)	-68.8 RMB million
Loss for the period	*RMB million*	**(257.5)**	(170.8)	-86.7 RMB million
EBITDA	*RMB million*	**(191.0)**	(162.6)	-28.4 RMB million
			(Restated)	
Basic loss per share	*RMB cents*	**(66.58)**	(44.29)	-22.29 RMB cents
Gross margin	%	**11.3**	13.1	-1.8 pp
Operating loss margin	%	**(42.4)**	(16.9)	-25.5 pp
Net loss margin	%	**(43.8)**	(16.0)	-27.8 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 2020 (the "**Period**") together with the comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited)	
		Six months ended 31 December	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Revenue	*2*	**587,427**	1,066,797
Cost of sales	*4*	**(520,823)**	(926,938)
Gross profit		**66,604**	139,859
Selling and marketing expenses	*4*	**(282,486)**	(289,700)
Administrative expenses	*4*	**(32,857)**	(31,035)
Other income		**–**	570
Other losses – net		**(427)**	(92)
Operating loss		**(249,166)**	(180,398)
Finance income	*5*	**409**	4,668
Finance costs	*5*	**(11,101)**	(1,205)
Finance (costs) income – net	*5*	**(10,692)**	3,463
Share of post-tax results of joint ventures		**(23)**	171
Share of post-tax results of an associate		**5,203**	5,798
Loss before income tax		**(254,678)**	(170,966)
Income tax (expenses) credit	*6*	**(2,819)**	195
Loss for the period		**(257,497)**	(170,771)

	Note	(Unaudited) Six months ended 31 December 2020 RMB'000	2019 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		**(4,735)**	–
Item that may be reclassified to profit or loss in subsequent periods			
Currency translation differences		**10,567**	(2,468)
Other comprehensive loss for the period		**5,832**	(2,468)
Total comprehensive loss for the period		**(251,665)**	(173,239)
Loss attributable to:			
– Owners of the Company		**(257,217)**	(170,431)
– Non-controlling interests		**(280)**	(340)
		(257,497)	(170,771)
Total comprehensive loss attributable to:			
– Owners of the Company		**(251,385)**	(172,899)
– Non-controlling interests		**(280)**	(340)
		(251,665)	(173,239)
			(Restated)
Loss per share attributable to owners of the Company for the period *(RMB cents)*			
– Basic and diluted	7	**(66.58)**	(44.29)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	(Unaudited) As at 31 December 2020 RMB'000	(Audited) As at 30 June 2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**290,757**	340,821
Right-of-use assets		**21,640**	27,864
Intangible assets		**452**	567
Investments in joint ventures		**9,326**	9,349
Investment in an associate		**323,504**	318,301
Equity instruments designated as at fair value through other comprehensive income		**10,739**	15,474
Biological assets		**97,662**	97,662
Deferred income tax assets		**2,384**	5,203
Total non-current assets		**756,464**	815,241
Current assets			
Trade and other receivables	*9*	**230,526**	179,274
Income tax recoverable		**6,612**	13,183
Inventories		**322,078**	310,858
Restricted cash		**56,134**	45,229
Cash and cash equivalents		**45,758**	131,317
Total current assets		**661,108**	679,861
Total assets		**1,417,572**	1,495,102

	Note	(Unaudited) As at 31 December 2020 RMB'000	(Audited) As at 30 June 2020 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**24,833**	24,833
Reserves		**1,729,017**	1,723,185
Accumulated losses		**(761,437)**	(504,220)
		992,413	1,243,798
Non-controlling interests		**1,276**	1,556
Total equity		**993,689**	1,245,354
LIABILITIES			
Non-current liabilities			
Lease liabilities		**3,843**	3,930
Total non-current liabilities		**3,843**	3,930
Current liabilities			
Trade and other payables	*10*	**409,812**	235,607
Lease liabilities		**10,228**	10,211
Total current liabilities		**420,040**	245,818
Total liabilities		**423,883**	249,748
Total equity and liabilities		**1,417,572**	1,495,102

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 2020 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 2020 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 2020 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 2020, 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 2020.

These condensed consolidated interim financial statements for the six months ended 31 December 2020 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 2020 are consistent with those in the preparation of the Group's consolidated financial statements for the year ended 30 June 2020, 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 2020 as described below.

Amendments to HKASs 1 and 8	Definition of Material
Amendments to HKAS 39, HKFRSs 7 and 9	Interest Rate Benchmark Reform – Phase 1
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 16	Covid-19-Related Rent Concessions

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

2. REVENUE

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

	(Unaudited) Six months ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers *(a)*	**587,427**	1,066,797

(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 for the year ended 30 June 2020 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 period's presentation.

	(Unaudited) Six months ended 31 December 2020		
	Distributions	**Retails**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Major products			
Prescribed drugs	**73,024**	**43,376**	**116,400**
Non-prescribed drugs	**322,240**	**140,775**	**463,015**
Healthcare products	**45,294**	**59,061**	**104,355**
Other pharmaceutical products	**17,604**	**11,212**	**28,816**
	458,162	**254,424**	**712,586**
Eliminations	**(125,159)**	**–**	**(125,159)**
Revenue from external customers	**333,003**	**254,424**	**587,427**
Timing of revenue recognition:			
Products transferred at a point in time	**333,003**	**254,424**	**587,427**

	(Unaudited)		
	Six months ended 31 December 2019		
	Distributions	Retails	Total
	RMB'000	*RMB'000*	*RMB'000*
		(Restated)	
Major products			
Prescribed drugs	131,137	90,296	221,433
Non-prescribed drugs	583,674	281,782	865,456
Healthcare products	80,621	111,882	192,503
Other pharmaceutical products	36,887	22,682	59,569
	832,319	506,642	1,338,961
Eliminations	(272,164)	–	(272,164)
Revenue from external customers	560,155	506,642	1,066,797
Timing of revenue recognition:			
Products transferred at a point in time	560,155	506,642	1,066,797

3. SEGMENT INFORMATION

The Board is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board 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 statements and management report of the retails cover strategic stores ("**Retails I**") and 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 six months ended 31 December 2019 has been re-presented in order to conform with the current presentation.

Distributions and Others are presented to the Board 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 more than 10% of the Group's total revenues for the six months ended 31 December 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 these condensed consolidated interim financial statements.

The Board 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 2020 and as at 31 December 2020 is as follows:

	(Unaudited) Six months ended 31 December 2020			
	Distributions	**Retails**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	**458,162**	**254,424**	**–**	**712,586**
Inter-segment revenue	**(125,159)**	**–**	**–**	**(125,159)**
Revenue from external customers	**333,003**	**254,424**	**–**	**587,427**
Adjusted EBITDA	**(51,874)**	**(136,424)**	**(2,672)**	**(190,970)**
Depreciation and amortisation	**(10,205)**	**(47,991)**	**–**	**(58,196)**
Finance income	**164**	**245**	**–**	**409**
Finance costs	**(58)**	**(589)**	**(10,454)**	**(11,101)**
Share of post-tax results of joint ventures	**–**	**(23)**	**–**	**(23)**
Share of post-tax results of an associate	**5,203**	**–**	**–**	**5,203**
Income tax expenses	**–**	**(2,819)**	**–**	**(2,819)**
Loss for the period	**(56,770)**	**(187,601)**	**(13,126)**	**(257,497)**
Additions of non-current assets (excluding financial instruments and deferred tax assets)	**95**	**1,676**	**–**	**1,771**

	(Unaudited) As at 31 December 2020			
	Distributions	**Retails**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets before eliminations	**2,014,127**	**694,413**	**1,414,898**	**4,123,438**
Inter-segment assets	**(827,000)**	**(561,186)**	**(1,317,680)**	**(2,705,866)**
Total assets	**1,187,127**	**133,227**	**97,218**	**1,417,572**
Total liabilities before eliminations	**1,284,345**	**924,616**	**23,390**	**2,232,351**
Inter-segment liabilities	**(993,740)**	**(791,375)**	**(23,353)**	**(1,808,468)**
Total liabilities	**290,605**	**133,241**	**37**	**423,883**
Investments in joint ventures	**–**	**9,326**	**–**	**9,326**
Investment in an associate	**323,504**	**–**	**–**	**323,504**

The segment information for the six months ended 31 December 2019 and as at 30 June 2020 is as follows:

	(Unaudited) Six months ended 31 December 2019			
	Distributions *RMB'000*	Retails *RMB'000* (Restated)	Others *RMB'000*	Total *RMB'000*
Segment revenue	832,319	506,642	–	1,338,961
Inter-segment revenue	(272,164)	–	–	(272,164)
Revenue from external customers	560,155	506,642	–	1,066,797
Adjusted EBITDA	(59,987)	(100,509)	(2,108)	(162,604)
Depreciation and amortisation	(7,137)	(10,657)	–	(17,794)
Finance income	590	807	3,271	4,668
Finance costs	(95)	(1,108)	(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)	(111,101)	1,161	(170,771)
Additions of non-current assets (excluding financial instruments and deferred tax assets)	1,799	2,491	–	4,290

	(Audited) As at 30 June 2020			
	Distributions *RMB'000*	Retails *RMB'000*	Others *RMB'000*	Total *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 amounts provided to the Board 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	
	2020	2019
	RMB'000	*RMB'000*
Costs of inventories sold	**520,049**	924,699
Employee benefit expenses	**149,853**	136,939
Advertising and other marketing expenses	**44,759**	91,527
Lease payments on short-term leases	**37,747**	38,006
Lease payments on low-value assets	**82**	87
Transportation and related charges	**17,057**	26,884
Depreciation of property, plant and equipment	**51,835**	10,293
Depreciation of right-of-use assets	**6,224**	6,451
Amortisation of intangible assets	**137**	1,050
Office and communication expenses	**4,024**	4,437
Other tax expenses	**1,306**	3,500
Professional fees	**982**	1,307
Electricity and other utility fees	**819**	599
Travelling and meeting expenses	**411**	636
Auditors' remuneration	**506**	537
Others expenses	**375**	721
Total	**836,166**	1,247,673

5. FINANCE INCOME AND COSTS

	(Unaudited) Six months ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Finance income		
Exchange gains	**–**	3,289
Interest income	**409**	1,379
	409	4,668
Finance costs		
Interest on lease liabilities	**(606)**	(1,105)
Exchange losses	**(10,420)**	–
Other charges	**(75)**	(100)
	(11,101)	(1,205)
Finance (costs) income – net	**(10,692)**	3,463

6. INCOME TAX (EXPENSES) CREDIT

	(Unaudited) Six months ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
PRC corporate income tax		
– Current income tax	**–**	(34)
Hong Kong profits tax		
– Current income tax	**–**	–
Deferred income tax	**(2,819)**	229
Total income tax (expenses) credit	**(2,819)**	195

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 2020 and 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 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	
	2020	2019 (Restated)
Loss attributable to owners of the Company *(RMB'000)*	**(257,217)**	(170,431)
Weighted average number of ordinary shares in issue *(thousands)*	**386,313**	384,817
Basic loss per share *(RMB cents)*	**(66.58)**	(44.29)

The number of shares for the purpose of calculating basic loss per share for the period ended 31 December 2020 has been adjusted to reflect the share consolidation during the Period.

The number of shares for the period ended 31 December 2019 has been adjusted and restated to reflect share consolidation during the Period.

(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 2020 and 2019.

8. DIVIDEND

No interim dividend was declared for the six months ended 31 December 2020 (2019: Nil).

9. TRADE AND OTHER RECEIVABLES

	(Unaudited)	(Audited)
	As at	As at
	31 December	30 June
	2020	2020
	RMB'000	*RMB'000*
Trade receivables *(a)*	**176,936**	111,012
Prepayments	**47,300**	59,631
Other receivables	**6,290**	8,631
Total	**230,526**	179,274

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 ageing analysis based on recognition date of the trade receivables is as follows:

	(Unaudited)	(Audited)
	As at	As at
	31 December	30 June
	2020	2020
	RMB'000	*RMB'000*
Up to 3 months	**173,167**	109,244
4 to 6 months	**2,587**	1,768
7 to 12 months	**1,182**	–
	176,936	111,012

10. TRADE AND OTHER PAYABLES

	(Unaudited) **As at** **31 December** **2020** ***RMB'000***	(Audited) As at 30 June 2020 *RMB'000*
Trade payables *(a)*	**275,102**	115,080
Notes payable *(b)*	**60,080**	45,229
Other payables	**74,630**	75,298
Total	**409,812**	235,607

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

	(Unaudited) **As at** **31 December** **2020** ***RMB'000***	(Audited) As at 30 June 2020 *RMB'000*
Up to 3 months	**275,102**	112,976
Over 2 years	**–**	2,104
	275,102	115,080

(b) As at 31 December 2020, the entire balance of notes payable was secured by restricted cash of RMB56,134,000 (as at 30 June 2020: RMB45,299,000).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The global economy experienced turbulent setback in the past year, as impacted by multiple factors, including the outbreak of the COVID-19 pandemic, the growing geopolitical tensions and the sophisticated Sino-US relations. With the introduction of vaccines and other signs of relief, the global economy is recovering from the collapse triggered by the outbreak. 2021 is expected to be a year of restart and recovery for global economy.

China was the first country got caught up in the outbreak of the pandemic, but was among the first to get out of the haze of it. China's effective response to the pandemic coupled with its strong economic resilience, China became the only major economy to record positive growth in the past year. According to the report of International Monetary Fund in January 2021, the growth of the GDP of China is expected to reach 2% for 2020.

During the outbreak of the pandemic, the whole country has made its full efforts to fight against the virus. Not only the health and disease control departments and medical institutions, but also various welfare departments, research institutions, enterprises, organizations and individuals have tried their best to come up with and put forward plans and strategies against COVID-19. This large-scale outbreak of the infectious disease is rare in human history, which highlight the importance of public health and urge people to pay more attention to medical care and health. This has led to the rapid development of the medical and health industry worldwide. The medial and health ecosystem has been under restructure at an accelerated pace. Many new business models in the industry have emerged, among which the online-medicine, such as telemedicine and segmental inquires, and the artificial intelligence ("**AI+**") healthcare are flourishing.

Chinese medicines have also been more applied in the COVID-19 pandemic. In addition to patients who were heavily infected, a large number of moderate patients were treated with a combination of Chinese and Western medicines.

Regulatory reform has always been the key focus in the healthcare industry in the PRC, which affects the development of the industry. Policies continued to be released intensively in the second half of 2020 for further development and improvement of the public healthcare system with integrated planning.

Overall, the universal health industry faces both opportunities and challenges, as all segments of the industry are gradually adjusted to empower the industry with innovative solutions and approaches to reshape the vital value chain of healthcare.

In July 2020, the General Office of the State Council issued the "Key Tasks for Deepening the Reform of the Medical and Healthcare System in the Second Half of 2020". It pointed out that efforts shall be made to coordinate the work related to deepening the medical reform and the prevention and control of the COVID-19 pandemic; deepen the integrated reform of healthcare, medical insurance and medicine; and continue to focus on solving the problem of difficult and expensive access to the medical care, so as to provide the strong support to fight against the pandemic and protect people's lives, safety and health.

The leading group for deepening the reform of the medical and healthcare system under the State Council also issued an announcement in November 2020, which proposed a number of policy measures to further deepen the reform of the medical and healthcare system with centralized procurement and use of drugs as a breakthrough. It also emphasized to promote fair and orderly competition in the market, break the market separation and local protection of pharmaceutical products and promote cross-regional and cross-ownership mergers and reorganizations of pharmaceutical production and distribution enterprises, so as to develop a number of large enterprise groups with international competitiveness and form a pharmaceuticals production and distribution landscape with large companies as the main body and small and medium-sized enterprises as a supplementary.

In addition to the regulatory reform and industry consolidation, demographic shifts are among the factors that need to be addressed in China's healthcare industry. According the reports from national statistical offices in October 2019, it was estimated that China's the population of the age over 65 will exceed that of the United States, Japan and the Europe in total by around 2050. As the aging of population in China accelerates, there will be a rising demand for medicines. However, the medical expenditures of Chinese people still significantly lag behind those in developed economies. It is believed that there are still huge opportunities for the industry in the future.

BUSINESS REVIEW

Under the leadership of Mr. Jin Dongtao, the chairman (the "**Chairman**"), an executive Director and the 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 sudden outbreak of COVID-19 delivers a major blow to economic and social development. During the Period, the relevant domestic industries began to recover. The employees of the Group's retail chain stores stand fast on their posts to provide medicine sales services to local people. In some areas, telephone ordering for home delivery of medicine and/or mobile internet reservation for products were carried out to maintain business continuity and form a complementary online and offline operation 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

In order to minimise the impact on performance caused by the COVID-19 epidemic during the Period, the Group 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 amid the COVID-19 epidemic, to effectively contribute to the fight against the epidemic in the region by exploiting the advantages of the Group. In the meantime, the Group has strengthened its O2O platform, increased the online orders and formed an online and offline interactive operation system. At the end of the Period, the Group had a total of 849 chain stores (2019: 850 stores). However, the Group's retail business is still suffering 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 RMB254.4 million for the Period (2019: RMB506.6 million), representing a period-on-period decrease of 49.8%.

Nationwide Distribution Business

During the Period, some distribution companies of the Group were still designated by local governments as procurement and distribution units for anti-epidemic suppliers to contribute to the public health. The Group has approximately 2,400 distribution customers and 5 large-scale distribution logistics centers. The Group made appropriate promotion in its distribution system, and continued to optimise screening and maintaining of high-quality customers. However, in the face of the more difficult economic environment, the Group's distribution business recorded sales revenue of RMB333.0 million (2019: RMB560.2 million), representing a period-on-period decrease of 40.6%.

Direct-supply and Sales Model

The Group's direct-supply model effectively addressed the issue of traditional heavily overlapped sales process, 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 Period, the Group's management took all necessary actions to safeguard the direct supply of branded products, and its direct-supply model of these branded products 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 7 branded products was recorded. Hence, there were 684 branded products in total in operation for the benefit of the Group at the end of the Period.

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 Period, Warehouse Management Software System, an intelligent sorting software system, has improved the Group's labor productivity. At the same time, the Group has improved the working environment, the work feelings of employees and customers have been improved, which helps the Group's image upgrade, and lays a solid foundation for planning of 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 Period, 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 public charity. Especially during the outbreak of COVID-19 epidemic, 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 took the advantage of its lead in establishing business institute in the industry, strengthened its cohesion as well as enhanced and transformed the mode of thinking of employees in response to the transformation and upgrade of the Company's business. During the Period, 23 online video internal trainings in total had been held by the Company due to the outbreak of COVID-19.

Membership Service

During the Period, the Group had provided follow-up services and promotion benefits for approximately 1.56 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 had provided social value-added services in various aspects such as the provision of public toilets, cold shelters, lost children service centres and epidemic prevention 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

During the Period, the Company had proactively participated in the alliance activities. The Chairman, vice chairman and chief operating officer had attended on behalf of the Group the tours and forums organised by the alliance to seize the theme of era development, keep abreast of the industry information, promote development of branded products, strengthen the Company's interaction, exchange with industry alliance and constantly 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 technological innovation to seek further transformation and upgrade of the Group's business.

FINANCIAL REVIEW

For the Period, the Group recorded overall revenue of RMB587.4 million, representing a decrease of 44.9% as compared with RMB1,066.8 million for the corresponding period in 2019. Loss attributable to owners of the Company was RMB257.2 million while loss attributable to owners of the Company was RMB170.4 million for the corresponding period in 2019. Loss per share for the Period was RMB66.58 cents (for the six months ended 31 December 2019: RMB44.29 cents).

Revenue

For the Period, the Group recorded overall revenue of RMB587.4 million, representing a decrease of RMB479.4 million or 44.9% as compared with RMB1,066.8 million for the corresponding period in 2019. The decline in the performance of the Group's retail and distribution businesses for the Period was mainly attributable to the following factors: (i) the outbreak of the epidemic arouse the awareness of prevention of diseases of the nationals, which strengthens their immune system and reduces sickness; (ii) the vigorous development and competition of various e-commerce platforms have affected the sales of physical stores; (iii) increase in the number of competitors; and (iv) the purchasing power of the population has declined due to the economic downturn.

Analysis of revenue by business segment

	Revenue (RMB million) Six months ended 31 December			Percentage (%) of total revenue Six months ended 31 December		
	2020	2019	Change (%)	**2020**	2019	Change
Retails	**254.4**	506.6	-49.8	**43.3**	47.5	-4.2pp
Distributions	**333.0**	560.2	-40.6	**56.7**	52.5	+4.2pp
	587.4	1,066.8		**100.0**	100.0	

Retail Business Segment

As at 31 December 2020, the Group had 849 retail pharmacies in total (2019: 850), of which 654 located in Heilongjiang (2019: 654), 127 in Liaoning (2019: 128), 67 in Jilin (2019: 67) and 1 self-operated retail pharmacy in Hong Kong (2019: 1). As at 31 December 2020, the Group had 1 supermarket in Shenyang (2019: 1), mainly selling healthcare products and consumer goods.

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 2020, the Group had reviewed the nationwide distribution network covering approximately 2,400 active customers (2019: 4,050), among which approximately 1,500 pharmaceutical retailers, hospitals and clinics (2019: 2,650) and approximately 900 distributors (2019: 1,400). Decrease in the number of active customers of the distribution network mainly due to: (i) the Chinese government has strengthened supervision on drugs and caused some wholesale companies and small pharmacies to close; and (ii) during the COVID-19 pandemic, the implementation of the movement control also brought great obstacles to transportation, the goods could not be shipped out. As a result, some relatively weak downstream distributors and pharmaceutical retailers were shut down.

Gross profit

Gross profit of the Group for the Period was RMB66.6 million, representing a decrease of RMB73.3 million or 52.4% as compared with RMB139.9 million for the corresponding period in 2019. Overall gross margin decreased from 13.1% to 11.3%. The decrease in gross margin was mainly due to the increase in procurement costs and the Group offered discounts to consumers to fight against the negative impacts on consumer spending caused by the COVID-19 epidemic during the Period, resulting in a decline in gross margin.

Analysis of gross profit by business segment

	Gross profit (RMB million) Six months ended 31 December			Gross margin (%) Six months ended 31 December		
	2020	2019	Change (%)	**2020**	2019	Change
Retails	**49.4**	110.0	-55.1	**19.4**	21.7	-2.3pp
Distributions	**17.2**	29.9	-42.5	**5.2**	5.3	-0.1pp
	66.6	139.9				

Selling and marketing expenses

Selling and marketing expenses for the Period was RMB282.5 million, representing an decrease of RMB7.2 million or 2.5% as compared with RMB289.7 million for the corresponding period in 2019 and accounting for 48.1% of the Group's revenue (for the six months ended 31 December 2019: 27.2%). The decrease in selling and marketing expenses comparing to the corresponding period in 2019, was mainly due to the decrease in advertising and the transportation charges for the Period.

Administrative expenses

Administrative expenses for the Period was RMB32.9 million, representing a increase of RMB1.9 million or 6.1% as compared with RMB31.0 million for the corresponding period in 2019 and accounting for 5.6% of the Group's revenue (for the six months ended 31 December 2019: 2.9%). The increase in administrative expenses comparing to the corresponding period in 2019, was mainly due to the increase in employee benefit expenses.

Finance costs – net

Net finance cost for the Period was RMB10.7 million (for the six months ended 31 December 2019: net finance income RMB3.5 million). The increase in net finance cost was mainly due to the recognition of exchange loss resulting from the depreciation of Hong Kong dollars against Renminbi.

Income tax expenses

Income tax expenses for the Period was RMB2.8 million (for the six months ended 31 December 2019: income tax credit RMB0.2 million). Increase in income tax expenses mainly due to reversal of deferred tax assets recognised in prior years. The effective income tax rate for the Period was 1.1% (for the six months ended 31 December 2019: -0.1%).

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 2020, the Group's unpledged cash and cash equivalents totalled RMB45.8 million (as at 30 June 2020: RMB131.3 million), and the Group's net current assets were RMB241.1 million (as at 30 June 2020: RMB434.0 million).

During the Period, net cash flows used in operating activities amounted to RMB73.9 million (for the six months ended 31 December 2019: RMB153.0 million).

During the Period, the Group had capital expenditure of RMB1.8 million (for the six months ended 31 December 2019: RMB4.3 million).

Having considered the cash flow from operating activities and existing financial gearing, the management believes that the Group would replenish liquidity 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 31 December 2020, the Group had RMB45.8 million in cash and bank balances of which the equivalent of RMB2.1 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

Pursuant to an annual general meeting held on 10 December 2020, the resolution to approve the share consolidation of every ten (10) issued and unissued shares with par value of US$0.001 each in the share capital of the Company into one (1) consolidated share with par value of US$0.01 (the "**Share Consolidation**") and it took effect on 14 December 2020.

Upon the Share Consolidation became effective, the authorised share capital of the Company will became US$10,000,000 divided into 1,000,000,000 consolidated shares with par value of US$0.01 each and as at 31 December 2020, the capital structure of the Company was constituted of 386,313,445 ordinary shares of US$0.01 each (the "**Shares**").

As at 31 December 2020, the Group had no interest-bearing bank borrowings and no bank borrowings carried annual interest rates (as at 30 June 2020: Nil).

The gearing ratio of the Group as at 31 December 2020, calculated as net debt divided by sum of total equity and net debt, was N/A (as at 30 June 2020: N/A).

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2020, the Group had no significant contingent liabilities (as at 30 June 2020: Nil).

As at 31 December 2020, notes payable of the Group was secured by the time deposits of the Group with net aggregate booking value of RMB56.1 million (as at 30 June 2020: the notes payable of the Group were secured by the time deposits of the Group with net aggregate booking value of RMB45.2 million).

HUMAN RESOURCES

The Group recognises our employees as the key element that contributes to the Group's success. As at 31 December 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 RMB149.9 million for the Period (2019: RMB136.9 million). Employees are paid according to their positions, performance, experience and prevailing market practices, and are provided with management and professional training. The Group has implemented a number of initiatives to enhance the productivity of its employees. In particular, the Group conducts periodic performance reviews 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 compensation partly 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 its employees with a safe workplace and structured training programs.

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

The outbreak of COVID-19 has affected thousands of households. During the Period, the epidemic in mainland China has been controlled and the economy is recovering, certain subsidiaries of the Group in Jilin province, Shenyang area, Heilongjiang area and Shijiazhuang area have been entrusted by the epidemic prevention command department of the local governments as the designated units for epidemic preventing medical supplies.

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 further 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, 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.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the Period (2019: 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 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. 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.

CHANGE IN BOARD LOT SIZE

For the purpose of complying with the trading requirements under the Listing Rules, the board lot size of the Shares trading on the Stock Exchange has been changed from 1,000 Shares to 5,000 Shares with effect from 29 December 2020.

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 2020/21 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 2020/21 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, 24 February 2021

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.