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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 2021

### INTERIM RESULTS HIGHLIGHTS

| | | (Unaudited) Six months ended 31 December | | |
|---|---|---|---|---|
| | *Unit* | **2021** | 2020 | Change |
| Revenue | *RMB million* | **616.7** | 587.4 | +5.0% |
| Gross profit | *RMB million* | **89.9** | 66.6 | +35.0% |
| Operating loss | *RMB million* | **(123.9)** | (249.2) | +125.3 RMB million |
| Loss for the period | *RMB million* | **(125.8)** | (257.5) | +131.7 RMB million |
| EBITDA | *RMB million* | **(103.4)** | (191.0) | +87.6 RMB million |
| Basic loss per share | *RMB cents* | **(31.04)** | (66.58) | +35.54 RMB cents |
| Gross margin | % | **14.6** | 11.3 | +3.3 pp |
| Operating loss margin | % | **(20.1)** | (42.4) | +22.3 pp |
| Net loss margin | % | **(20.4)** | (43.8) | +23.4 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 2021 (the "**Period**") together with the comparative figures for the corresponding period in 2020 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

| | | **(Unaudited)** | |
|---|---|---|---|
| | | **Six months ended 31 December** | |
| | | **2021** | 2020 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Revenue** | *2* | **616,693** | 587,427 |
| Cost of sales | *4* | **(526,818)** | (520,823) |
| **Gross profit** | | **89,875** | 66,604 |
| Selling and marketing expenses | *4* | **(183,385)** | (282,486) |
| Administrative expenses | *4* | **(31,569)** | (32,857) |
| Other gains (losses) – net | | **1,225** | (427) |
| **Operating loss** | | **(123,854)** | (249,166) |
| Finance income | *5* | **412** | 409 |
| Finance costs | *5* | **(1,812)** | (11,101) |
| Finance costs – net | *5* | **(1,400)** | (10,692) |
| Share of post-tax results of joint ventures | | **–** | (23) |
| Share of post-tax results of an associate | | **(499)** | 5,203 |
| **Loss before income tax** | | **(125,753)** | (254,678) |
| Income tax expenses | *6* | **–** | (2,819) |
| **Loss for the period** | | **(125,753)** | (257,497) |

| | Note | (Unaudited) Six months ended 31 December 2021 RMB'000 | 2020 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 | | **7,891** | (4,735) |
| *Item that may be reclassified to profit or loss in subsequent periods* | | | |
| Currency translation differences | | **1,463** | 10,567 |
| **Other comprehensive loss for the period** | | **9,354** | 5,832 |
| **Total comprehensive loss for the period** | | **(116,399)** | (251,665) |
| **Loss attributable to:** | | | |
| – Owners of the Company | | **(125,512)** | (257,217) |
| – Non-controlling interests | | **(241)** | (280) |
| | | **(125,753)** | (257,497) |
| **Total comprehensive loss attributable to:** | | | |
| – Owners of the Company | | **(116,158)** | (251,385) |
| – Non-controlling interests | | **(241)** | (280) |
| | | **(116,399)** | (251,665) |
| **Loss per share attributable to owners of the Company for the period** *(RMB cents)* | | | |
| – Basic and diluted | *7* | **(31.04)** | (66.58) |

## CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | **(Unaudited)**<br>**As at**<br>**31 December**<br>**2021**<br>***RMB'000*** | (Audited)<br>As at<br>30 June<br>2021<br>*RMB'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **221,759** | 241,611 |
| Right-of-use assets | | **7,447** | 12,467 |
| Intangible assets | | **–** | – |
| Investment in an associate | | **110,640** | 111,139 |
| Equity instruments designated as at fair value through other comprehensive income | | **16,925** | 9,265 |
| Biological assets | | **97,752** | 97,752 |
| **Total non-current assets** | | **454,523** | 472,234 |
| **Current assets** | | | |
| Trade and other receivables | *9* | **136,129** | 137,477 |
| Income tax recoverable | | **6,094** | 6,399 |
| Inventories | | **204,824** | 273,916 |
| Restricted cash | | **34,584** | 34,724 |
| Cash and cash equivalents | | **68,286** | 33,091 |
| **Total current assets** | | **449,917** | 485,607 |
| **Total assets** | | **904,440** | 957,841 |

| | Note | (Unaudited)<br>As at<br>31 December<br>2021<br>*RMB'000* | (Audited)<br>As at<br>30 June<br>2021<br>*RMB'000* |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **29,764** | 24,833 |
| Reserves | | **1,742,577** | 1,729,755 |
| Accumulated losses | | **(1,305,128)** | (1,179,616) |
| | | **467,213** | 574,972 |
| **Non-controlling interests** | | **704** | 945 |
| **Total equity** | | **467,917** | 575,917 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **40,000** | – |
| **Total non-current liabilities** | | **40,000** | – |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **392,679** | 377,994 |
| Lease liabilities | | **3,844** | 3,930 |
| **Total current liabilities** | | **396,523** | 381,924 |
| **Total liabilities** | | **436,523** | 381,924 |
| **Total equity and liabilities** | | **904,440** | 957,841 |

## 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 2021 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 2021 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 2021 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 2021, 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 2021.

These condensed consolidated interim financial statements for the six months ended 31 December 2021 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 2021 are consistent with those in the preparation of the Group's consolidated financial statements for the year ended 30 June 2021, 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 2021 as described below.

| | |
|---|---|
| Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16 | Interest Rate Benchmark Reform – Phase 2 |

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 | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Revenue from contracts with customers *(a)* | **616,693** | 587,427 |

(a) Disaggregation of revenue

| | (Unaudited) Six months ended 31 December 2021 | | |
|---|---|---|---|
| | **Distributions** | **Retails** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| **Major products** | | | |
| Prescribed drugs | **73,607** | **47,617** | **121,224** |
| Non-prescribed drugs | **333,953** | **141,658** | **475,611** |
| Healthcare products | **44,803** | **53,464** | **98,267** |
| Other pharmaceutical products | **24,423** | **9,104** | **33,527** |
| | **476,786** | **251,843** | **728,629** |
| Eliminations | **(111,936)** | **–** | **(111,936)** |
| Revenue from external customers | **364,850** | **251,843** | **616,693** |
| **Timing of revenue recognition:** | | | |
| Products transferred at a point in time | **364,850** | **251,843** | **616,693** |

| | (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 |

## 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**").

Distributions, Retails 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 more than 10% of the Group's total revenues for the six months ended 31 December 2021 and 2020. Accordingly, no geographical segment is presented.

Inter-segment sales are charged at cost or cost plus a percentage mark-up. The revenue from external customers and the costs, the total assets and the total liabilities are measured in a manner consistent with that of these condensed consolidated interim financial statements.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted loss before interests, tax, depreciation and amortisation ("**Adjusted EBITDA**"). The measurement basis of Adjusted EBITDA excludes the effect of share of post-tax results of joint ventures and an associate.

The segment information for the six months ended 31 December 2021 and as at 31 December 2021 is as follows:

| | (Unaudited) Six months ended 31 December 2021 | | | |
|---|---|---|---|---|
| | **Distributions** | **Retails** | **Others** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Segment revenue | **476,786** | **251,843** | **–** | **728,629** |
| Inter-segment revenue | **(111,936)** | **–** | **–** | **(111,936)** |
| Revenue from external customers | **364,850** | **251,843** | **–** | **616,693** |
| Adjusted EBITDA | **6,223** | **(106,313)** | **(3,290)** | **(103,380)** |
| Depreciation and amortisation | **(5,191)** | **(15,283)** | **–** | **(20,474)** |
| Finance income | **222** | **190** | **–** | **412** |
| Finance costs | **(962)** | **(182)** | **(668)** | **(1,812)** |
| Share of post-tax results of an associate | **(499)** | **–** | **–** | **(499)** |
| Loss for the period | **(207)** | **(121,588)** | **(3,958)** | **(125,753)** |
| Additions of non-current assets (excluding financial instrument and deferred tax assets) | **34** | **31** | **–** | **65** |

| | (Unaudited) As at 31 December 2021 | | | |
|---|---|---|---|---|
| | **Distributions** | **Retails** | **Others** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Total assets before eliminations | **1,640,976** | **555,476** | **1,326,388** | **3,522,840** |
| Inter-segment assets | **(881,435)** | **(436,872)** | **(1,300,093)** | **(2,618,400)** |
| Total assets | **759,541** | **118,604** | **26,295** | **904,440** |
| Total liabilities before eliminations | **1,241,379** | **892,185** | **23,122** | **2,156,686** |
| Inter-segment liabilities | **(921,188)** | **(779,741)** | **(19,234)** | **(1,720,163)** |
| Total liabilities | **320,191** | **112,444** | **3,888** | **436,523** |
| Investment in an associate | **110,640** | **–** | **–** | **110,640** |

The segment information for the six months ended 31 December 2020 and as at 30 June 2021 is as follows:

| | (Unaudited) Six months ended 31 December 2020 | | | |
|---|---|---|---|---|
| | Distributions *RMB'000* | Retails *RMB'000* | Others *RMB'000* | Total *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 credit | – | (2,819) | – | (2,819) |
| Loss for the period | (56,770) | (187,601) | (13,126) | (257,497) |
| Additions of non-current assets (excluding financial instrument and deferred tax assets) | 95 | 1,676 | – | 1,771 |

| | (Audited) As at 30 June 2021 | | | |
|---|---|---|---|---|
| | Distributions *RMB'000* | Retails *RMB'000* | Others *RMB'000* | Total *RMB'000* |
| Total assets before eliminations | 1,746,181 | 683,691 | 1,310,274 | 3,740,146 |
| Inter-segment assets | (923,525) | (558,831) | (1,299,949) | (2,782,305) |
| Total assets | 822,656 | 124,860 | 10,325 | 957,841 |
| Total liabilities before eliminations | 1,245,834 | 986,444 | 25,120 | 2,257,398 |
| Inter-segment liabilities | (995,839) | (855,729) | (23,906) | (1,875,474) |
| Total liabilities | 249,995 | 130,715 | 1,214 | 381,924 |
| Investment in an associate | 111,139 | – | – | 111,139 |

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 2021 *RMB'000* | 2020 *RMB'000* |
|---|---|---|
| Costs of inventories sold | **524,780** | 520,049 |
| Employee benefit expenses | **138,012** | 149,853 |
| Advertising and other marketing expenses | **1,701** | 44,759 |
| Lease payments on short-term leases | **34,864** | 37,747 |
| Lease payments on low-value assets | **375** | 82 |
| Transportation and related charges | **13,540** | 17,057 |
| Depreciation of property, plant and equipment | **15,454** | 51,835 |
| Depreciation of right-of-use assets | **5,020** | 6,224 |
| Amortisation of intangible assets | **–** | 137 |
| Office and communication expenses | **3,204** | 4,024 |
| Other tax expenses | **1,078** | 1,306 |
| Professional fees | **1,721** | 982 |
| Electricity and other utility fees | **701** | 819 |
| Travelling and meeting expenses | **483** | 411 |
| Auditors' remuneration | **492** | 506 |
| Others expenses | **347** | 375 |
| Total | **741,772** | 836,166 |

## 5. FINANCE INCOME AND COSTS

| | (Unaudited) Six months ended 31 December 2021 *RMB'000* | 2020 *RMB'000* |
|---|---|---|
| **Finance income** | | |
| Interest income | **412** | 409 |
| | **412** | 409 |
| **Finance costs** | | |
| Interest on lease liabilities | **(163)** | (606) |
| Exchange losses | **(1,592)** | (10,420) |
| Other charges | **(57)** | (75) |
| | **(1,812)** | (11,101) |
| Finance costs – net | **(1,400)** | (10,692) |

## 6. INCOME TAX EXPENSES

| | (Unaudited) Six months ended 31 December | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| PRC corporate income tax | | |
| – Current income tax | **–** | – |
| Hong Kong profits tax | | |
| – Current income tax | **–** | – |
| Deferred income tax | **–** | (2,819) |
| Total income tax expenses | **–** | (2,819) |

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 2021 and 2020.

The subsidiaries of the Group in the PRC are subject to corporate income tax at a rate of 25% (2020: 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 | |
|---|---|---|
| | **2021** | 2020 |
| Loss attributable to owners of the Company *(RMB'000)* | **(125,512)** | (257,217) |
| Weighted average number of ordinary shares in issue *(thousands)* | **404,369** | 386,313 |
| Basic loss per share *(RMB cents)* | **(31.04)** | (66.58) |

(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 for the periods are equal to diluted loss per share for the six months ended 31 December 2021 and 2020.

## 8. DIVIDEND

No interim dividend was declared for the six months ended 31 December 2021 (2020: Nil).

## 9. TRADE AND OTHER RECEIVABLES

| | **(Unaudited)**<br>**As at**<br>**31 December**<br>**2021**<br>***RMB'000*** | (Audited)<br>As at<br>30 June<br>2021<br>*RMB'000* |
|---|---|---|
| Trade receivables *(a)* | **112,181** | 85,794 |
| Prepayments | **17,288** | 45,663 |
| Other receivables | **6,660** | 6,020 |
| Total | **136,129** | 137,477 |

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)**<br>**As at**<br>**31 December**<br>**2021**<br>***RMB'000*** | (Audited)<br>As at<br>30 June<br>2021<br>*RMB'000* |
|---|---|---|
| Up to 3 months | **110,002** | 84,806 |
| 4 to 6 months | **1,625** | 988 |
| 7 to 12 months | **554** | – |
| | **112,181** | 85,794 |

## 10. TRADE AND OTHER PAYABLES

| | **(Unaudited)**<br>**As at**<br>**31 December**<br>**2021**<br>***RMB'000*** | (Audited)<br>As at<br>30 June<br>2021<br>*RMB'000* |
|---|---|---|
| Trade payables *(a)* | **267,706** | 269,666 |
| Notes payable *(b)* | **33,484** | 34,724 |
| Other payables | **91,489** | 73,604 |
| Total | **392,679** | 377,994 |

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

| | **(Unaudited)**<br>**As at**<br>**31 December**<br>**2021**<br>***RMB'000*** | (Audited)<br>As at<br>30 June<br>2021<br>*RMB'000* |
|---|---|---|
| Up to 3 months | **243,696** | 231,277 |
| 4 to 6 months | **15,387** | 30,771 |
| 7 to 12 months | **5,490** | 6,550 |
| 1 year to 2 years | **3,133** | 558 |
| Over 2 years | **–** | 510 |
| | **267,706** | 269,666 |

(b) As at 31 December 2021, the entire balance of notes payable was secured by restricted cash of RMB34,584,000 (as at 30 June 2021: RMB34,724,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

The COVID-19 pandemic (the "**Pandemic**") continued in the Period and had impacted the rise of new business models, the increase in concentration, and the international industrial transfer in the pharmaceutical industry, and the quick development of sectors relating to vaccines, disease control and testing. Especially since the second half of 2021, the pharmaceutical sub-sectors have been under pressure as a whole due to polices and sporadic outbreaks.

Firstly, at the consumer end, during the Pandemic, the penetration rate of Internet-based medical services was improved rapidly to accelerate the development of consumption habit. Chain pharmacies with supply chain advantages played a role in fighting the Pandemic and maintaining stability. The number of outpatient visits gradually recovered, and industrial leaders further increased market shares. Spurred on by the Pandemic, the rapid growth of "Internet + medical health" has offered consumers more choices and greater power to make decisions, quickened the end of the high-margin era of traditional retail, and ushered in the era of new pharmaceutical retail.

Secondly, at the global industrial chain end, due to the safety and stability of the supply chain, some international production capacity and orders were transferred to China during the Pandemic in domestic bulk drug and research, and production outsourcing industries.

Furthermore, at the sub-sector end related to Pandemic control, the research and development of COVID-19 vaccines are accelerated at home and abroad, and about half of the global research and development pipelines and projects are located in China. Meanwhile, China has made it clear to increase investment in medical and health care, which is expected to strongly improve inspection equipment and related departments and wards, and promote medical infrastructure closer to developed countries in the world.

As one of the three major direct-to-consumer drug retail terminals, retail pharmacies play an important role in the pharmaceutical industry chain. Under the double catalysis of the Pandemic and policies, the transformation and upgrading of retail pharmacies has expedited, and the market scale of the industry has continued to increase.

The new medical policies and emerging forces in the industry are forces driving new pharmaceutical retail to grow rapidly. A few years ago, polices in respect of the "proportion of medicine sales" and "zero-markup (零加成)" opened the prelude to the control of medical expenses. Today, "bulk purchases" has become a major policy in the industry, and the average price reduction of drugs included in bulk purchases has reached more than 50%. Among them, oral solid preparations, which are the most widely sold in pharmacies, are the most affected. At present, bulk purchases is accelerating in speed and expanding in scope. According to a McKinsey report, it is expected that 70% of the pharmaceutical market will be covered within three years.

According to research reports, the trend of pharmaceutical retail in the next ten years will be prescription outflow and higher industrial concentration. From the perspective of a large market structure, there is still ample room for chain pharmacies to grow in the market.

However, as policies are implemented successively regarding bulk purchases on an on-going basis, the classification and grading management of pharmacies, the reform of medical insurance accounts, the crackdown on medical insurance fraud, and the rectification of "certificate anchoring (掛證)" by licensed pharmacists, on the one hand, the profits of the pharmaceutical distribution industry have been squeezed; on the other hand, stricter regulatory policies have also eliminated small and medium-sized pharmacies that fails to conform to the regulation, which has in turn improved the industrial concentration and the chain rate. In 2020, the pharmacy chain rate in China was about 56%. Compared with developed countries such as the United States, there is still much room for improvement in China's pharmacy chain rate. The pharmacy chain rate in the United States was about 87% in 2019. In addition, drug prices have dropped more than expected, while the prescription outflow has been slower than expected. Factors such as intensified competition in the industry and policy changes are still challenges that the industry needs to face.

## BUSINESS REVIEW

Under the leadership of Mr. Jin Dongtao, the chairman (the "**Chairman**") and an executive Director, 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 impact of the Pandemic and industry development trends, the Group also endeavored to explore new business model.

The epidemic prevention policy of "dynamic clearing" has achieved good results, but local Pandemic have occurred from time to time. 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 Pandemic, 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 Pandemic, to effectively contribute to the fight the Pandemic 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 406 chain stores. 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 Pandemic. The Group recorded sales revenue for retail business of RMB251.8 million for the Period (2020: RMB254.4 million), representing a period-on-period decrease of 1.0%.

**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. As at 31 December 2021, the Group has 1,410 distributors 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. In the face of the more difficult economic environment, the Group's distribution business recorded sales revenue of RMB364.9 million (2020: RMB333.0 million), representing a period-on-period increase of 9.6%.

**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 PRC government so as to reducing 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 the 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 maintaining the competitiveness of the original branded products, on the other hand, increasing the influence of new branded products. During the Period, a net increase of 44 branded products was recorded. Hence, there were 723 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 the Pandemic, it carried out activities of free distribution of anti-epidemic supplies as a way to enhance the reputation of the Company and fulfill its corporate social responsibilities.

**Institute School 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, 24 online video internal trainings in total had been held by the Company due to the Pandemic.

## Membership Service

During the Period, the Group had provided follow-up services and promotion benefits for approximately 1.6 million offline members, and provide online health knowledge, product knowledge and other dissemination services, 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 supply 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 and vice chairman 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)", "Guangdong-Hong Kong- Macao Greater Bay Area (粵港澳大灣區)" and "Hainan Free Trade Port (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 RMB616.7 million, representing an increase of 5.0% as compared with RMB587.4 million for the corresponding period in 2020. Loss attributable to owners of the Company was RMB125.5 million while loss attributable to owners of the Company was RMB257.2 million for the corresponding period in 2020. Loss per share for the Period was RMB31.04 cents (for the six months ended 31 December 2020: RMB66.58 cents). With the expenses level unchanged, the increase in revenue and gross profit margin reduced the loss; and the closure of stores with serious losses in the Period directly reduces the operating expenses and directly reduces the loss.

## Revenue

For the Period, the Group recorded overall revenue of RMB616.7 million, representing an increase of RMB29.3 million or 5.0% as compared with RMB587.4 million for the corresponding period in 2020. The improvement in the performance of the Group's businesses for the Period was mainly to the reason that the Pandemic has been going on for some time, the domestic control of a series of medicines such as fever, cold and anti-virus has been relaxed, so the revenue has increased as compared with the corresponding period in 2020.

*Analysis of revenue by business segment*

| | Revenue (RMB million) Six months ended 31 December | | | Percentage (%) of total revenue Six months ended 31 December | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change (%) | **2021** | 2020 | Change |
| Retails | **251.8** | 254.4 | -1.0 | **40.8** | 43.3 | -2.5 pp |
| Distributions | **364.9** | 333.0 | +9.6 | **59.2** | 56.7 | +2.5 pp |
| | **616.7** | 587.4 | | **100.0** | 100.0 | |

*Retail Business Segment*

As at 31 December 2021, the Group had 406 retail pharmacies in total (2020: 849), of which 310 located in Heilongjiang Province (2020: 654), 95 in Liaoning Province (2020: 127), 0 in Jilin Province (2020: 67) and 1 self-operated retail pharmacy in Hong Kong (2020: 1). As at 31 December 2021, the Group had 1 supermarket in Shenyang City (2020: 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 2021, the Group had reviewed the nationwide distribution network covering approximately 1,410 active customers (2020: 2,400), among which approximately 860 pharmaceutical retailers, hospitals and clinics (2020: 1,500) and approximately 550 distributors (2020: 900). 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 Pandemic, the implementation of the movement control also brought great obstacles to transportation, and 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 RMB89.9 million, representing an increase of RMB23.3 million or 35.0% as compared with RMB66.6 million for the corresponding period in 2020. Overall gross margin increased from 11.3% to 14.6%. The increase in gross margin was mainly due to the Group originally sought more customer resources based on the principle of small profits but quick turnover, but the results were not good. With the less impact of the Pandemic, the pricing level has been gradually increased, so the gross profit margin has increased as compared with the corresponding period in 2020.

*Analysis of gross profit by business segment*

| | Gross profit (RMB million) Six months ended 31 December | | | Gross margin (%) Six months ended 31 December | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | Change (%) | **2021** | 2020 | Change |
| Retails | **45.7** | 49.4 | -7.6 | **18.1** | 19.4 | -1.3 pp |
| Distributions | **44.2** | 17.2 | +157.0 | **12.1** | 5.2 | +6.9 pp |
| | **89.9** | 66.6 | | | | |

## Selling and marketing expenses

Selling and marketing expenses for the Period was RMB183.4 million, representing a decrease of RMB99.1 million or 35.1% as compared with RMB282.5 million for the corresponding period in 2020 and accounting for 29.7% of the Group's revenue (for the six months ended 31 December 2020: 48.1%). The decrease in selling and marketing expenses, as compared with the corresponding period in 2020, was mainly due to the decrease in advertising, depreciation of property, plant and equipment and employee benefit expenses for the Period.

## Administrative expenses

Administrative expenses for the Period was RMB31.6 million, representing a decrease of RMB1.3 million or 4.0% as compared with RMB32.9 million for the corresponding period in 2020 and accounting for 5.1% of the Group's revenue (for the six months ended 31 December 2020: 5.6%). The decrease in administrative expenses, as compared with the corresponding period in 2020, was mainly due to the decrease in depreciation of property, plant and equipment.

### Finance costs – net

Net finance cost for the Period was RMB1.4 million (for the six months ended 31 December 2020: RMB10.7 million). The decrease in net finance cost was mainly due to the decrease in the recognition of exchange loss resulting from the depreciation of Hong Kong dollars against Renminbi.

### Income tax expenses

No income tax expenses for the Period (for the six months ended 31 December 2020: RMB2.8 million). No effective income tax rate for the Period (for the six months ended 31 December 2020: 1.1%).

## 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 2021, the Group's unpledged cash and cash equivalents totalled RMB68.3 million (as at 30 June 2021: RMB33.1 million), and the Group's net current assets were RMB53.4 million (as at 30 June 2021: RMB103.7 million).

During the Period, net cash flows used in operating activities amounted to RMB19.0 million (for the six months ended 31 December 2020: RMB73.9 million).

During the Period, the Group had capital expenditure of RMB0.1 million (for the six months ended 31 December 2020: RMB1.8 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 2021, the Group had RMB68.3 million in cash and bank balances of which the equivalent of RMB0.6 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

On 19 November 2021, the Company allotted and issued a total of 77,262,689 shares (the "**Subscribed Shares**") to four subscribers who are independent third parties under general mandate at the subscription price of HK$0.135 per share. The Subscribed Shares represent approximately 16.7% of the total issued shares of the Company as enlarged by the Subscribed Shares. Net proceeds of approximately HK$10.2 million were raised under the subscription. The Company intends to apply such net proceeds for general working capital of the Group. For details of the subscription of the Subscribed Shares, please refer to the announcement of the Company dated 29 October 2021. As at 31 December 2021, the Company had a total of 463,576,134 shares in issue.

As at 31 December 2021, the Group had borrowings of RMB40.0 million which carried an annual interest rate of 3% (as at 30 June 2021: Nil).

The gearing ratio of the Group as at 31 December 2021, calculated as net debt divided by sum of total equity and net debt, was N/A (as at 30 June 2021: N/A).

## CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2021, the Group had no significant contingent liabilities (as at 30 June 2021: Nil).

As at 31 December 2021, notes payable of the Group was secured by the time deposits of the Group with net aggregate booking value of RMB34.6 million (as at 30 June 2021: the notes payable of the Group were secured by the time deposits of the Group with net aggregate booking value of RMB34.7 million).

## HUMAN RESOURCES

The Group recognises our employees as the key element that contributes to the Group's success. As at 31 December 2021, the Group had 3,495 (2020: 5,612) full-time employees in Hong Kong China and the mainland China with total employee benefit expenses amounted to RMB138.0 million for the Period (2020: RMB149.9 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 progress, and ensures that the established goals are effectively achieved in terms of environment, working environment, operation management and community participation/social welfare, etc., in response to the national "carbon neutrality" strategy and global green and sustainable development demands.

## FIGHTING THE PANDEMIC

During the Period, the Pandemic across the PRC was basically under control, but the Pandemic still occurred in some local areas sporadically and as a result, local control policies were gradually tightened and the economy is recovering, certain subsidiaries of the Group in Jilin Province, Shenyang City, Heilongjiang Province and Shijiazhuang City 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 (2020: 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. Despite the aforesaid, Mr. Jin Dongtao has resigned from the position as the chief executive officer and Mr. Chu Chuanfu, an executive Director, has been appointed the chief executive officer all with effect from 1 August 2021.

For the sake of corporate governance of the Group, Mr. Jin Dongtao has resigned as the chief executive officer and Mr. Chu Chuanfu has been appointed as the chief executive officer of the Company with effect from 1 August 2021.

Save for the above, the Company had 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.

## SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

On 19 November 2021, the Company allotted and issued a total of 77,262,689 Subscribed Shares to four subscribers who are independent third parties under general mandate at the subscription price HK$0.135 per share. The Subscribed Shares represent approximately 16.7% of the total issued shares of the Company as enlarged by the Subscribed Shares. Net proceeds of approximately HK$10.2 million were raised under the subscription. The Company intends to apply such net proceeds for general working capital of the Group. For details of the subscription of the Subscribed Shares, please refer to the announcement of the Company dated 29 October 2021. As at 31 December 2021, the Company had a total of 463,576,134 shares in issue.

## 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 2021/22 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 2021/22 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 2022

*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. Chu Chuanfu and three independent non-executive directors, namely, Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Mr. Zou Haiyan.*