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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 2022

INTERIM RESULTS HIGHLIGHTS

		(Unaudited)		
		Six months ended 31 December		
	<i>Unit</i>	2022	2021	Change
Revenue	<i>RMB million</i>	797.0	616.7	+29.2%
Gross profit	<i>RMB million</i>	133.6	89.9	+48.6%
Operating loss	<i>RMB million</i>	(41.8)	(123.9)	+82.1 RMB million
Loss for the period	<i>RMB million</i>	(44.3)	(125.8)	+81.5 RMB million
EBITDA	<i>RMB million</i>	(22.5)	(103.4)	+80.9 RMB million
Basic loss per share	<i>RMB cents</i>	(7.95)	(31.04)	+23.09 RMB cents
Gross margin	%	16.8	14.6	+2.2 pp
Operating loss margin	%	(5.2)	(20.1)	+14.9 pp
Net loss margin	%	(5.6)	(20.4)	+14.8 pp

The board (the “**Board**”) of directors (the “**Directors**”) of Universal Health International Group Holding Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited interim results of the Group for the six months ended 31 December 2022 (the “**Period**”) together with the comparative figures for the corresponding period in 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited)	
		Six months ended 31 December	
		2022	2021
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2	796,976	616,693
Cost of sales	4	<u>(663,376)</u>	<u>(526,818)</u>
Gross profit		133,600	89,875
Selling and marketing expenses	4	(137,248)	(183,385)
Administrative expenses	4	(28,712)	(31,569)
Impairment loss on investment in an associate	4	(10,433)	–
Other income		2,921	–
Other (losses) gains – net		<u>(1,927)</u>	<u>1,225</u>
Operating loss		(41,799)	(123,854)
Finance income	5	4,931	412
Finance costs	5	<u>(705)</u>	<u>(1,812)</u>
Finance income (costs) – net	5	4,226	(1,400)
Share of post-tax results of an associate		<u>(6,727)</u>	<u>(499)</u>
Loss before income tax		(44,300)	(125,753)
Income tax expenses	6	<u>–</u>	<u>–</u>
Loss for the period		<u>(44,300)</u>	<u>(125,753)</u>

(Unaudited)
Six months ended 31 December

Other comprehensive (loss) income

Item that will not be reclassified to profit or loss

Fair value changes in equity instruments designated as at fair value through other comprehensive income

<i>Note</i>	2022 RMB'000	2021 RMB'000
	-	7,891

Item that are or may be reclassified to profit or loss in subsequent periods

Currency translation differences

(4,298)	1,463
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Other comprehensive (loss) income for the period

(4,298)	9,354
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Total comprehensive loss for the period

(48,598)	(116,399)
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Loss attributable to:

- Owners of the Company
- Non-controlling interests

(44,231)	(125,512)
(69)	(241)
(44,300)	(125,753)

Total comprehensive loss attributable to:

- Owners of the Company
- Non-controlling interests

(48,529)	(116,158)
(69)	(241)
(48,598)	(116,399)

Loss per share attributable to owners of the Company for the period

(RMB cents)

- Basic and diluted

7	(7.95)	(31.04)
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CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 December 2022 RMB'000	(Audited) As at 30 June 2022 RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		213,130	222,392
Right-of-use assets		5,626	4,952
Intangible assets		–	–
Investment in an associate		70,366	87,526
Equity instruments designated as at fair value through other comprehensive income		12,056	12,056
Biological assets		<u>98,161</u>	<u>98,161</u>
Total non-current assets		<u>399,339</u>	<u>425,087</u>
Current assets			
Trade and other receivables	9	181,166	128,918
Income tax recoverable		2,639	5,815
Inventories		175,150	190,973
Restricted cash		42,191	30,488
Cash and cash equivalents		<u>60,669</u>	<u>57,795</u>
Total current assets		<u>461,815</u>	<u>413,989</u>
Total assets		<u><u>861,154</u></u>	<u><u>839,076</u></u>

		(Unaudited) As at 31 December 2022 <i>RMB'000</i>	(Audited) As at 30 June 2022 <i>RMB'000</i>
	<i>Note</i>		
EQUITY			
Equity attributable to owners of the Company			
Share capital		35,943	35,943
Reserves		1,735,219	1,739,451
Accumulated losses		<u>(1,411,560)</u>	<u>(1,367,263)</u>
		<u>359,602</u>	<u>408,131</u>
Non-controlling interests		<u>372</u>	<u>579</u>
Total equity		<u><u>359,974</u></u>	<u><u>408,710</u></u>
LIABILITIES			
Non-current liabilities			
Interest-bearing borrowings		41,658	40,000
Lease liabilities		<u>468</u>	<u>–</u>
Total non-current liabilities		<u>42,126</u>	<u>40,000</u>
Current liabilities			
Trade and other payables	<i>10</i>	458,763	390,366
Lease liabilities		<u>291</u>	<u>–</u>
Total current liabilities		<u>459,054</u>	<u>390,366</u>
Total liabilities		<u>501,180</u>	<u>430,366</u>
Total equity and liabilities		<u><u>861,154</u></u>	<u><u>839,076</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

1.1 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 31 December 2022 have been prepared in accordance with International Accounting Standards (“IASs”) 34, “**Interim Financial Reporting**” issued by International Accounting Standards Board (“IASB”) 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 Period 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 Period 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 2022, and therefore, do not include all of the information required for full set of consolidated financial statements prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by IASB. They shall be read in conjunction with the consolidated financial statements for the year ended 30 June 2022.

These condensed consolidated interim financial statements for the Period have been prepared on a historical cost convention, except for equity instruments designated as at fair value through other comprehensive income and biological assets which are measured at fair value.

1.2 Going concern

For the Period, the Group recorded a loss of approximately RMB44,300,000 (six months ended 31 December 2021: RMB125,753,000), which was primarily attributable to the challenges region of the PRC and the impact on performance caused by the COVID-19 pandemic. In addition, the Group recorded net cash inflow from operations of RMB13,577,000 for the Period while the net current assets of the Group reduced by RMB20,862,000 to RMB2,761,000 as at 31 December 2022.

In view of these circumstances, the management of the Company has implemented various measures to improve the financial position of the Group. These measures include, but not limited to the following:

- (a) The Group continues to negotiate for external financing, including but not limited to obtain further loan facilities and various forms of capital fund raising. As at 31 December 2022, total undrawn trading and term loan facilities amounted to approximately RMB50,000,000;
- (b) The Group continues to improve operating efficiency by implementing measures to tighten cost control over various operating expenses in order to enhance its profitability and to improve cash flow from its operations in future. During the Period, the Group has further closed a number of loss-making retail stores to minimise operating cash outflows; and
- (c) The Group is actively exploring the opportunity of obtaining additional source of cash inflows from sales of its owned assets/investment.

The Directors are of the opinion that, taking into account the abovementioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2022. Accordingly, the Directors consider it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

1.3 Accounting policies

The accounting policies adopted in preparing these condensed consolidated interim financial statements for the Period are consistent with those in the preparation of the Group's consolidated financial statements for the year ended 30 June 2022, 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 2022 as described below.

Amendments to IAS 16	Proceeds before Intended Use
Amendments to IAS 37	Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework
Annual Improvements to IFRSs	2018-2020 Cycle

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

2. REVENUE

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

	(Unaudited)	
	Six months ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers (a)	<u>796,976</u>	<u>616,693</u>

(a) Disaggregation of revenue

	(Unaudited)		
	Six months ended 31 December 2022		
	Distributions	Retails	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Major products			
Prescribed drugs	104,167	49,882	154,049
Non-prescribed drugs	452,523	131,328	583,851
Healthcare products	65,140	45,332	110,472
Other pharmaceutical products	<u>36,632</u>	<u>8,627</u>	<u>45,259</u>
	658,462	235,169	893,631
Eliminations	<u>(96,655)</u>	<u>-</u>	<u>(96,655)</u>
Revenue from external customers	<u>561,807</u>	<u>235,169</u>	<u>796,976</u>
Timing of revenue recognition:			
Products transferred at a point in time	<u>561,807</u>	<u>235,169</u>	<u>796,976</u>

	(Unaudited)		
	Six months ended 31 December 2021		
	Distributions	Retails	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>24,423</u>	<u>9,104</u>	<u>33,527</u>
	476,786	251,843	728,629
Eliminations	<u>(111,936)</u>	<u>–</u>	<u>(111,936)</u>
Revenue from external customers	<u>364,850</u>	<u>251,843</u>	<u>616,693</u>
Timing of revenue recognition:			
Products transferred at a point in time	<u>364,850</u>	<u>251,843</u>	<u>616,693</u>

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 PRC.

Distributions, Retails 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 2022 and 2021. 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 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 an associate.

The segment information for the Period and as at 31 December 2022 is as follows:

	(Unaudited)			
	Six months ended 31 December 2022			
	Distributions	Retails	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	658,462	235,169	–	893,631
Inter-segment revenue	<u>(96,655)</u>	<u>–</u>	<u>–</u>	<u>(96,655)</u>
Revenue from external customers	<u>561,807</u>	<u>235,169</u>	<u>–</u>	<u>796,976</u>
Adjusted EBITDA	32,814	(52,890)	(2,383)	(22,459)
Impairment loss on investment in an associate	(10,433)	–	–	(10,433)
Depreciation and amortisation	(8,831)	(76)	–	(8,907)
Finance income	272	176	4,483	4,931
Finance costs	(688)	(15)	(2)	(705)
Share of post-tax results of an associate	<u>(6,727)</u>	<u>–</u>	<u>–</u>	<u>(6,727)</u>
Profits (Loss) for the period	<u>6,407</u>	<u>(52,805)</u>	<u>2,098</u>	<u>(44,300)</u>
Additions of non-current assets (excluding financial instrument and deferred tax assets)	<u>950</u>	<u>–</u>	<u>–</u>	<u>950</u>

	(Unaudited)			
	As at 31 December 2022			
	Distributions	Retails	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets before eliminations	1,451,058	539,807	1,392,521	3,383,386
Inter-segment assets	<u>(795,063)</u>	<u>(347,604)</u>	<u>(1,379,565)</u>	<u>(2,522,232)</u>
Total assets	<u>655,995</u>	<u>192,203</u>	<u>12,956</u>	<u>861,154</u>
Total liabilities before eliminations	1,268,208	879,160	10,684	2,158,052
Inter-segment liabilities	<u>(870,085)</u>	<u>(776,199)</u>	<u>(10,588)</u>	<u>(1,656,872)</u>
Total liabilities	<u>398,123</u>	<u>102,961</u>	<u>96</u>	<u>501,180</u>
Investment in an associate	<u>70,366</u>	<u>–</u>	<u>–</u>	<u>70,366</u>

The segment information for the six months ended 31 December 2021 and as at 30 June 2022 is as follows:

	(Unaudited)			
	Six months ended 31 December 2021			
	Distributions <i>RMB'000</i>	Retails <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	476,786	251,843	–	728,629
Inter-segment revenue	<u>(111,936)</u>	<u>–</u>	<u>–</u>	<u>(111,936)</u>
Revenue from external customers	<u>364,850</u>	<u>251,843</u>	<u>–</u>	<u>616,693</u>
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	<u>(499)</u>	<u>–</u>	<u>–</u>	<u>(499)</u>
Loss for the period	<u>(207)</u>	<u>(121,588)</u>	<u>(3,958)</u>	<u>(125,753)</u>
Additions of non-current assets (excluding financial instrument and deferred tax assets)	<u>34</u>	<u>31</u>	<u>–</u>	<u>65</u>
	(Audited)			
	As at 30 June 2022			
	Distributions <i>RMB'000</i>	Retails <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Total assets before eliminations	1,411,178	610,820	1,400,900	3,422,898
Inter-segment assets	<u>(778,918)</u>	<u>(422,939)</u>	<u>(1,381,965)</u>	<u>(2,583,822)</u>
Total assets	<u>632,260</u>	<u>187,881</u>	<u>18,935</u>	<u>839,076</u>
Total liabilities before eliminations	1,235,694	900,135	11,041	2,146,870
Inter-segment liabilities	<u>(879,063)</u>	<u>(827,650)</u>	<u>(9,791)</u>	<u>(1,716,504)</u>
Total liabilities	<u>356,631</u>	<u>72,485</u>	<u>1,250</u>	<u>430,366</u>
Investment in an associate	<u>87,526</u>	<u>–</u>	<u>–</u>	<u>87,526</u>

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

4. EXPENSES BY NATURE

	(Unaudited)	
	Six months ended 31 December	
	2022	2021
	RMB'000	RMB'000
Costs of inventories sold	661,266	524,780
Employee benefit expenses	103,370	138,012
Impairment loss on investment in an associate	10,433	–
Lease payments on short-term leases	28,422	34,864
Transportation and related charges	17,802	13,540
Depreciation of property, plant and equipment	8,661	15,454
Depreciation of right-of-use assets	246	5,020
Other tax expenses	3,251	1,078
Office and communication expenses	2,339	3,204
Advertising and other marketing expenses	1,172	1,701
Professional fees	1,142	1,721
Electricity and other utility fees	637	701
Travelling and meeting expenses	518	483
Auditor's remuneration	482	492
Lease payments on low-value assets	–	375
Other expenses	28	347
	<u>839,769</u>	<u>741,772</u>
Total	<u>839,769</u>	<u>741,772</u>

5. FINANCE INCOME AND COSTS

	(Unaudited)	
	Six months ended 31 December	
	2022	2021
	RMB'000	RMB'000
Finance income		
Interest income	440	412
Exchange gains – net	4,491	–
	<u>4,931</u>	<u>412</u>
Finance costs		
Interest on lease liabilities	(41)	(163)
Interest on borrowings	(608)	–
Exchange losses - net	–	(1,592)
Other charges	(56)	(57)
	<u>(705)</u>	<u>(1,812)</u>
Finance income (costs) – net	<u>4,226</u>	<u>(1,400)</u>

6. INCOME TAX EXPENSES

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 2022 and 2021.

The subsidiaries of the Group in the PRC are subject to corporate income tax at a rate of 25% (2021: 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	
	2022	2021
Loss attributable to owners of the Company (<i>RMB'000</i>)	(44,231)	(125,512)
Weighted average number of ordinary shares in issue (<i>thousands</i>)	<u>556,291</u>	<u>404,369</u>
Basic loss per share (<i>RMB cents</i>)	<u>(7.95)</u>	<u>(31.04)</u>

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

As the effect of the assumed conversion of the potential ordinary shares from exercising the Company's share options is anti-dilutive, the basic loss per share for the periods are equal to diluted loss per share for the six months ended 31 December 2022 and 2021.

8. DIVIDEND

No interim dividend was declared for the Period (2021: Nil).

9. TRADE AND OTHER RECEIVABLES

	(Unaudited) As at 31 December 2022 <i>RMB'000</i>	(Audited) As at 30 June 2022 <i>RMB'000</i>
Trade receivables (a)	159,782	97,838
Prepayments	14,112	27,475
Other receivables	<u>7,272</u>	<u>3,605</u>
Total	<u><u>181,166</u></u>	<u><u>128,918</u></u>

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

- (a) Retail sales at the Group's pharmacies are usually settled in cash or by debit or credit cards. For distribution sales, there is no concentration of credit risk with respect to trade receivables, as the majority of the Group's sales are settled upon delivery of goods. The ageing analysis based on recognition date of the trade receivables is as follows:

	(Unaudited) As at 31 December 2022 <i>RMB'000</i>	(Audited) As at 30 June 2022 <i>RMB'000</i>
Up to 3 months	157,518	97,496
4 to 6 months	760	124
7 to 12 months	<u>1,504</u>	<u>218</u>
	<u><u>159,782</u></u>	<u><u>97,838</u></u>

10. TRADE AND OTHER PAYABLES

	(Unaudited) As at 31 December 2022 RMB'000	(Audited) As at 30 June 2022 RMB'000
Trade payables (a)	378,442	313,928
Notes payables (b)	41,824	29,583
Other payables	<u>38,497</u>	<u>46,855</u>
Total	<u><u>458,763</u></u>	<u><u>390,366</u></u>

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

	(Unaudited) As at 31 December 2022 RMB'000	(Audited) As at 30 June 2022 RMB'000
Up to 3 months	372,121	288,388
4 to 6 months	4,251	20,148
7 to 12 months	<u>2,070</u>	<u>5,392</u>
	<u><u>378,442</u></u>	<u><u>313,928</u></u>

(b) As at 31 December 2022, the entire balance of notes payables was secured by restricted cash of RMB42,191,000 (as at 30 June 2022: RMB30,488,000).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Looking back on the course of the COVID-19 pandemic (the “**Pandemic**”) for more than two years, the Pandemic remains volatile and as a result of the Pandemic, the international environment is complex and severe, the reformation, development and stability tasks have become more arduous and onerous in the People’s Republic of China (the “**PRC**” or “**China**”), facing the complex situation, the economy of China withstood the pressure and stepped out of a recovery curve: the major economic indicators fell sharply in April 2022, the decline of major economic indicators narrowed in May, and the economy stabilized and recovered in June. In July 2022, the half-year economic performance of China was announced. In the first half of 2022, the Gross Domestic Product (GDP) increased by 2.5% on a year-on-year basis.

The Ministry of Commerce of China issued the “Guiding Opinions on Promoting the High-quality Development of the Pharmaceutical Distribution Industry during the 14th Five-Year Plan Period” (the “**Opinions**”), which put forward clear requirements for the high-quality development of China’s pharmaceutical distribution industry during the 14th Five-Year Plan period. In this context, the pharmaceutical distribution industry is accelerating its digital transformation, and pharmaceutical e-commerce is developing rapidly. Among the business models “Business to Business” (B2B) accounted for more than 90% and is developing very rapidly.

On the other hand, the Opinions indicated that by 2025, China will cultivate and form 5-10 specialized and diversified drug retail chain enterprises with capital exceeding RMB50 billion, and drug retail chain rate will be close to 70%. Large-scale pharmacy chain enterprises in the pharmaceutical retail industry have continuously expanded their marketing networks and achieved cross-regional development through individual expansion and mergers and reorganizations. The market concentration of the industry has gradually increased, and the competition among retail pharmacy enterprises has become increasingly fierce.

With the continuous support of domestic policies and the catalysis of the Pandemic, pharmaceutical retail stores have continued to transform and upgrade, and have expanded a variety of innovative models such as “Business to Consumer” (B2C), “Online to Offline” (O2O) and “Direct to Patient” (DTP) pharmacies, as well as chronic disease management pharmacies. At present, under the influence of medical reform policies such as “bulk purchases”, outflow of prescriptions and changes in personal medical insurance accounts, many pharmaceutical companies have begun to consider developing pharmaceutical retail. The pharmaceutical retail industry is facing a situation where opportunities and challenges coexist.

The development of internet, big data, cloud computing, artificial intelligence and other technologies has brought new vitality to the traditional medicine circulation industry. Digital pharmaceutical transactions break through geographical boundaries, and the management and application of transaction data improves the efficiency of the pharmaceutical supply chain, making the market environment relatively flexible.

For the pharmaceutical retail industry, irrespective of whether it is an online or offline store, retail operation is only a very basic part. Higher-level positioning requires seizing of the diversified needs of new medical consumption, and providing diversified solutions to medical needs by analyzing voluminous data so as to genuinely improving patients' medication experience.

BUSINESS REVIEW

During the Period, under the leadership of the senior management of the Company (including the former and current chairman of the Board) 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, after taking into the account the impact of the Pandemic and industry development trends, the Group also endeavored to explore new business model.

Close to the end of the Period, resulting from relaxation of epidemic prevention and control, public demand for medicine consumption rose for a time which drove 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, actively organize the supply of goods and equip people with urgently needed anti-epidemic medicines and equipment. In some areas, telephone ordering for home delivery of medicine and/or mobile internet reservation for products had been carried out in order 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, was put forward by Mr. Jin Dongtao, the former chairman of the Board and executive Director, 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 enhancing the Group's presence in the regions and competitiveness of chain retail business. 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 273 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 RMB235.2 million for the Period (2021: RMB251.8 million), representing a period-on-period decrease of 6.6%.

Nationwide Distribution Business

As at 31 December 2022, the Group had 1,363 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. Despite the difficult economic environment, the Group's distribution business recorded sales revenue of RMB561.8 million (2021: RMB364.9 million), representing an increase of 54.0% compared to the corresponding period in 2021.

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 inappropriate products and add new products, so as to maintaining the competitiveness of the original branded products, whilst increasing the presence of new branded products. During the Period, a net decrease of 28 branded products was recorded. Hence, there were total 675 branded products in operation 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 respectively, and has established a high-quality distribution system across the whole country covering the northeastern region. During the Period, continuously leveraging on Warehouse Management Software System, an intelligent sorting software system, the Group's labour productivity had been improved. At the same time, the Group has improved the work 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 the traditional advantages in continuous brand promotion and marketing, the Group strengthened its presence and competitiveness, and mitigated the further decline in operating performance. During the Period, promotional and marketing activities had been launched for product brands and enterprise brands by continuously leveraging on the internet, WeChat, and live platform. In addition, the Group has participated in the public charity. Especially during the outbreak of the Pandemic, it carried out activities of promoting health information for free 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, 8 online video internal trainings in total had been held by the Company given the Pandemic.

Membership Service

During the Period, the Group had provided follow-up services and promotion benefits for approximately 1.46 million offline members, and provided 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 of the Board 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 presence. Among them, Mr. Jin Dongtao, the former chairman, won the "Special Contribution Award" of the China Pharmaceutical Resources Association. In 2022, Mr. Chu Chuanfu, the chairman of the Board, won the "China Pharmaceutical Retail Outstanding Person Award" awarded by the West Lake Forum. 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 RMB797.0 million, representing an increase of 29.2% as compared with RMB616.7 million for the corresponding period in 2021. Loss attributable to owners of the Company for the Period was RMB44.2 million while loss attributable to owners of the Company was RMB125.5 million for the corresponding period in 2021. Loss per share for the Period was RMB7.95 cents (for the six months ended 31 December 2021: RMB31.04 cents). The decrease in loss attributable to owners of the Company was mainly due to the continuous improvement of operating efficiency through implementing measures to tighten cost control over various operating expenses in order to enhance its profitability and to improve cash flow from its operations in future. During the Period, the Group closed a number of loss-making retail stores to minimise operating loss.

Revenue

For the Period, the Group recorded overall revenue of RMB797.0 million, representing an increase of RMB180.3 million or 29.2% as compared with RMB616.7 million for the corresponding period in 2021. With the adaptation of the epidemic and changes in the epidemic prevention policy during the Period, the customer flow of the stores gradually increased. Besides, the release of the epidemic-restricted products like the treatment of fever, cold, pharyngitis, antibiotics, etc. had driven the revenue rebounded quickly. Meanwhile, sales increased rapidly due to a number of large-scale promotional activities had been carried out in existing stores during the Period.

Analysis of revenue by business segment

	Revenue (RMB million) Six months ended 31 December			Percentage (%) of total revenue Six months ended 31 December		
	2022	2021	Change (%)	2022	2021	Change
Retails	235.2	251.8	-6.6	29.5	40.8	-11.3 pp
Distributions	561.8	364.9	+54.0	70.5	59.2	+11.3 pp
	<u>797.0</u>	<u>616.7</u>		<u>100.0</u>	<u>100.0</u>	

Retail Business Segment

As at 31 December 2022, the Group had 273 retail pharmacies in total (2021: 406), of which 188 located in Heilongjiang Province (2021: 310), 84 in Liaoning Province (2021: 95) and 1 self-operated retail pharmacy in Hong Kong (2021: 1).

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 2022, the Group had a nationwide distribution network covering approximately 1,363 active customers (2021: 1,410), among which approximately 858 were pharmaceutical retailers, hospitals and clinics (2021: 860) and approximately 505 were distributors (2021: 550).

Gross profit

Gross profit of the Group for the Period was RMB133.6 million, representing an increase of RMB43.7 million or 48.6% as compared with RMB89.9 million for the corresponding period in 2021. Overall gross margin increased from 14.6% to 16.8%. The increase in gross profit margin was mainly due to the increase in selling price of the Group's products.

Analysis of gross profit by business segment

	Gross profit (RMB million)			Gross margin (%)		
	Six months ended 31 December			Six months ended 31 December		
	2022	2021	Change (%)	2022	2021	Change
Retails	61.3	45.7	+34.1	26.1	18.1	+8 pp
Distributions	72.3	44.2	+63.6	12.9	12.1	+0.8 pp
	<u>133.6</u>	<u>89.9</u>				

Selling and marketing expenses

Selling and marketing expenses for the Period was RMB137.2 million, representing a decrease of RMB46.2 million or 25.2% as compared with RMB183.4 million for the corresponding period in 2021 and accounting for 17.2% of the Group's revenue (for the six months ended 31 December 2021: 29.7%). The decrease in selling and marketing expenses was mainly due to the decrease in depreciation of property, plant and equipment and employee benefit expenses for the Period.

Administrative expenses

Administrative expenses for the Period was RMB28.7 million, representing a decrease of RMB2.9 million or 9.2% as compared with RMB31.6 million for the corresponding period in 2021 and accounting for 3.6% of the Group's revenue (for the six months ended 31 December 2021: 5.1%). The decrease in administrative expenses was mainly due to the decrease in employee benefit expenses.

Finance income – net

Net finance income for the Period was RMB4.2 million (for the six months ended 31 December 2021: Net finance costs of RMB1.4 million). The net finance income as against the net finance costs was mainly due to the increase in the recognition of exchange gain.

Income tax expenses

No income tax expenses was recorded for the Period (for the six months ended 31 December 2021: Nil) and no effective income tax rate was also recorded for the Period (for the six months ended 31 December 2021: Nil).

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 2022, the Group's unpledged cash and cash equivalents totalled RMB60.7 million (as at 30 June 2022: RMB57.8 million), and the Group's net current assets were RMB2.8 million (as at 30 June 2022: RMB23.6 million).

During the Period, net cash flows from operating activities amounted to RMB13.6 million (for the six months ended 31 December 2021: net cash flows used in operating activities amounted to RMB19.0 million).

During the Period, the Group had capital expenditure of RMB1.0 million (for the six months ended 31 December 2021: RMB0.1 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 2022, the Group had RMB60.7 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

As at 31 December 2022, the Company had a total of 556,291,360 shares in issue.

As at 31 December 2022, the Group had a borrowing from an associate carrying an interest rate of 3% per annum in the sum of RMB40.0 million and a bank borrowing carrying an interest rate of 11.88% per annum in the sum of RMB1.7 million (as at 30 June 2022: a borrowing from an associate carrying an interest rate of 3% per annum in the sum of RMB40.0 million).

The gearing ratio of the Group as at 31 December 2022, calculated as net debt divided by sum of total equity and net debt, was N/A (as at 30 June 2022: N/A).

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2022, the Group had no significant contingent liabilities (as at 30 June 2022: Nil).

As at 31 December 2022, the entire balance of notes payable by the Group was secured by restricted cash of RMB42.2 million (as at 30 June 2022: RMB30.5 million).

HUMAN RESOURCES

The Group recognises our employees as the key element that contributes to the Group's success. As at 31 December 2022, the Group had 3,007 (2021: 3,495) full-time employees in Hong Kong and China with total employee benefit expenses amounted to RMB103.4 million for the Period (2021: RMB138.0 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 performs 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 the result, local control policies were gradually tightened. In December 2022, China relaxed the epidemic control and promoted that everyone is the first person responsible for his/her own health. 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, actively supply the medicines and equipment needed by the public for personal epidemic prevention.

FUTURE PLAN

Following the leadership of the new chairman of the Board, namely Mr. Chu Chuanfu in strategic plan and continuously adopting 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 timely divestiture of subsidiary industries other than the main business. With a view to 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 focusing 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 Pandemic 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 main pharmaceutical business and operation channel innovation.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the Period (2021: Nil).

CORPORATE GOVERNANCE

The Company had 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 C.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 C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the Period, despite that the responsibilities of the chairman and the chief executive officer of the Company vested in Mr. Chu Chuanfu (the chairman of the Board, the chief executive officer and the chief operation officer), 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 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 had complied with the required standards as set out in the Model Code throughout the Period.

CONSTITUTIONAL DOCUMENT

On 12 December 2022, the Company amended its articles of association in order to (i) conform its existing articles of association to the core shareholder protection standards; (ii) reflect certain updates in relation to the Listing Rules and the applicable laws of the Cayman Islands; and (iii) make other consequential and housekeeping improvements, by way of adoption of new articles of association. The adoption of the new articles of association had been approved by the Shareholders in the annual general meeting of the Company held on 12 December 2022 and the new articles of association has been published on the respective websites of the Stock Exchange and the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

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

REVIEW OF THE INTERIM RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) is comprised of three independent non-executive Directors, namely Mr. Zou Haiyan (Chairman of the Audit Committee), Mr. Cheng Sheung Hing and Ms. Chiang Su Hui Susie. The main duties of the Audit Committee are to examine, review and monitor the financial reporting procedures and financial reporting, risk management and internal control systems of the Company. The Audit Committee has reviewed the unaudited interim results of the Group for the Period.

PUBLICATION OF THE INTERIM RESULTS AND 2022/23 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 2022/23 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
Chu Chuanfu
Chairman

Hong Kong, 24 February 2023

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Chu Chuanfu, Mr. Jin Dongkun and Mr. Zhao Zehua and three independent non-executive directors, namely Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Mr. Zou Haiyan.