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

2017
INTERIM REPORT

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Mr. Jin Dongtao *(Chairman)*
(Chief Executive Officer, appointed on 23 March 2017)
Mr. Jin Dongkun *(Vice Chairman)*
Mr. Chu Chuanfu *(Chief Executive Officer, resigned on 23 March 2017)*
Mr. Zhao Zehua
Mr. Sun Libo *(appointed on 23 March 2017)*

Independent Non-executive Directors:

Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie
Ms. Hao Jia *(resigned on 20 July 2017)*
Mr. Zou Haiyan *(appointed on 20 July 2017)*

AUDIT COMMITTEE

Ms. Hao Jia *(Chairman, resigned on 20 July 2017)*
Mr. Zou Haiyan *(Chairman, appointed on 20 July 2017)*
Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie

REMUNERATION COMMITTEE

Mr. Cheng Sheung Hing *(Chairman)*
Ms. Chiang Su Hui Susie
Mr. Chu Chuanfu *(resigned on 23 March 2017)*
Mr. Jin Dongkun *(appointed on 23 March 2017)*

NOMINATION COMMITTEE

Mr. Jin Dongtao *(Chairman)*
Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie

AUTHORIZED REPRESENTATIVES

Mr. Leung Yi Kok *(resigned on 6 June 2017)*
Mr. Ge Junming *(appointed on 6 June 2017)*
Mr. Zhao Zehua

COMPANY SECRETARY

Mr. Leung Yi Kok *(resigned as Joint Company Secretary on 6 June 2017)*
Mr. Ge Junming *(appointed as sole Company Secretary on 6 June 2017)*

REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS

No. 15
Baogongbei Street
Tiexi District
Shenyang, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room No. 907B
9th Floor, Empire Centre
68 Mody Road
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

AUDITOR

PricewaterhouseCoopers

STOCK CODE

The Main Board of The Stock Exchange of Hong Kong Limited: 2211

INVESTOR RELATIONS

ir@uhi-group.com

COMPANY'S WEBSITE

www.uhighl.com

Financial Highlights

	Six months ended 30 June		
	2017 RMB Million (Unaudited)	2016 RMB Million (Unaudited)	Change (%)
Revenue	**1,332.1**	1,903.8	-30.0
Gross profit	**274.0**	519.8	-47.3
Operating (loss)/profit	**(85.6)**	115.3	-174.2
(Loss)/profit for the period	**(83.5)**	87.4	-195.5
EBITDA[(1)]	**(62.1)**	138.1	-145.0
Basic (loss)/earnings per share – RMB cents[(2)]	**(3.39)**	4.12	-182.3
Gross margin (%)	**20.6**	27.3	-6.7pp
Operating (loss)/profit margin (%)	**(6.4)**	6.1	-12.5pp
Net (loss)/profit margin (%)	**(6.3)**	4.6	-10.9pp

	30 June 2017 (Unaudited)	31 December 2016 (Audited)	Change
Current ratio (times)[(3)]	**4.8**	4.3	+0.5
Trade receivables turnover (days)[(4)]	**22.0**	22.4	-0.4
Inventory turnover (days)[(5)]	**64.1**	57.7	+6.4
Trade payables turnover (days)[(6)]	**26.5**	25.5	+1.0

Notes:

1. EBITDA is calculated by adjusting loss/earnings before interests, tax, depreciation and amortisation, excluding the effect of share of post-tax profits or losses of joint ventures and associates.

2. Basic loss/earnings per share is calculated by dividing loss/profit attributable to owners of the Company by weighted average number of ordinary shares (the weighted average number of shares for the first six months of 2017 was 2,425,311,000, versus 2,083,516,000 for the corresponding period of last year).

3. Current ratio is calculated by dividing current assets by current liabilities.

4. Trade receivables turnover days are calculated by using the average of beginning and ending balances on trade receivables for the period, divided by revenue for the period, multiplied by the number of days for the period.

5. Inventory turnover days are calculated by using the average of beginning and ending balances on inventory for the period, divided by cost of sales for the period, multiplied by the number of days for the period.

6. Trade payables turnover days are calculated by using the average of beginning and ending balances on trade payables for the period, divided by cost of sales for the period, multiplied by the number of days for the period.

Management Discussion and Analysis

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 30 June 2017 (the "**Period**").

Industry Overview

In the first half of 2017, the People's Republic of China (the "**PRC**" or "**China**") released a series of significant policies, including establishing "Xiong'an New Area", planning "Guangdong-Hong Kong-Macao Greater Bay Area", deepening "1+3+7" Free Trade Zone, intensifying the "Belt and Road" Initiative, enhancing the reform of state-owned enterprises, and implementing the mixed ownership reform of state-owned enterprises, continued to carry forward supply-side structural reform unswervingly, and in depth implementation of innovation-driven development strategy. China's national economy maintains stable development and moves forward steadily.

The pharmaceutical industry is an important component of China's national economy. At present, China's pharmaceutical industry is undergoing a new medical reform and supply-side structural reform. The medical reform policies mainly focus on medical insurance and pricing system, which has exerted profound influence on the pharmaceutical industry. The industry has entered into a new norm characterized by slower growth rate and optimized structure. Affected by the slower growth rate of the pharmaceutical market under the new medical reform, the pharmaceutical circulation industry also experienced slower growth.

In the first quarter of 2017, China's GDP recorded a year-on-year increase of 6.9%. According to the data from China's National Bureau of Statistics, from January 2017 to May 2017, the national industrial enterprises above designated size achieved a total profit of RMB2,904.76 billion, representing a year-on-year increase of 22.7%, 1.7 percentage points lower than the growth rate of the first four months of 2017. Among which, the operating income from the pharmaceutical manufacturing industry in the first five months of 2017 reached RMB1,170.99 billion with a year-on-year increase of 11.9%, and the total profit reached RMB125.52 billion with a year-on-year increase of 15.7%, lower than the average growth rate of industrial enterprises.

In the first five months of 2017, the total retail sales of consumer goods reached RMB14,256.1 billion with a year-on-year increase of 10.3%, 0.1 percentage point higher than the growth rate of the first four months of 2017 and the corresponding period of last year. Among which, the absolute amount of Chinese and Western drugs reached RMB366.5 billion in the first five months of 2017 with a year-on-year increase of 11.7%.

The online retail sales has experienced rapid and continuous growth. According to the data from China's National Bureau of Statistics, the national online retail sales reached RMB2,466.3 billion with a year-on-year increase of 32.5% for the period from January 2017 to May 2017. The national online retail sales of

Management Discussion and Analysis

physical commodities represented a year-on-year increase of 26.5%, 0.6 percentage point higher than the growth rate of the first four months of 2017, and 16.2% higher than the growth rate of the total sales of consumer goods in the corresponding period; accounted for 13.2% of the total sales of consumer goods, 0.3 percentage point higher than the first four months of 2017, and 1.9 percentage points higher than the corresponding period of last year.

In terms of policies, 2015 and 2016 were the years of policy formulation for the pharmaceutical industry. The policy enacted become more systematic and executable, covering the whole operational cycle, i.e. vetting, production, circulation and payment. The reform of the pharmaceutical industry evolves from quantitative variations to qualitative variations. The year of 2017 will be the year of policy implementation.

In 2016, the "Two Invoices System" was firstly proposed in the key work of the pharmaceuticals and health system reform. On 9 January 2017, the Medical Reform Office of the State Council officially published the *Opinions on Implementation of Advancement of "Two Invoices System" in the Drug Procurement of the Public Medical Institutions (Trial)* (《公立醫療機構藥品採購中推行「兩票制」的實施意見(試行)》), and enacted successively in 23 cities and provinces in China. The Two Invoices System requires that, when the drugs are sold from manufacturers to circulation enterprises, only one instance of invoices needs to be issued, when the drugs are sold from circulation enterprises to medical institutions, only one instance of invoices needs to be issued. It basically reduces the room for survival of small and medium dealers and further enhances the concentration of the pharmaceutical circulation industry.

It is pointed out in the *Several Opinions on Further Reforming and Improving the Policies concerning Production, Circulation and Usage of Drugs* (《關於進一步改革完善藥品生產流通使用政策的若干意見》) promulgated by the General Office of the State Council on 9 February 2017 that, efforts shall be made to resolve prominent problems in the pharmaceutical field, eliminate the root causes of the problem, promote integration and coordination, come up with systematic reform measures covering pharmaceutical manufacturing, circulation and usage, improve the quality and curative effect of drugs supplied, guarantee the prompt supply of drugs, promote the reasonable drug price, apply drugs in the cure of diseases, and establish a standardised and orderly drug supply safeguards system, in order to better satisfy people's demands for medical advice and treatment, and construct a healthy China.

On 23 February 2017, the Ministry of Human Resources and Social Security of PRC released the new version of the *Medicines List for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2017 Version)* (《國家基本醫療保險、工傷保險和生育保險藥品目錄(二零一七年版)》) on its website, which includes 2,535 Western and Chinese patent medicines, with an increase of 339 medicines, approximately 15.4%, compared with the 2009 version. Among which, 1,297 are Western patent medicines and 1,238 are Chinese patent medicines. The proportion of Chinese medicines to Western medicines is approximating 1:1 after the inclusion of the new medicines.

Management Discussion and Analysis

On 28 June 2017, the General Office of the State Council printed and issued the *Guiding Opinions on Further Deepening the Reform in the Mode of Payment of the Basic Medical Insurance* (《關於進一步深化基本醫療保險支付方式改革的指導意見》), stipulating that, since 2017, we shall further strengthen the budget management of the medical insurance fund, and comprehensively popularize the diversified and combined modes of payment centered on the payment by type of disease. By 2020, the reform of the mode of payment of medical insurance will be conducted in all the medical institutions and medical service with an obvious decrease in the payment by medical treatment.

In the short run, the pharmaceutical industry experiences fluctuation under the influence of the reform. But in the long run, China's pharmaceutical industry is on the track of rapid standardised development. Considering the factors stimulating the stable growth of pharmaceutical demands in the market such as accelerated ageing population, vigorous public demands of drugs, increased consuming capacity of residents, and enhanced health consciousness, it is predicted that the pharmaceutical industry will maintain a steady growth in 2017.

Business Review

During the Period, under the leadership of Mr. Jin Dongtao, the Chairman, and with the efforts of the management and all our employees, the Group solidly implemented the operation and management of traditional retail chain store business and distribution network. In terms of strategy, the Group has also established and upgraded into "Industry + Finance + Capital" from the traditional industry and actively addressed the effect from the slower growth rate of economic and industry development on the Group's business. The Group has acquired the land development right, which is a piece of 1,009 Mu of forest land situated in Si Peng Xiang San Ren Ban Cun, Tonghua County, Tonghua City, Jilin Province in the PRC, to create its own ecosystem and build an international brand operator in the universal health industry.

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 the Group, of which "王" is embodied as "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 and "Sharing" win-win cooperation strategy.

Nationwide Distribution Business

During the Period, the Group had over 4,000 nationwide active distribution customers and 5 large-scale distribution hubs. The Group made appropriate promotion in its distribution system, and continued to screening and maintaining distributors, provide training and follow-up work, fully implementing the policy of "Two Invoices System" and increasing interaction with distributors to seize favourable opportunities. Meanwhile, given the new round of Northeast Area Revitalization Plan (東北地區振興規劃) in the PRC is now in an early stage, which intensifies the competition in the pharmaceutical circulation market and the decrease in the residents' consuming capacity, the Group will endeavor to mitigate the resulting impact. During the Period, the Group held 11 associations in total with strategic cooperation of distribution system, but subject to the development environment of real economy and the transformation

Management Discussion and Analysis

of the Company's strategies, the Group's sales revenue of distribution business decreased by 27.3% as a whole from RMB961.9 million for the corresponding period in 2016 to RMB699.5 million for the Period.

Chain Retail Business

During the Period, the Group optimized management strategy, accelerated the upgrade of operation, continued to keep the division of strategic stores and non-strategic stores and closed 18 strategic stores in due course so as to centralize its strengths and resources for accelerating the upgrade of strategic stores. As such, the Group had 936 stores in total including 657 strategic stores (2016: 675 strategic stores) at the end of the Period and 279 non-strategic stores (2016: 279 non-strategic stores) at the end of the Period. Meanwhile, affected by macro environment as a whole, sales revenue of retail business decreased by 32.8% as a whole from RMB941.9 million for the corresponding period in 2016 to RMB632.6 million for the Period.

Direct-supply and Sales Model

The Group's Direct-supply Model effectively eliminated and reduced the traditional heavily overlapped sales process, as well as simplified the supply chain to improve the sales efficiency and profitability and provided a higher profit margin for the Group. At the same time, the model with primacy accorded to the management system of "Two Invoices System" carried out by the government and subject to minor effect of policy change. During the Period, the Group's management took all necessary actions to safeguard the direct supply of branded products and its direct supply mode of branded products with higher gross profit covering 29 provinces in China.

Branded Products Operation

During the Period, the Company continued to maintain its operational pattern of branded products which build a multi-layer upstream network consisting of original equipment manufacturers "OEM" products, domestic brand products and international brand products. Apart from the products under Yushi brand, there were other categories and brands of products, such as traditional Chinese medicine products, nutritional food, maternity and baby products, and products targeting different consumers including middle-aged and elderly people, children, female and male consumers as well as health and treatment products for different parts of the body. There were 2,506 branded products in total for the benefit of the Company's development in the operation, of which included 355 licensed products and 2,151 products that we had obtained exclusive distribution rights.

Brand Promotion

Brand promotion and marketing were powerful weapons to strengthen influence and enhance competitiveness of the Company. Taking advantage of the Group's resource and network, three-dimensional promotional activities have 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 internet, WeChat as well as charity. Therefore, appropriate promotional costs were invested in the operation to cope with the uncertainties resulted from the economic transition and market competition.

Management Discussion and Analysis

Institute Training

Taken the lead in establishing business institute in the industry is an important characteristic that makes the Group develop rapidly and acquire high margin. During the Period, the Group continued to enhance its internal training activities. Internal training focused on the expansion of management ideas and employees' ideological education. These training activities were designed to enhance and transform the mode of thinking of employees in response to the economic downturn pressure, the range of policies issued in the PRC and the reform of transformation and upgrade of the Company's business, so as to correspond to the business operation. During the Period, the Company held 100 internal trainings in total.

Membership Service

During the Period, the Group had over 1.36 million offline members and has motivated its customer members through membership promotion activities. It has also actively launched the "Love China" public welfare activities to improve its healthy image. Branches of the Company strengthened the holding of membership activities by offering continuous membership benefits or rewards during shops and holiday celebration activities. Moreover, social value-added services were offered in various aspects such as the provision of cold shelters and lost children service centre as well as a database of members' consumption history, so as to retain the cohesion of the members and their willingness to buy from the Group.

Industry Alliance

During the Period, the Company has attended summits and forums of the alliance proactively so as to keep abreast of the industry information, promote branded products construction, strengthen the Company's interaction with industry alliance and enhance its influence. Meanwhile, the Company strengthened the interaction with the Hong Kong Cross-Border E-Commerce Association and promoted the diversification of product channels and the feasibility of developing Southeast Asian markets leveraging on the national strategy of "Belt and Road".

Acquisition

On 8 June 2017, the Group entered into an agreement to acquire a forest land use right and the wild ginsengs planted in this forest land from an independent third party (the "**Acquisition**" or the "**Ginsengs Project**"). The Acquisition was completed on 21 June 2017. The forest land is located in Tonghua City, Jilin Province in the PRC.

Management Discussion and Analysis

The Group is principally engaged in the retailing and distribution of pharmaceuticals. As part of the strategies of the Group, the acquisition will help achieving the ecological merger and acquisition of resources of upstream and downstream of the medical sectors, which will be beneficial for building up the industrial chain, enhancing competitiveness and the interest of the Group as a whole. In response to the revitalization of the northeast traditional industry base proposed by the PRC Government and to facilitate the policy steer on development of forest economy, the acquisition would provide the Group with a more effective control on the sources of Chinese herbal medicines, perfect "Universal Health + Ecosystem" and open up a new income segment to the Group.

Warehouse Construction

In order to further strengthen the foundation of chain-store operation and respond to the local government's call for industrial development, the Group invested approximately RMB201.2 million in Jiamusi, Heilongjiang by the end of August 2016 with the efforts from the executive Directors, thus to establish a large-scale logistic warehouse center covering the eastern area of Heilongjiang Province, with more than 75% of works currently completed and progressed smoothly. It is expected that the completion acceptance of this project would be obtained by the end of 2017. After completion, this project will become a diversified and intensified logistic warehouse center integrated with "Business, Logistics and Information" and play an important role in optimizing distribution system of the Group.

Financial Review

For the Period, the Group recorded revenue of RMB1,332.1 million, representing a decrease of 30.0% as compared with RMB1,903.8 million for the corresponding period in 2016. Loss attributable to owners of the Company was RMB82.1 million, as compared with a profit attributable to owners of the Company of RMB85.8 million last year. Loss per share for the Period was RMB3.39 cents (2016: earnings per share RMB4.12 cents). The loss attributable to owners of the Company was resulted mainly due to the decrease in profit of the Group's retail and distribution businesses.

Revenue

For the Period, the Group recorded revenue of RMB1,332.1 million, representing a decrease of RMB571.7 million or 30.0% as compared with RMB1,903.8 million for the corresponding period in 2016. The decrease in revenue of the domestic retail and distribution businesses for the Period was mainly due to the new round of the Northeast Area Revitalization Plan in the PRC (中國東北地區振興規劃) is now in an early stage, which intensifies the competition in the pharmaceutical circulation market and affects the consuming capacity, resulting in a decrease in overall revenue of the Group.

Management Discussion and Analysis

Analysis of revenue by business segment

	Revenue (RMB million) Six months ended 30 June			Percentage (%) of total revenue Six months ended 30 June		
	2017	2016	Change (%)	**2017**	2016	Change
Retails I	**529.0**	794.0	-33.4	**39.7**	41.7	-2.0pp
Retails II	**103.6**	147.9	-30.0	**7.8**	7.8	-0.0pp
	632.6	941.9	-32.8	**47.5**	49.5	-2.0pp
Distributions	**699.5**	961.9	-27.3	**52.5**	50.5	+2.0pp
	1,332.1	1,903.8		**100.0**	100.0	

Retail Business Segment

The Group operates two retails reportable segments: retails with strategic stores ("**Retails I**") and retails consisting of non-strategic stores ("**Retails II**"). Retails I are retail business with higher future development potential and strategic focus by the Group when allocating the resources, while Retails II are retail business located in remote areas without strategic importance and high growth potential. The decrease in revenue in the retail business was mainly due to the decline of the people's purchasing power in traditional channels in the northeast China and the decrease in sales to members during the Period.

As at 30 June 2017, the Group had 936 (2016: 954) retail pharmacies in total, of which 687 (2016: 688) located in Heilongjiang, 160 (2016: 168) in Liaoning, 86 (2016: 94) in Jilin and 3 (2016: 4) self-operated retail pharmacies in Hong Kong. In addition, the Group had 6 (2016: 13) supermarkets in Shenyang as at 30 June 2017, mainly for selling healthcare products and consumer goods. The performance of all supermarkets are monitored in Retails I.

Distribution Business Segment

The sales volumes in the distribution business was decreased due to the Group continued to adopt a prudent approach in running this business. The Group 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 30 June 2017, the Group had a nationwide distribution network covering approximately 4,000 active customers (2016: 4,700), among which approximately 2,700 pharmaceutical retailers (2016: 3,400), hospitals and clinics and approximately 1,300 distributors (2016: 1,300).

Management Discussion and Analysis

Gross profit

Gross profit of the Group for the Period was RMB274.0 million, representing a decrease of RMB245.8 million or 47.3% as compared with RMB519.8 million for the corresponding period in 2016. Overall gross profit margin decreased from 27.3% to 20.6%. The decrease in gross profit margin was mainly due to the decrease in the consuming capacity of the residents in the northeastern region of China, the Group has applied various promotion measures during the Period, such as more member activities and various promotion activities to provide discounts to the customers, in order to mitigate the decrease in sales volume and to maintain relative competitiveness, which resulted in a decrease in the gross profit margin of the high-margin products as well as the change of the product mix also led to the Group's gross profit margin decreased for the Period.

Analysis of gross profit by business segment

	Gross profit (RMB million) Six months ended 30 June			Gross profit margin (%) Six months ended 30 June		
	2017	2016	Change (%)	**2017**	2016	Change
Retails I	**166.2**	304.5	-45.4	**31.4**	38.3	-6.9pp
Retails II	**33.1**	44.8	-26.1	**31.9**	30.3	+1.6pp
	199.3	349.3	-42.9	**31.5**	37.1	-5.6pp
Distributions	**74.7**	170.5	-56.2	**10.7**	17.7	-7.0pp
	274.0	519.8				

The Group's high-margin products consists of licensed products and products with exclusive distribution rights. During the Period, revenue of the Group's high-margin products decreased by 33.6% over the corresponding period in 2016 and the gross profit margin of these high-margin products decreased from 45.5% to 37.6%. As at 30 June 2017, the Group had 355 (2016: 360) types of licensed products and 2,151 (2016: 2,357) types of products with exclusive distribution rights.

Selling and marketing expenses

Selling and marketing expenses for the Period was RMB315.4 million, representing a decrease of RMB45.0 million or 12.5% as compared with RMB360.4 million for the corresponding period in 2016 and accounting for 23.7% (2016: 18.9%) of the Group's revenue. The decrease of selling and marketing expenses was mainly due to the decrease in marketing expenses in vehicle advertisement.

Management Discussion and Analysis

Administrative expenses

Administrative expenses for the Period was RMB43.9 million, representing a decrease of RMB1.5 million or 3.3% as compared with RMB45.4 million for the corresponding period in 2016 and accounting for 3.3% (2016: 2.4%) of the Group's revenue. The decrease in administrative expenses was mainly due to the management continued to optimise the cost control of the Group by introducing some cost control measures.

Finance costs/income – net

Net finance costs for the Period was RMB1.1 million (2016: Net finance income of RMB4.5 million). Net finance costs was resulted due to the increase in exchange losses for the Period.

Income tax credit/expenses

Income tax credit for the Period was RMB1.3 million, representing a decrease of RMB34.1 million or 104.0% as compared with income tax expenses of RMB32.8 million for the corresponding period in 2016. The effective income tax rate for the Period was -1.6% (2016: 27.3%).

Acquisition of the Ginsengs Project

The forest land under the Ginsengs Project is located in Tonghua City, Jilin Province in the PRC. The total consideration is valued at RMB86.9 million upon completion and the consideration is partially settled by cash consideration in the amount of RMB5.0 million (equivalent to approximately HK$5.7 million) and the balance of the consideration is settled by the issuance of the consideration shares to the transferor or its nominee(s) upon completion of the transaction contemplated under the agreement. The forest land use right will expire on 25 May 2069.

Liquidity and Capital Sources

The Company's treasury function formulated financial risk management procedures, which are also subject to periodic review by the senior management of the Company.

This treasury function operates as a centralized service for managing financial risks, including interest rate and foreign exchange rate risks, reallocating surplus financial resources within the Group, procuring cost-efficient funding and targeting yield enhancement opportunities. The treasury function regularly and closely monitors its overall cash and debt positions, proactively reviews its funding costs and maturity profiles to facilitate timely refinancing, if appropriate.

As at 30 June 2017, the Group's unpledged cash and cash equivalents totalled RMB1,003.7 million (31 December 2016: RMB1,107.3 million), and the Group's net current assets were RMB1,653.9 million (31 December 2016: RMB1,733.6 million).

During the Period, net cash flows used in operating activities amounted to RMB46.5 million, as compared to net cash flows generated from operating activities amounted to RMB199.8 million for the corresponding period in 2016. The decrease was in line with the Group's operating performance.

During the Period, the Group had capital expenditure of RMB69.1 million (2016: RMB46.9 million).

Management Discussion and Analysis

Having considered the cash flow from operating activities, existing financial gearing and banking facilities available to the Group, the management believes that the Group's financial resources are sufficient to fund its debt payments, day-to-day operations, capital expenditures and prospective business development projects.

The Group mainly operates in the PRC, with most of its transactions denominated and settled in Renminbi. The Group's currency risk arises from certain bank deposits that are denominated in Hong Kong dollars and United States dollars. As at 30 June 2017, the Group had RMB1,003.7 million in cash and bank balances of which the equivalent of RMB6.0 million was denominated in Hong Kong dollars and United States dollars.

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

Capital Structure

As at 30 June 2017, the capital structure of the Company was constituted of 2,858,137,670 ordinary shares of USD0.001 each. Details of the movements in the share capital of the Company during the Period are set out in Note 15 to the condensed consolidated interim financial information.

There was no movements in the Company's share options during the Period.

As at 30 June 2017, the Group had certain interest-bearing bank borrowings of RMB154.6 million (31 December 2016: RMB154.6 million). Bank borrowings carried annual interest rates at 2.8% (31 December 2016: 2.8%). All the bank borrowings were sourced from China and denominated in Renminbi.

The gearing ratio of the Group as at 30 June 2017, calculated as net debt divided by sum of total equity and net debt, was N/A (31 December 2016: N/A).

Contingent Liabilities and Pledge of Assets

As at 30 June 2017, the Group has no significant contingent liabilities (31 December 2016: Nil).

As at 30 June 2017, the bank borrowings and notes payable of the Group were secured by the time deposits of the Group with net aggregate booking value of RMB208.8 million (31 December 2016: RMB217.1 million).

Human Resources

As at 30 June 2017, the Group had 6,224 (2016: 6,356) full-time employees in Hong Kong, Macao and the PRC with total employee benefit expenses amounted to RMB163.9 million (2016: RMB157.9 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 of 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

Management Discussion and Analysis

perform well by linking a portion of their compensation to their performance and the overall performance of the Group. The performance-based portion depends on the employee's job function and seniority. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of China. The Company has adopted a share option scheme and a share award plan for the purpose of providing incentives to participants for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Environmental, Governance and Social Responsibility

The Group adheres to the concept of environmental protection for sustainable development. Firstly, to protect environment, the Group advocates electricity and water conservation, reduces vehicle use and waste emissions, protects natural resources and upholds the concept of harmonious development of human and nature; secondly, to optimize work environment, it spares no effort to improve the employee and employment guidelines, attaches great importance to occupational safety, development and training; thirdly, to enhance operation and management, it strengthens its supply chain management, builds a structure that combines upstream and downstream through mergers and acquisitions and focuses on the product liability and anti-corruption mechanism; fourthly, it endeavours to launch more activities for community members and promote the development of its public welfare brand "Love China" to increase its community participation and improve social welfare. At the same time, the Group does its best to strengthen corporate governance and integrate its development with public welfare, so as to fulfil its social responsibility.

Future Plan

Taking the Golden Rules as its guidelines and following the leadership of the Chairman in strategic plan, the management of the Company will: firstly stabilize and optimize the existing retail chain network and distribution system; secondly motivate and retain stakeholders from key staff of business, technology and suppliers, with its share option scheme and share incentive scheme to withstand the pressure of real economic downturn; thirdly actively establish and upgrade the three areas, namely, "Industry + Finance + Capital", and develop a platform featuring "universal health + partners (health segment)" (which refers to listed company + corporations = partners of the corporation platform – incubator; listed company + capital = partners of capital platform – accelerator; listed company + government industrial policy = partners of government guidance platform – local resources), with an aim to maintain itself as one of the industrial leaders in terms of integration and development of internet and cross-border, industry, capital and resources by facilitating the structural transformation of the Group's operation.

Report on Review of Interim Financial Information

pwc 羅兵咸永道

TO THE BOARD OF DIRECTORS OF UNIVERSAL HEALTH INTERNATIONAL GROUP HOLDING LIMITED
(incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 16 to 45, which comprises the interim condensed consolidated balance sheet of Universal Health International Group Holding Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at 30 June 2017 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 August 2017

Condensed Consolidated Balance Sheet

	Note	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	224,209	226,665
Land use rights	7	5,622	3,619
Intangible assets	8	508,699	517,681
Investments in joint ventures		8,522	8,211
Investment in an associate	9	248,204	246,624
Prepayment for construction in progress	10	28,009	25,426
Biological assets	11	84,800	–
Deferred income tax assets	12	12,896	12,862
Total non-current assets		1,120,961	1,041,088
Current assets			
Trade and other receivables	13	522,486	545,535
Inventories		357,854	391,756
Restricted cash	14	208,835	217,131
Cash and cash equivalents		1,003,677	1,107,329
Total current assets		2,092,852	2,261,751
Total assets		3,213,813	3,302,839
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	17,998	14,878
Reserves		1,607,731	1,524,900
Retained earnings		1,086,802	1,168,911
		2,712,531	2,708,689
Non-controlling interests		23,396	24,761
Total equity		2,735,927	2,733,450

Condensed Consolidated Balance Sheet

	Note	(Unaudited) As at 30 June 2017 *RMB'000*	(Audited) As at 31 December 2016 *RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	*12*	**38,912**	41,282
Current liabilities			
Borrowings	*16*	**154,550**	154,550
Trade and other payables	*17*	**284,183**	371,926
Current income tax liabilities		**241**	1,631
Total current liabilities		**438,974**	528,107
Total liabilities		**477,886**	569,389
Total equity and liabilities		**3,213,813**	3,302,839

The notes on pages 21 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Comprehensive Income

	Note	(Unaudited) Six months ended 30 June 2017 RMB'000	2016 RMB'000
Revenue	6	**1,332,076**	1,903,845
Cost of sales	18	**(1,058,102)**	(1,384,006)
Gross profit		**273,974**	519,839
Selling and marketing expenses	18	**(315,405)**	(360,367)
Administrative expenses	18	**(43,901)**	(45,374)
Other income		**892**	1,668
Other losses – net		**(1,162)**	(417)
Operating (loss)/profit		**(85,602)**	115,349
Finance income	19	**5,840**	7,192
Finance costs	19	**(6,919)**	(2,721)
Finance (costs)/income – net	19	**(1,079)**	4,471
Share of post-tax profits of joint ventures		**311**	441
Share of post-tax profit/(loss) of an associate	9	**1,580**	(59)
(Loss)/profit before income tax		**(84,790)**	120,202
Income tax credit/(expenses)	20	**1,316**	(32,803)
(Loss)/profit for the period		**(83,474)**	87,399
(Loss)/profit attributable to:			
– Owners of the Company		**(82,109)**	85,837
– Non-controlling interests		**(1,365)**	1,562
		(83,474)	87,399
(Loss)/earnings per share attributable to owners of the Company for the period (RMB cents)			
– Basic and diluted	21	**(3.39)**	4.12
Other comprehensive income/(loss)			
Item that may be reclassified to profit or loss			
Currency translation differences		**4,101**	(2,249)
Total comprehensive income for the period		**(79,373)**	85,150
Total comprehensive income attributable to:			
– Owners of the Company		**(78,008)**	83,588
– Non-controlling interests		**(1,365)**	1,562
		(79,373)	85,150

The notes on pages 21 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000 (Note 15)	Share premium RMB'000 (Note 15)	Capital reserves RMB'000	Statutory reserves RMB'000	Share-based compensation reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		(Unaudited)									
		Attributable to owners of the Company									
Balance at 1 January 2017		14,878	1,618,899	(154,447)	65,059	8,878	(13,489)	1,168,911	2,708,689	24,761	2,733,450
Comprehensive income											
Loss for the period		–	–	–	–	–	–	(82,109)	(82,109)	(1,365)	(83,474)
Other comprehensive income											
Currency translation differences		–	–	–	–	–	4,101	–	4,101	–	4,101
Total comprehensive income		–	–	–	–	–	4,101	(82,109)	(78,008)	(1,365)	(79,373)
Transaction with owners in their capacity as owners											
Issue of ordinary shares	15	3,120	78,730	–	–	–	–	–	81,850	–	81,850
Total transaction with owners in their capacity as owners		3,120	78,730	–	–	–	–	–	81,850	–	81,850
Balance at 30 June 2017		17,998	1,697,629	(154,447)	65,059	8,878	(9,388)	1,086,802	2,712,531	23,396	2,735,927
Balance at 1 January 2016		12,259	1,405,730	(154,447)	65,059	8,878	(5,551)	1,256,722	2,588,650	29,720	2,618,370
Comprehensive income											
Profit for the period		–	–	–	–	–	–	85,837	85,837	1,562	87,399
Other comprehensive loss											
Currency translation differences		–	–	–	–	–	(2,249)	–	(2,249)	–	(2,249)
Total comprehensive income		–	–	–	–	–	(2,249)	85,837	83,588	1,562	85,150
Transaction with owners in their capacity as owners											
Issue of ordinary shares		2,619	213,169	–	–	–	–	–	215,788	–	215,788
Total transaction with owners in their capacity as owners		2,619	213,169	–	–	–	–	–	215,788	–	215,788
Balance at 30 June 2016		14,878	1,618,899	(154,447)	65,059	8,878	(7,800)	1,342,559	2,888,026	31,282	2,919,308

The notes on pages 21 to 45 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Cash Flow Statement

		(Unaudited) Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash (used in)/generated from operations		**(41,907)**	231,328
Interest paid		**–**	(2,324)
Bank charges paid	*19*	**(200)**	(397)
Income tax paid		**(4,412)**	(28,780)
Net cash (used in)/generated from operating activities		**(46,519)**	199,827
Cash flows from investing activities			
Change in restricted cash	*14*	**8,296**	20,186
Interest received		**2,463**	2,714
Proceeds from disposal of property, plant and equipment		**1,447**	120
Cash consideration paid for forest land use right and wild ginsengs	*11*	**(5,000)**	–
Payment of property, plant and equipment		**(63,961)**	(19,570)
Purchase of intangible assets	*8*	**(163)**	–
Acquisition of investment in an associate		**–**	(27,288)
Net cash used in investing activities		**(56,918)**	(23,838)
Cash flows from financing activities			
Borrowings from bank	*16*	**–**	25,750
Repayments of borrowings	*16*	**–**	(19,340)
Net cash generated from financing activities		**–**	6,410
Net (decrease)/increase in cash and cash equivalents		**(103,437)**	182,399
Cash and cash equivalents at beginning of the period		**1,107,329**	1,333,320
Exchange (losses)/gains on cash and cash equivalents		**(215)**	242
Cash and cash equivalents at end of the period		**1,003,677**	1,515,961

The notes on pages 21 to 45 form an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

1. General information

Universal Health International Group Holding Limited (the "**Company**") and its subsidiaries (together the "**Group**") are principally engaged in the distribution and retail of drugs, healthcare products and other pharmaceutical products in the northeastern region of the People's Republic of China (the "**PRC**").

The Company was incorporated in the Cayman Islands on 12 March 2012, as an exempted company with limited liabilities under the Companies Law (2013 Revision) of the Cayman Islands. The address of the Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company's shares have been listed on the main board of The Stock Exchange of Hong Kong Limited since 12 December 2013.

This condensed consolidated interim financial information is presented in thousands of Renminbi ("**RMB'000**"), unless otherwise stated.

Key event during the period

On 21 June 2017, the Group acquired a forest land use right and the wild ginsengs planted in this forest land from an independent third party (the "**Acquisition**"). The forest land is located in Tonghua City, Jilin Province in the PRC. The total purchase consideration for the Acquisition is consisted of: (1) RMB5,000,000 in cash; and (2) 458,137,670 shares issued by the Company. In accordance with the relevant requirements under International Financial Reporting Standard 2 "share-based payment" ("**IFRS 2**"), the Company measured assets received under the Acquisition, and the corresponding increase in equity directly at the fair value of the assets received, being the aggregate of the fair value of the forest land use right and the wild ginsengs, at RMB86,850,000. Upon completion of the Acquisition, forest land use right and wild ginsengs are accounted for land use right and biological assets respectively in this interim financial information. Further details are given in Note 7 and Note 11.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with International Accounting Standard ("**IAS**") 34, 'Interim Financial Reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). The condensed consolidated interim financial information has been prepared on a historical cost basis, except for the biological assets which are measured at fair value less cost to sell.

3. Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except as described below and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2017.

(a) Biological assets

Biological assets are the wild ginsengs that are measured at fair value less cost to sell, see Note 5.3 and Note 11 below for further information on determining the fair value.

Notes to the Condensed Consolidated Interim Financial Information

3. Accounting policies *(continued)*

(a) Biological assets *(continued)*

Costs to sell include the incremental selling costs, including the people costs to collect and process the wild ginsengs when harvested, the estimated costs of transportation to the market, etc.

The wild ginsengs are accounted for biological assets until the point of harvest. Harvested wild ginsengs are transferred to inventory at fair value less costs to sell when harvested.

Changes in fair value of biological assets are recognised in the statement of profit or loss.

(b) Amendments to IFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(c) New and amended standards issued but not yet adopted by the Group

		Effective for annual years beginning on or after
Amendment to IFRS 1	First time adoption of HKFRS	1 January 2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transaction	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendment to IAS 28	Investments in Associates and Joint Ventures	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IFRS 4	Insurance Contracts	1 January 2018
IFRS 16	Lease	1 January 2019
Amendments to IFRS 10 and IAS 28	Sale and Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in the process of making an assessment of the impact of the new and amended standards and do not expect that the adoption of these new and amended excluding IFRS 15 Revenue from Contracts with Customers and IFRS 16 Lease will result in any material impact on the consolidated financial statements of Group.

3. Accounting policies *(continued)*

(c) New and amended standards issued but not yet adopted by the Group *(continued)*

IFRS 15, Revenue from contracts with customers

The ISAC has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- Rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

IFRS 16, Leases

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change. The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB49,296,000, see Note 23(a). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other new and amended standards that are not yet effective that would be expected to have a material impact on the Group.

Notes to the Condensed Consolidated Interim Financial Information

4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016, except for the following:

Biological assets

In determining the fair value of the wild ginsengs, significant estimates and judgements related to quantities, grading and market prices based on grading are involved in the process.

The quantities of the wild ginsengs are estimated based on a valuation report issued by an independent professional valuer using the statistical sampling method and also taking into considerations of factors related to the wild ginsengs as advised by ginsengs experts who are employed by the valuer. Based on the valuation report, the samples are selected randomly and the total quantities of the wild ginsengs are extrapolated using a normal distribution model with an acceptable deviation estimated by the Group.

The wild ginsengs grow at different grading and there can be a considerable spread in the grading that affect the prices achieved. According to the valuation report, the grading of the wild ginsengs is determined based on the laboratory test results on the samples selected by a certified institution in accordance with the standards issued by Standardization Administration of the PRC.

The quantities and the grading of the wild ginsengs cannot be measured exactly. The estimates are based on many factors that require evaluation by the ginsengs experts based on the available data, as well as the market prices and other factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the data, the expected statistic deviation as well as the expert judgement.

Notes to the Condensed Consolidated Interim Financial Information

5. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in the risk management policies.

(b) Liquidity risk factors

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

(c) Fair value estimation

The carrying amounts of the Group's financial assets, including cash, restricted cash, receivables; and financial liabilities including payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

There is no financial instrument carried at fair value as at 30 June 2017 and 31 December 2016.

Notes to the Condensed Consolidated Interim Financial Information

6. Revenue and 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 distribution and retail of drugs and other pharmaceutical products in the northeastern region of the PRC. Individual financial information and management report of the retails with strategic stores ("**Retails I**"), retails consisting of non-strategic stores ("**Retails II**"), distributions and others are presented to the Board of Directors to assess their performance and for making respective business decisions. Distributions, Retails I, Retails II and Others are considered to be four segments in accordance with IFRS 8 "Operating Segment". The "Others" segment mainly comprises investment companies.

The Group's principal market is 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 30 June 2017 and 2016. Accordingly, no geographical segment is presented.

Sales between segments are carried out at arm's length. The revenue from external customers and the costs, the total assets and the total liabilities are measured in a manner consistent with that of the Group's consolidated financial statements.

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

Notes to the Condensed Consolidated Interim Financial Information

6. Revenue and segment information *(continued)*

The segment information for the six months ended 30 June 2017 and as at 30 June 2017 is as follows:

	(Unaudited) Six months ended 30 June 2017				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue	972,597	528,987	103,555	–	1,605,139
Inter-segment revenue	(273,063)	–	–	–	(273,063)
Revenue from external customers	699,534	528,987	103,555	–	1,332,076
Adjusted EBITDA	(31,768)	(14,946)	(11,748)	(3,650)	(62,112)
Depreciation and amortisation	(6,415)	(15,310)	(1,739)	(26)	(23,490)
Finance income	3,104	2,458	275	3	5,840
Finance costs	(2,473)	(1,047)	(46)	(3,353)	(6,919)
Share of post-tax profits of joint ventures	–	311	–	–	311
Share of post-tax profit of an associate	1,580	–	–	–	1,580
Income tax (expenses)/credit	(427)	1,807	(64)	–	1,316
Loss for the period	(36,399)	(26,727)	(13,322)	(7,026)	(83,474)
Additions of non-current assets	89,295	3,571	–	10,062	102,928

	(Unaudited) As at 30 June 2017				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total assets before eliminations	2,469,541	1,767,888	63,889	1,670,544	5,971,862
Inter-segment assets	(592,484)	(625,431)	(17,070)	(1,523,064)	(2,758,049)
Total assets	1,877,057	1,142,457	46,819	147,480	3,213,813
Total liabilities before eliminations	1,190,743	711,426	42,996	188,289	2,133,454
Inter-segment liabilities	(1,011,869)	(517,654)	(39,339)	(86,706)	(1,655,568)
Total liabilities	178,874	193,772	3,657	101,583	477,886

Notes to the Condensed Consolidated Interim Financial Information

6. Revenue and segment information *(continued)*

The segment information for the six months ended 30 June 2016 and as at 31 December 2016 is as follows:

	(Unaudited) Six months ended 30 June 2016				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue	1,333,035	794,019	147,959	–	2,275,013
Inter-segment revenue	(371,168)	–	–	–	(371,168)
Revenue from external customers	961,867	794,019	147,959	–	1,903,845
Adjusted EBITDA	36,607	109,203	(828)	(6,837)	138,145
Depreciation and amortisation	(7,547)	(14,839)	(381)	(29)	(22,796)
Finance income	3,385	1,455	285	2,067	7,192
Finance costs	(2,156)	(224)	(7)	(334)	(2,721)
Share of post-tax profits of joint ventures	–	441	–	–	441
Share of post-tax loss of an associate	(59)	–	–	–	(59)
Income tax expenses	(6,604)	(25,620)	(579)	–	(32,803)
Profit/(loss) for the period	23,626	70,416	(1,510)	(5,133)	87,399
Additions of non-current assets	243,169	19,759	–	100	263,028

	(Audited) As at 31 December 2016				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total assets before eliminations	2,494,615	1,753,504	121,883	1,530,906	5,900,908
Inter-segment assets	(518,313)	(595,978)	(42,042)	(1,441,736)	(2,598,069)
Total assets	1,976,302	1,157,526	79,841	89,170	3,302,839
Total liabilities before eliminations	1,283,454	715,855	43,581	26,000	2,068,890
Inter-segment liabilities	(929,144)	(511,708)	(37,549)	(21,100)	(1,499,501)
Total liabilities	354,310	204,147	6,032	4,900	569,389

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

7. Property, plant and equipment and land use rights

	(Unaudited) Property, plant and equipment *RMB'000*	Land use rights *RMB'000*
Six months ended 30 June 2017		
Opening net book amount as at 1 January 2017	**226,665**	**3,619**
Additions	**14,024**	**2,050**
Disposals	**(2,182)**	**–**
Depreciation and amortisation *(Note 18)*	**(14,298)**	**(47)**
Closing net book amount as at 30 June 2017	**224,209**	**5,622**
Six months ended 30 June 2016		
Opening net book amount as at 1 January 2016	103,167	3,713
Additions	19,570	–
Disposals	(488)	–
Depreciation and amortisation *(Note 18)*	(12,813)	(47)
Closing net book amount as at 30 June 2016	109,436	3,666

The Group's interests in land use rights represent prepaid operating lease payments. The addition of land use right of RMB2,050,000 represents the forest land use right acquired on 21 June 2017 as described in Note 1. The forest land use right has an estimated useful life of 52 years and it is amortised on a straight-line basis over the remaining period of the lease. The rest of land use rights are located in the PRC and with the estimated lease period of 50 years.

Notes to the Condensed Consolidated Interim Financial Information

8. Intangible assets

	(Unaudited)		
	Goodwill *(Note)* *RMB'000*	**Other Intangible assets** *RMB'000*	**Total** *RMB'000*
Six months ended 30 June 2017			
Opening net book amount as at 1 January 2017	**344,220**	**173,461**	**517,681**
Additions	**–**	**163**	**163**
Amortisation charge *(Note 18)*	**–**	**(9,145)**	**(9,145)**
Closing net book amount as at 30 June 2017	**344,220**	**164,479**	**508,699**
Six months ended 30 June 2016			
Opening net book amount as at 1 January 2016	473,359	198,696	672,055
Amortisation charge *(Note 18)*	–	(9,936)	(9,936)
Closing net book amount as at 30 June 2016	473,359	188,760	662,119

Note: Management reviews the business performance and monitors the goodwill for each operating segment. The recoverable amount of all cash generating units ("**CGUs**") is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and cash flow beyond the five-year period are extrapolated using estimated growth rates. During the six months ended 30 June 2017, the Group has experienced a significant decline in revenue and profit for the period compared to the prior period and management's previous expectation due to the economic downward pressure in northeastern region of the PRC. Accordingly, the Group has revised its cash flow projections used in the value-in-use calculations to reflect the impact of the business environments. The other assumptions and methodology adopted for the preparation of the cash flow projection are consistent with those set out in the Group's annual financial statements for the year ended 31 December 2016. Based on the revised value-in-use calculations, no impairment loss is recognised for the six months ended 30 June 2017.

9. Investment in an associate

	(Unaudited) Six months ended 30 June 2017 *RMB'000*
At beginning of the period	246,624
Share of post-tax profit	1,580
At end of the period	248,204

Notes to the Condensed Consolidated Interim Financial Information

9. Investment in an associate *(continued)*

As at 30 June 2017, Jilin Wenhui is an associate of the Group, in which the Group directly own 36.38% of equity interest. Jilin Wenhui is a company incorporated in the PRC and which principal businesses comprised of manufacturing, sales and research and development of hollow capsules in the PRC. The Directors of the Company are of the view that the investment in Jilin Wenhui allows the Company to better integrate the Group's commercial and production resources in the northeastern region of PRC and leverage the advantage to achieve better efficiency and future development.

As a private company, there is no quoted market price available for its shares.

There are no commitments and contingent liabilities relating to the Group's interests in the associate, and no contingent liabilities of the associate itself.

The Group's share of the results in Jilin Wenhui and its aggregated assets and liabilities are shown below:

	(Unaudited) **As at** **30 June 2017** *RMB'000*
Current	
Cash and cash equivalents	1,791
Other current assets (excluding cash)	57,666
Total current assets	59,457
Trade and other payables	93,493
Other current liabilities	2,885
Total current liabilities	96,378
Non-current	
Intangible assets	176,470
Other non-current assets	20,479
Total non-current assets	196,949
Non-current liabilities	27,164
Total non-current liabilities	27,164
Net Assets	132,864

Notes to the Condensed Consolidated Interim Financial Information

9. Investment in an associate *(continued)*

Summarised statement of comprehensive income

	(Unaudited) **Six months ended** **30 June 2017** *RMB'000*
Revenue	30,497
Cost of sales	(15,223)
Selling and marketing expenses	(7,384)
Administrative expenses	(1,052)
Finance costs – net	(639)
Other losses	(1)
Profit before income tax	**6,198**
Income tax expense	(1,855)
Profit and total comprehensive income	**4,343**

The information above reflects the amounts presented in financial statements of the associate (and not the Group's share of those amounts). The associate has adopted accounting policies which are consistent with the Group's significant accounting policies.

10. Prepayment for construction in progress

	(Unaudited) **As at** **30 June** **2017** ***RMB'000***	(Audited) As at 31 December 2016 *RMB'000*
Prepayment for construction in progress	**28,009**	25,426

As at 30 June 2017, the Group has a further estimated capital commitment of RMB41,243,000 to be paid in year 2017 in order to complete the construction work in accordance with the total contract consideration (31 December 2016: RMB53,889,000) (Note 23(b)).

11. Biological assets

	(Unaudited) Six months ended 30 June 2017 *RMB'000*
At beginning of the period	–
Addition	84,800
Changes in fair value during the period	–
At end of the period	84,800

On 21 June 2017, the Group acquired a forest land use right and the wild ginsengs planted in this forest land from an independent third party. The forest land is located in Tonghua City, Jilin Province in the PRC. The total purchase consideration for the Acquisition is consisted of: (1) RMB5,000,000 in cash; and (2) 458,137,670 shares issued by the Company. In accordance with the relevant requirements under IFRS 2, the Company measured the assets received under the Acquisition, and the corresponding increase in equity directly at the fair value of the assets received, being the aggregate of the fair value of the forest land use right of RMB2,050,000 (Note 7) and the wild ginsengs of RMB84,800,000, at a total of RMB86,850,000. The shares issued by the Company to the vendor as part of the purchase consideration is therefore valued at RMB81,850,000 (Note 15).

The wild ginsengs are measured at fair value less costs to sell. The fair value of the wild ginsengs as of 21 June 2017 is estimated based on the valuation report issued by an independent professional valuer using the statistical sampling method and also taking into considerations of factors related to the wild ginsengs as advised by ginsengs experts who are employed by the valuer.

In determining the fair value of the wild ginsengs, significant estimates and judgements in relation to quantities, grading and market prices based on grading are involved in the process.

Valuation process

The Group has involved a team of external experts, including independent professional valuers and ginsengs experts, to perform the valuations of the Group's biological assets for financial reporting purposes, including level 3 fair values. The external experts report directly to the General Manager of Finance ("**GMF**") and the audit committee ("**AC**"). Discussions of valuation processes and results are held between the GMF, AC and external experts once every six months, in line with the Group's half-yearly reporting requirements.

Notes to the Condensed Consolidated Interim Financial Information

11. Biological assets *(continued)*

The main level 3 inputs used by the Group are derived and evaluated as follows:

- The quantities of the wild ginsengs are determined based on the statistical sampling method and also taking into considerations of other factors related to the wild ginsengs as evaluated by the ginsengs experts. As at 21 June 2017 and 30 June 2017, the Group has an estimation of 161,000 wild ginsengs in accordance with the valuation report issued by the valuer using statistic techniques with an acceptable deviation estimated by the Group.

- The wild ginsengs grow at different grading and there can be a considerable spread in the grading that affect the prices achieved. According to the valuation report, the grading of the wild ginsengs is determined based on the laboratory test results on the samples selected by a certified institution in accordance with the standards issued by Standardization Administration of the PRC.

- The prices of the wild ginsengs for different grading are quoted prices by reference to the quotations obtained from certain trading companies or pharmaceutical companies that purchase wild ginsengs in their normal business.

Changes in level 3 fair values are analysed at the end of each reporting period during the half-yearly valuation discussion between the GMF, AC and external experts. As part of this discussion the external experts presents a report that explains the reason for the fair value movements.

No significant changes in the fair value of the wild ginsengs were noticed during the period from 21 June 2017 to 30 June 2017.

Information about fair value measurements using significant inputs (Level 3):

Description	**Fair value at 30 June 2017** *RMB'000*	**Unobservable Input**	**Range of inputs (probability weighted average) 2017**	**Relationship of unobservable inputs to fair value**
Ginsengs	84,800	Selling prices at different grading	RMB500 per unit wild ginseng to RMB800 per unit wild ginseng	The higher the grading, the higher the selling price and the higher the fair value

Notes to the Condensed Consolidated Interim Financial Information

12. Deferred income tax

	(Unaudited)					
Deferred tax assets	**Accrual for employee payroll**	**Accrual for sales commission**	**Accrual for advertising fee**	**Provision**	**Tax loss**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	**9,759**	**1,304**	**550**	**349**	**900**	**12,862**
Credited to the condensed consolidated statement of comprehensive income	**(59)**	**(917)**	**–**	**–**	**1,010**	**34**
At 30 June 2017	**9,700**	**387**	**550**	**349**	**1,910**	**12,896**
At 1 January 2016	14,073	1,344	3,531	349	–	19,297
Charged to the condensed consolidated statement of comprehensive income	(1,089)	(765)	(3,052)	(349)	–	(5,255)
At 30 June 2016	12,984	579	479	–	–	14,042

Deferred tax liabilities	**(Unaudited) Deferred tax liabilities arising from business combination**
	RMB'000
At 1 January 2017	**(41,282)**
Credited to the condensed consolidated statement of comprehensive income	**2,370**
At 30 June 2017	**(38,912)**
At 1 January 2016	(46,585)
Credited to the condensed consolidated statement of comprehensive income	2,645
At 30 June 2016	(43,940)

Notes to the Condensed Consolidated Interim Financial Information

13. Trade and other receivables

	(Unaudited) As at 30 June 2017 *RMB'000*	(Audited) As at 31 December 2016 *RMB'000*
Trade receivables *(Note)*	**158,548**	165,486
Prepayments	**241,668**	259,302
Other receivables	**124,044**	122,521
Provision for impairment	**(1,774)**	(1,774)
Total	**522,486**	545,535

The carrying amounts of receivables approximate their fair values.

Note: Retail sales at the Group's pharmacies are usually made in cash or debit or credit cards. For distribution to distributors, there is no concentration of credit risk with respect to trade receivables, as the majority of the Group's sales are settled in cash on delivery of goods. The remaining amounts are with credit items of 0 day to 90 days. The ageing analysis based on recognition date of the trade receivables is as follows:

	(Unaudited) As at 30 June 2017 *RMB'000*	(Audited) As at 31 December 2016 *RMB'000*
Up to 3 months	**153,896**	152,801
4 months to 6 months	**3,626**	4,559
7 months to 12 months	**1,026**	8,126
	158,548	165,486

Notes to the Condensed Consolidated Interim Financial Information

14. Restricted cash

	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
Restricted cash	208,835	217,131

The balance of the restricted cash was secured for bank borrowings and notes payable. As at 30 June 2017, the balance of the restricted cash was consisted of: (1) RMB150,000,000 secured for bank borrowings of the Group (31 December 2016: RMB150,000,000) (Note 16); and (2) RMB58,835,000 secured for notes payable issued to the Group's suppliers (31 December 2016: RMB67,131,000) (Note 17).

15. Share capital and share premium

	Number of ordinary shares	Nominal value of ordinary shares USD
Authorised:		
Ordinary shares of USD 0.001 each		
As at 30 June 2017 and 31 December 2016	10,000,000,000	10,000,000

Issued and fully paid:

			(Unaudited) As at 30 June 2017	
	Number of ordinary shares	Nominal value of ordinary shares USD	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
At 1 January 2017	2,400,000,000	2,400,000	14,878	1,618,899
Share issued *(Note)*	458,137,670	458,138	3,120	78,730
At 30 June 2017	2,858,137,670	2,858,138	17,998	1,697,629

Notes to the Condensed Consolidated Interim Financial Information

15. Share capital and share premium *(continued)*

Issued and fully paid:

	(Audited) As at 31 December 2016			
	Number of ordinary shares	Nominal value of ordinary shares *USD*	Equivalent nominal value of ordinary shares *RMB'000*	Share premium *RMB'000*
At 1 January 2016	2,000,000,000	2,000,000	12,259	1,405,730
Share issued	400,000,000	400,000	2,619	213,169
At 31 December 2016	2,400,000,000	2,400,000	14,878	1,618,899

Note: On 21 June 2017, the Group issued 458,137,670 shares at nominal value of USD0.001 per share to the vendor as part of the purchase consideration in respect to the Acquisition as described in Note 11. The ordinary shares issued have the same right as the other shares in issue. The amount of the shares issued for the Acquisition is determined as RMB81,850,000 (Note 11), the excessive of this amount over the nominal value is recorded as share premium.

16. Borrowings

	(Unaudited) As at 30 June 2017 ***RMB'000***	(Audited) As at 31 December 2016 *RMB'000*
Current liabilities		
Short-term secured bank borrowings	**154,550**	154,550
	154,550	154,550

Notes to the Condensed Consolidated Interim Financial Information

16. Borrowings *(continued)*

Movements in borrowings are analysed as follows:

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Opening amount	**154,550**	166,920
Proceeds of new borrowings	**–**	25,750
Repayments of borrowings	**–**	(19,340)
Closing amount	**154,550**	173,330

(a) The Group's secured borrowings are secured by:

	(Unaudited) As at 30 June 2017	(Audited) As at 31 December 2016
	RMB'000	*RMB'000*
Group's assets		
– Restricted cash *(Note 14)*	**150,000**	150,000
	150,000	150,000

(b) The maturity dates of the borrowings are analysed as follows:

	(Unaudited) As at 30 June 2017	(Audited) As at 31 December 2016
	RMB'000	*RMB'000*
Within 1 year	**154,550**	154,550

(c) As at 30 June 2017 and 31 December 2016, there is no undrawn borrowing facilities of the Group.

(d) Interest expenses of borrowings for the six months ended 30 June 2017 was RMB2,134,000 (2016: RMB2,324,000) (Note 19).

Notes to the Condensed Consolidated Interim Financial Information

17. Trade and other payables

	(Unaudited) As at 30 June 2017 *RMB'000*	(Audited) As at 31 December 2016 *RMB'000*
Trade payables *(a)*	**145,687**	164,377
Notes payable *(b)*	**58,096**	66,129
Other payables	**80,400**	141,420
Total	**284,183**	371,926

(a) As at 30 June 2017, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on recognition date is as follows:

	(Unaudited) As at 30 June 2017 *RMB'000*	(Audited) As at 31 December 2016 *RMB'000*
Up to 3 months	**135,263**	156,546
4 months to 6 months	**7,658**	6,362
7 months to 12 months	**1,646**	540
1 year to 2 years	**1,120**	929
	145,687	164,377

(b) As at 30 June 2017, the entire balance of notes payable was secured by restricted cash of RMB58,835,000 (31 December 2016: RMB67,131,000) (Note 14).

Notes to the Condensed Consolidated Interim Financial Information

18. Expense by nature

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Changes in inventories	**1,052,680**	1,374,538
Employee benefit expenses	**163,926**	157,853
Advertising and other marketing expenses	**67,894**	104,448
Rental expenses	**54,517**	53,257
Transportation and related charges	**30,348**	40,369
Depreciation of property, plant and equipment *(Note 7)*	**14,298**	12,813
Amortisation of intangible assets *(Note 8)*	**9,145**	9,936
Other tax expenses	**6,374**	10,624
Office and communication expenses	**5,588**	5,090
License fee of trademarks	**4,000**	3,260
Electricity and other utility fees	**1,821**	2,032
Auditors' remuneration	**1,380**	1,600
Professional fees	**1,287**	1,660
Travelling and meeting expenses	**894**	862
Amortisation of land use rights *(Note 7)*	**47**	47
Training fees	**–**	8,424
Other expenses	**3,209**	2,934
Total	**1,417,408**	1,789,747

Notes to the Condensed Consolidated Interim Financial Information

19. Finance income and costs

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Finance income		
Interest income on bank deposits	**5,840**	4,406
Exchange gains	**–**	2,786
	5,840	7,192
Finance costs		
Exchange losses	**(4,585)**	–
Interest expenses	**(2,134)**	(2,324)
Other charges	**(200)**	(397)
	(6,919)	(2,721)
Finance (costs)/income – net	**(1,079)**	4,471

20. Income tax credit/expenses

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Current income tax		
– PRC corporate income tax	**(1,013)**	(29,770)
– Hong Kong profits tax	**(75)**	(423)
Deferred income tax credit/(charge)	**2,404**	(2,610)
Total income tax credit/(expenses)	**1,316**	(32,803)

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2017 (2016:16.5%). The subsidiaries of the Group in the PRC are subject to corporate income tax at a rate of 25% on its taxable income or deemed profit method as determined in accordance with the relevant PRC income tax rules and regulations.

Notes to the Condensed Consolidated Interim Financial Information

21. Loss/Earnings per share

(a) Basic

Basic loss/earnings per share is calculated by dividing the loss/profit for the period of six months ended 30 June attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period of six months ended 30 June, excluding ordinary shares purchased under the Share Award Plan.

	(Unaudited) **Six months ended 30 June**	
	2017	2016
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(82,109)**	85,837
Weighted average number of ordinary shares in issue *(thousands)*	**2,425,311**	2,083,516
Basic (loss)/earnings per share *(RMB cents)*	**(3.39)**	4.12

(b) Diluted

As there were no dilutive potential ordinary shares outstanding for the six months ended 30 June 2017 and 2016, the diluted loss/earnings per share for the periods is equal to basic loss/earnings per share.

22. Dividend

No interim dividend was declared for the six months ended 30 June 2017 (2016: nil).

Notes to the Condensed Consolidated Interim Financial Information

23. Commitments

(a) Operating lease commitments

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between one and ten years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
No later than 1 year	42,894	74,715
Later than 1 year and no later than 5 years	6,402	35,925
Total	49,296	110,640

(b) Capital commitments

The Group has the following investment commitments not provided for:

	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
Warehouse construction	41,243	53,889

24. Related-party transactions

Related parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The transactions with related parties are carried out on pricing and settlement terms agreed with counter parties in the ordinary courses of business.

Notes to the Condensed Consolidated Interim Financial Information

24. Related-party transactions *(continued)*

(a) Transactions with related parties

	(Unaudited) Six months ended 30 June 2017 RMB'000	2016 RMB'000
Sales of goods	**1,955**	2,936
Operating lease	**1,500**	1,500

(b) Balances with related parties

	(Unaudited) As at 30 June 2017 RMB'000	(Audited) As at 31 December 2016 RMB'000
Trade receivables	**396**	474
Prepayment of rental expenses	**–**	1,500

Note: Other receivables from related parties were unsecured in nature and bear no interest.

(c) Key management compensation

Key management includes directors (executive and non-executive), members of the Executive Committee, the Company Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services is shown below:

	(Unaudited) Six months ended 30 June 2017 RMB'000	2016 RMB'000
Salaries, wages and bonuses	**1,502**	1,964
Contributions to pension plans	**62**	81
	1,564	2,045

Other Information

Corporate Governance

The Company has complied with the code provisions as set out in the Corporate Governance Code (the "**CG Code**") and Corporate Governance Report contained in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") throughout the Period except for a deviation from code provision A.2.1 of CG Code.

Under code provision A.2.1 of CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. For the period from 23 March 2017 to date of this report, despite the responsibilities of the chairman and the chief executive officer of the Company vested in Mr. Jin Dongtao, all major decisions are made in consultation with the Board. The Board considers that there is sufficient balance of power; and the current corporate arrangement maintains a strong management position of the Company.

Save as the deviation from the code provision A.2.1 of the CG Code, in the opinion of the Directors, the Company has complied with all code provisions as set out in the CG Code throughout the six months ended 30 June 2017 and, where appropriate, the applicable recommended best practices of the CG Code.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code throughout the Period.

Purchase, Sale or Redemption of The Company's Listed Securities

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

Review of Interim Results by Audit Committee

The audit committee of the Company is comprised of three independent non-executive Directors, namely Ms. Hao Jia (Chairman) (resigned on 20 July 2017), Mr. Zou Haiyan (Chairman) (appointed on 20 July 2017), 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 procedure and financial reporting, risk management and internal control systems of the Company. The Audit Committee had reviewed the unaudited interim results of the Group for the Period.

PricewaterhouseCoopers, the independent auditor of the Company, has reviewed but not audited the Group's interim results for the Period in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

Other Information

Changes to Information in Respect of Directors

There was no change in Directors' biographical details since the date of the 2016 annual report of the Company and the announcement of the Company headed "Change of Directors and Composition of Audit Committee" issued on 20 July 2017 which are required to be disclosed pursuant to Rules 13.51B(1) and 13.51(2) of the Listing Rules.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2017, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of Interest	Number and class of Shares	Approximate percentage of shareholding
Jin Dongtao	Founder of a discretionary trust *(Notes 1 & 2)*	960,014,953 (Long Position)	33.59%
	Beneficial owner *(Note 3)*	3,368,000 (Long Position)	0.12%
	Interest of Spouse *(Note 3)*	1,434,000 (Long Position)	0.05%
Zhao Zehua	Beneficial owner	1,434,000 (Long Position)	0.05%

Notes:

1) Mr. Jin Dongtao is the settlor, protector and a beneficiary of a discretionary trust pursuant to a trust deed dated 6 November 2013 with Credit Suisse Trust Limited acting as trustee (the "**Family Trust**"), which holds the entire issued share capital of Global Health Century International Group Limited ("**Global Health**") through 1969 JT Limited. Global Health holds the entire issued share capital of Asia Health Century International Inc. ("**Asia Health**"), which holds 960,014,953 Shares in the Company.

Other Information

2) 398,000,000 Shares out of the 960,014,953 Shares are only rights of first refusal derived from the agreement in respect of a disposal of Shares entered into between Zhongrong International Alternative Asset Management Limited as purchaser and Asia Health as vendor dated 28 January 2016.

3) 1,434,000 Shares were held by Ms. Chen Xiaoyan, the spouse of Mr. Jin Dongtao. Accordingly, Mr. Jin Dongtao is deemed to be interested in such 1,434,000 Shares and Mr. Jin is beneficially interested in 3,368,000 Shares.

Save as disclosed above, as at 30 June 2017, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2017, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	**Capacity/Nature of interest**	**Number of Shares**	**Approximate percentage of shareholding**
Chen Xiaoyan	Interest of spouse *(Notes 1 to 2)*	963,382,953 (Long Position)	33.71%
	Beneficial owner	1,434,000 (Long Position)	0.05%
Asia Health Century International Inc.	Beneficial owner *(Notes 1 to 2)*	960,014,953 (Long Position)	33.59%
Global Health Century International Group Limited	Interest of corporation controlled by the substantial shareholder *(Notes 1 to 2)*	960,014,953 (Long Position)	33.59%
1969 JT Limited	Interest of corporation controlled by the substantial shareholder *(Notes 1 to 2)*	960,014,953 (Long Position)	33.59%

Other Information

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Tenby Nominees Limited	Nominee *(Notes 1 to 2)*	960,014,953 (Long Position)	33.59%
Brock Nominees Limited	Nominee *(Notes 1 to 2)*	960,014,953 (Long Position)	33.59%
Credit Suisse Trust Limited	Trustee *(Notes 1 to 2)*	960,014,953 (Long Position)	33.59%
Lu Baocai	Interest of corporation controlled by the substantial shareholder *(Note 3)*	458,137,670 (Long Position)	16.03%
Elite Grand Holdings Limited	Beneficial owner *(Note 3)*	458,137,670 (Long Position)	16.03%
Di Hongying	Interest of corporation controlled by the substantial shareholder *(Note 4)*	275,000,000 (Long Position)	9.62%
Integrity Stars Limited	Beneficial owner *(Note 4)*	275,000,000 (Long Position)	9.62%
Wu Qiaofeng	Interest of corporation controlled by the substantial shareholder *(Note 5)*	242,585,182 (Long Position)	8.49%
	Beneficial Owner	1,516,000 (Long Position)	0.05%
Dragon Ocean Development Ltd.	Interest of corporation controlled by the substantial shareholder *(Note 5)*	242,585,182 (Long Position)	8.49%
ZR International Holding Company Limited	Interest of corporation controlled by the substantial shareholder *(Note 5)*	242,585,182 (Long Position)	8.49%
Zhongrong International Alternative Asset Management Limited	Beneficial owner *(Note 5)*	242,585,182 (Long Position)	8.49%

Other Information

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
BlackMarble Capital Limited	Person having a security interest in shares *(Note 6)*	148,529,000 (Long Position)	5.20%
Lerado Group (Holding) Company Limited	Interest of corporation controlled by the substantial shareholder *(Note 6)*	148,529,000 (Long Position)	5.20%
Lerado Group Limited	Interest of corporation controlled by the substantial shareholder *(Note 6)*	148,529,000 (Long Position)	5.20%
Wonder Time Holdings Limited	Interest of corporation controlled by the substantial shareholder *(Note 6)*	148,529,000 (Long Position)	5.20%

Notes:

1) Mr. Jin Dongtao is the settlor, protector and a beneficiary of the Family Trust, which holds the entire issued share capital of Global Health through 1969 JT Limited. Ms. Chen Xiaoyan, who is Mr. Jin Dongtao's spouse, is also a beneficiary of the Family Trust. Global Health holds the entire issued share capital of Asia Health, which holds 960,014,953 Shares in the Company.

2) 398,000,000 Shares out of the 960,014,953 Shares are only rights of first refusal derived from the agreement in respect of a disposal of shares of the Company entered into between Zhongrong International Alternative Asset Management Limited as purchaser and Asia Health as vendor dated 28 January 2016.

3) Mr. Lu Baocai holds entire issued share capital of Elite Grand Holdings Limited, which holds 458,137,670 Shares in the Company.

4) Ms. Di Hongying holds entire issued share capital of Integrity Stars Limited, which holds 275,000,00 Shares in the Company.

5) Mr. Wu Qiaofeng, ultimately holds 242,585,182 Shares in the Company through Dragon Ocean Development Ltd., ZR International Holding Company Limited and Zhongrong International Alternative Asset Management Limited.

6) Lerado Group (Holding) Company Limited, which holds entire issued share capital of Lerado Group Limited, which holds entire issued share capital of Wonder Time Holdings Limited, and in turn holds entire issued share capital of BlackMarble Capital Limited, which directly holds security interest in 148,529,000 Shares in the Company.

Save as disclosed above, as at 30 June 2017, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

Other Information

Share Option Scheme

The Company's share option scheme (the "**Scheme**") was approved for adoption on 18 November 2013 for the purpose to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to contribute for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company, as well as for such other purposes as the Board may approve from time to time. The Scheme remains in force for a period of 10 years until 17 November 2023. Details of the Scheme are set out in the published annual report of the Company for the year ended 31 December 2016.

No options were granted under the Scheme since the adoption of the Scheme.

Share Award Plan

The Company adopted the share award plan (the "**Share Award Plan**") on 23 April 2014. The purposes of the Share Award Plan are to recognise the contributions by eligible persons to the Group and to provide them with incentives in order to retain them for continual operation and development of the Group and to attract suitable personnel for further development of the Group.

An aggregate of 16,993,000 shares had been granted without consideration to an aggregate of 13 grantees under the Share Award Plan since its inception. As at 30 June 2017, the trustee of the Share Award Plan did not hold any shares under the Share Award Plan, and no share has been granted during the Period.

Interim Dividend

The Board did not declare any interim dividend for the six months ended 30 June 2017 (2016: nil).

Other Information

Use of Proceeds From Share Offer

The shares of the Company were listed on 12 December 2013 on the Main Board of the Stock Exchange. The total net proceeds amounted to approximately RMB868.1 million (equivalent to approximately HK$1,101.6 million). As at 30 June 2017, the net proceeds from the initial public offering were used for purposes which were consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 2 December 2013 and as set out below:

Use of proceeds	**Net proceeds**	**Proceeds used**	**Proceeds unused**
		RMB million	
For acquisitive expansion	347.2	(347.2)	–
For organic growth	260.4	(260.4)	–
For brand promotion	173.6	(173.6)	–
For working capital	86.9	(86.9)	–
Total	868.1	(868.1)	–