大健康
UNIVERSAL HEALTH

UNIVERSAL HEALTH INTERNATIONAL GROUP HOLDING LIMITED
大健康國際集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2211)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

ANNUAL RESULTS HIGHLIGHTS

	2016	2015	Change
	RMB Million	*RMB Million*	*(%)*
Revenue	**3,378.7**	4,805.9	-29.7
Gross profit	**874.1**	1,340.6	-34.8
Operating (loss)/profit	**(79.9)**	97.2	-182.2
(Loss)/profit for the year	**(87.3)**	33.9	-357.8
Basic (loss)/earnings per share – RMB cents	**(3.92)**	1.57	-349.7
Gross margin (%)	**25.9**	27.9	-2.0pp
Operating (loss)/profit margin (%)	**(2.4)**	2.0	-4.4pp
Net (loss)/profit margin (%)	**(2.6)**	0.7	-3.3pp

The board (the "**Board**") of directors (the "**Directors**") of Universal Health International Group Holding Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2016 (the "**Period**") together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	*2*	**3,378,719**	4,805,855
Cost of sales	*3*	**(2,504,633)**	(3,465,280)
Gross profit		**874,086**	1,340,575
Selling and marketing expenses	*3*	**(727,197)**	(986,418)
Administrative expenses	*3*	**(91,620)**	(148,108)
Goodwill impairment	*3*	**(129,139)**	(108,899)
Other income		**2,641**	678
Other losses – net		**(8,643)**	(643)
Operating (loss)/profit		**(79,872)**	97,185
Finance income	*4*	**18,715**	15,476
Finance costs	*4*	**(5,762)**	(6,876)
Finance income – net	*4*	**12,953**	8,600
Share of post-tax profits of joint ventures		**691**	1,066
Share of post-tax profit of an associate		**3,548**	–
(Loss)/profit before income tax		**(62,680)**	106,851
Income tax expenses	*5*	**(24,638)**	(72,977)
(Loss)/profit for the year		**(87,318)**	33,874
(Loss)/profit attributable to:			
– Owners of the Company		**(87,811)**	31,163
– Non-controlling interests		**493**	2,711
		(87,318)	33,874
(Loss)/earnings per share attributable to owners of the Company for the year *(RMB cents)*			
– Basic and diluted	*6*	**(3.92)**	1.57
Other comprehensive income			
Item that may be reclassified to profit or loss			
Currency translation differences		**(7,938)**	(5,551)
Total comprehensive income for the year		**(95,256)**	28,323
Total comprehensive income attributable to:			
– Owners of the Company		**(95,749)**	25,612
– Non-controlling interests		**493**	2,711
		(95,256)	28,323

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2016	2015
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**226,665**	103,167
Land use rights		**3,619**	3,713
Intangible assets		**517,681**	672,055
Investments in joint ventures		**8,211**	7,520
Investment in an associate		**246,624**	–
Prepayment for construction in progress		**25,426**	–
Deferred income tax assets		**12,862**	19,297
Total non-current assets		**1,041,088**	805,752
Current assets			
Trade and other receivables	*8*	**545,535**	442,853
Inventories		**391,756**	398,605
Restricted cash		**217,131**	227,414
Cash and cash equivalents		**1,107,329**	1,333,320
Total current assets		**2,261,751**	2,402,192
Total assets		**3,302,839**	3,207,944
EQUITY			
Equity attributable to owners of the Company			
Share capital		**14,878**	12,259
Reserves		**1,524,900**	1,319,669
Retained earnings		**1,168,911**	1,256,722
		2,708,689	2,588,650
Non-controlling interests		**24,761**	29,720
Total equity		**2,733,450**	2,618,370

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**41,282**	46,585
Current liabilities			
Borrowings		**154,550**	166,920
Trade and other payables	*9*	**371,926**	373,464
Current income tax liabilities		**1,631**	2,605
Total current liabilities		**528,107**	542,989
Total liabilities		**569,389**	589,574
Total equity and liabilities		**3,302,839**	3,207,944

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (IFRS) and requirement of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

IFRS 14	Regulatory Deferred Accounts
Amendments to IFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 27	Equity Method in Separate Financial Statements
Annual Improvement Project	Annual Improvements 2012-2014 Cycle
Amendments to IFRS 10, IFRS 12 and IAS 28	Investments Entities: Applying the Consolidation Exception
Amendments to IAS 1	Disclosure Initiative

The adoption of the new and amended standards did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

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

A number of new and amended standards are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. The Group will apply the new and amended standards when they become effective. The Group is in the process of making an assessment of the impact of the new and amended standards and do not expect that the adoption of these new and amended standards excluding IFRS 16 Lease will result in any material impact on the consolidated financial statements of the Group.

		Effective for annual years beginning on or after
Amendments to IAS 7	Statement of Cash Flows	1 January 2017
Amendments to IAS 12	Income Taxes	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 10 and IAS 28	Sale and Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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:

- Accounting for certain costs incurred in fulfilling a contract - certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and

- 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 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

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 RMB110,640,000. 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.

2. 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 distributions and retails of drugs and other pharmaceutical products in the northeastern region of the People's Republic of China (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 comprise 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 years ended 31 December 2016 and 2015. 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 earnings before interests, tax, depreciation and amortisation ("**Adjusted EBITDA**"). The measurement basis of Adjusted EBITDA excludes the effect of share of post-tax profits of joint ventures, share of post-tax profit of an associate, share base payment expenses and goodwill impairment.

The segment information for the year ended 31 December 2016 and as at 31 December 2016 is as follows:

	Year ended 31 December 2016				
	Distributions	**Retails I**	**Retails II**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	**2,419,426**	**1,398,558**	**259,468**	**–**	**4,077,452**
Inter-segment revenue	**(698,733)**	**–**	**–**	**–**	**(698,733)**
Revenue from external customers	**1,720,693**	**1,398,558**	**259,468**	**–**	**3,378,719**
Adjusted EBITDA	**1,193**	**109,700**	**(2,420)**	**(12,275)**	**96,198**
Depreciation and amortisation	**(14,322)**	**(31,554)**	**(997)**	**(58)**	**(46,931)**
Finance income	**7,434**	**3,753**	**414**	**7,114**	**18,715**
Finance costs	**(4,629)**	**(755)**	**(40)**	**(338)**	**(5,762)**
Share of post-tax profits of joint ventures	**–**	**691**	**–**	**–**	**691**
Share of post-tax profit of an associate	**3,548**	**–**	**–**	**–**	**3,548**
Goodwill impairment	**(25,426)**	**(103,713)**	**–**	**–**	**(129,139)**
Income tax expenses	**2,309**	**(25,417)**	**(1,530)**	**–**	**(24,638)**
Loss for the year	**(29,893)**	**(47,295)**	**(4,573)**	**(5,557)**	**(87,318)**
Additions of non-current assets	**396,307**	**30,432**	**–**	**112**	**426,851**

	As at 31 December 2016				
	Distributions	**Retails I**	**Retails II**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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 segment information for the year ended 31 December 2015 and as at 31 December 2015 is as follows:

	Year ended 31 December 2015				
	Distributions	Retails I	Retails II	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	3,477,557	2,025,678	350,787	–	5,854,022
Inter-segment revenue	(1,007,935)	(38,960)	(1,272)	–	(1,048,167)
Revenue from external customers	2,469,622	1,986,718	349,515	–	4,805,855
Adjusted EBITDA	53,314	241,386	19,299	(24,440)	289,559
Depreciation and amortisation	(14,451)	(27,996)	(1,101)	(122)	(43,670)
Finance income	4,721	3,240	223	7,292	15,476
Finance costs	(1,975)	(4,337)	(517)	(47)	(6,876)
Share of post-tax profits of joint ventures	–	1,066	–	–	1,066
Share base payment expenses	–	–	–	(39,805)	(39,805)
Goodwill impairment	–	–	(108,899)	–	(108,899)
Income tax expenses	(12,762)	(55,193)	(5,022)	–	(72,977)
Profit/(loss) for the year	28,847	158,166	(96,017)	(57,122)	33,874
Additions of non-current assets	3,196	5,603	–	26	8,825

	As at 31 December 2015				
	Distributions	Retails I	Retails II	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets before eliminations	2,029,389	1,901,592	170,782	1,349,148	5,450,911
Inter-segment assets	(614,231)	(415,816)	(21,061)	(1,191,859)	(2,242,967)
Total assets	1,415,158	1,485,776	149,721	157,289	3,207,944
Total liabilities before eliminations	785,785	711,540	49,006	48,691	1,595,022
Inter-segment liabilities	(415,605)	(507,798)	(39,569)	(42,476)	(1,005,448)
Total liabilities	370,180	203,742	9,437	6,215	589,574

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 asset.

3. EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Changes in inventories	**2,488,673**	3,439,429
Employee benefit expenses	**321,359**	332,513
Advertising and other marketing expenses	**217,341**	502,640
Provision for impairment of goodwill	**129,139**	108,899
Rental expenses	**108,969**	103,444
Transportation and related charges	**76,439**	91,461
Depreciation of property, plant and equipment	**27,619**	23,376
Amortisation of intangible assets	**19,218**	20,200
Other tax expenses	**18,149**	25,692
Office and communication expenses	**10,935**	13,142
Training fee	**8,466**	6,330
License fee of trademarks	**7,260**	6,500
Auditors' remuneration		
– Audit services	**4,531**	4,531
– Non-audit services	**–**	796
Electricity and other utility fees	**4,471**	5,841
Professional fees	**3,387**	9,183
Travelling and meeting expenses	**1,832**	1,713
Amortisation of land use rights	**94**	94
Provision for impairment of inventories	**–**	2,675
Other expenses	**4,707**	10,246
	3,452,589	4,708,705

4. FINANCE INCOME AND COSTS

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income		
Exchange gains	**9,263**	7,096
Interest income on bank deposits	**9,452**	8,380
	18,715	15,476
Finance costs		
Interest expense on loans	**(5,098)**	(6,144)
Other charges	**(664)**	(732)
	(5,762)	(6,876)
Finance income – net	**12,953**	8,600

5. INCOME TAX EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax – PRC corporate income tax	**23,506**	84,434
Deferred income tax	**1,132**	(11,457)
Total income tax expenses	**24,638**	72,977

The difference between the actual taxation charge in the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(62,680)**	106,851
Tax calculated at a PRC statutory tax rate of 25%	**(15,670)**	26,713
Tax effects of:		
– Expenses not deductible for tax purpose *(Note)*	**31,144**	31,281
– Tax losses for which no deferred income tax asset was recognised	**6,985**	5,089
– Effect of different applicable tax rates for certain subsidiaries	**3,239**	10,161
– Results of joint ventures and an associate reported net of tax	**(1,060)**	(267)
Income tax expenses	**24,638**	72,977

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2016. The subsidiaries of the Group in 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.

Note:

Expenses not deductible for tax purpose for the years ended 31 December 2016 and 2015 are mainly related to goodwill impairment.

6. (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchase under the Share Award Plan.

	Year ended 31 December	
	2016	2015
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(87,811)**	31,163
Weighted average number of ordinary shares in issue *(thousands)*	**2,242,623**	1,983,193
Basic (loss)/earnings per share *(RMB cents)*	**(3.92)**	1.57

(b) Diluted

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

As there were no dilutive potential ordinary shares outstanding for the years ended 31 December 2016 and 2015, the diluted earnings per share for the years is equal to basic earnings per share.

7. DIVIDENDS

No final dividends were declared in respect of the years ended 31 December 2016 and 2015. No interim dividend was declared for the six months ended 30 June 2016. The interim dividend paid in 2015 was RMB24,593,000 (HK1.5 cents per share), which excluded the dividend of RMB211,000 related to the shares held for the purpose of the Share Award Plan for the six months ended 30 June 2015.

8. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables *(Note)*		
– Due from third parties	**165,012**	248,207
– Due from related parties	**474**	469
	165,486	248,676
Prepayments		
– Prepayments to third parties	**209,082**	56,776
– Tax input credits	**48,720**	51,245
– Prepayments to related parties	**1,500**	1,500
	259,302	109,521
Other receivables		
– Loans granted to third parties	**105,000**	–
– Deposits	**9,109**	10,907
– Interest receivable	**1,504**	–
– Due from related parties	**–**	67,517
– Others	**6,908**	8,006
	122,521	86,430
Trade and other receivables	**547,309**	444,627
Less: Provision for impairment	**(1,774)**	(1,774)
Trade and other receivables – net	**545,535**	442,853

The carrying amounts of trade and other 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 sales, 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 to 90 days. The ageing analysis based on recognition date of the trade receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Up to 3 months	**152,801**	229,920
4 to 6 months	**4,559**	5,813
7 to 12 months	**8,126**	12,943
	165,486	248,676

9. TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables *(a)*		
– Due to third parties	**164,377**	184,541
	164,377	184,541
Notes payable *(b)*	**66,129**	94,662
Other payables	**141,420**	94,261
Total	**371,926**	373,464

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Up to 3 months	**156,546**	183,468
4 to 6 months	**6,362**	1,051
7 to 12 months	**540**	1
1 year to 2 years	**929**	21
	164,377	184,541

(b) As at 31 December 2016, the entire balance of notes payable was secured by restricted cash of RMB67,131,000 (2015: RMB77,414,000).

10. SUBSEQUENT EVENTS

The Group has entered into a memorandum with independent third parties (the "**Seller**") in relation to the acquisition of 51% equity interest in a company established in the PRC, which is principally engaged in retail business in northeastern region of the PRC. Subsequent to the year end, the conditions of the acquisition in the memorandum have been fulfilled. A sale and purchase agreement ("**SPA**") will be signed between the Group and the Seller subject to the determination of purchase consideration is finalised. As at the date that the consolidated financial statements are approved, the transaction contemplated under the memorandum has not been completed.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The frequent emergence of “Black Swan” events, such as Britain leaving the European Union and Donald Trump was elected as the president of the United States, complicated the global economy in 2016. Amid global political and economic vulnerability, the economy remained stable and healthy growth in China with the overall characteristics of stability and moving forward steadily, maintaining its GDP growth 6.5% above.

From the perspective of domestic demand, the active fiscal policy strength was enhanced and the real estate and infrastructure investment growth was accelerated; private investment remained weak. From the perspective of external demand, international organizations lowered global economic growth forecast for several times. China’s foreign trade growth rate was significantly lower than expected. Moreover, under the government of Donald Trump in the United States, China’s exports may continue to face downward pressure.

As to the pharmaceutical industry, 2016 was a year full of opportunities and challenges and the starting year for China to implement the “13th Five-Year” strategic planning nationwide. In 2016, the new national medical reform entered into its critical stage of the merging of pharmaceuticals, medical treatment and medical insurance. It is also a critical year for Chinese drug circulation enterprises to enter into a new stage of transformation and upgrading.

On the one hand, industry policies were implemented intensively and the brand promotion environment increasingly fragmented; on the other hand, science and technology was subverting the pharmaceutical industry, fans and internet celebrity economics emerged, bringing revolutionary influence on all of the pharmaceutical industry chains. Thus, the pharmaceutical industry was making adjustments around the interests of consumers.

According to China’s National Bureau of Statistics, from January 2016 to November 2016, the national industrial enterprises above designated size achieved a total profit of RMB6,033.41 billion, representing a year-on-year increase of 9.4%, and an increase of 0.8 percentage point of the growth rate compared with January 2016 to October 2016. Among them, the pharmaceutical manufacturing industry achieved an operation income of RMB2,506.87 billion (representing a year-on-year increase of 9.7%) and a total profit of RMB265.13 billion (representing a year-on-year increase of 15.3%).

In the first three quarters of 2016, the size of the drug circulation market experienced a steady growing, with slight rebounds. Data showed that from the first quarter to the third quarter, the total sales of national seven major types of pharmaceutical products reached RMB1,368.6 billion (including tax), if net of non-comparable factors, representing a year-on-year increase of 10.7% and an increase of 0.3 percentage point of growth rate, of which, the total sales for the pharmaceutical retail market reached RMB280.6 billion, representing an increase of 8.9% and an increase of 0.7 percentage point of growth rate.

Among them, in the first three quarters, direct reporting drug circulation enterprises (1,100 enterprises) achieved an operation income of RMB985.1 billion (excluding tax), if net of non-comparable factors, representing a year-on-year increase of 11.6%, with a growth rate remained unchanged from the same period last year and a profit of RMB16.5 billion, if net of non-comparable factors, representing a year-on-year increase of 11.0% and an increase of 1.7 percentage points of growth rate, with an average profit rate of 1.7%, slightly increased compared with the growth recorded in the same period of last year; with an average gross margin of 6.9%, representing a year-on-year increase of 0.1 percentage point; and with an average cost rate of 5.6%, representing a year-on-year increase of 0.3 percentage point.

In terms of policy, in February 2016, the government issued the "Outlines of the Strategic Planning of Development of Traditional Chinese Medicine in 2016 – 2030" and put forward to improve the ability of traditional Chinese medicine treatment services, vigorously develop the services of traditional Chinese medicine based health care, push on the inheritance of the traditional Chinese medicine in a down-to-earth manner, make efforts to drive the innovation of traditional Chinese medicine, comprehensively enhance the development level of traditional Chinese medicine industry, vigorously carry forward the culture of traditional Chinese medicine, and actively advance overseas development of traditional Chinese medicine.

On 20 February 2016, China Food and Drug Administration (the "**CFDA**") released the Announcement on Moratorium of the Implementation of the No. 1 Announcement of 2015 on the Relevant Provisions of the Electronic Drug Supervision and decided to suspend the implementation of the relevant provisions of drug electronic supervision provided in the "Announcement on the Full Implementation of Related Electronic Drug Supervision Matters by Pharmaceutical Production and Operation Enterprises (2015 No. 1)" released by the CFDA.

On 26 April 2016, the General Office of the State Council published the Working Priorities for Deepening Pharmaceuticals and Health System Reform in 2016 to make it clear that the provinces chosen to be the comprehensive medical reform pilots were required to carry out the "Two Invoices System" within the provinces, and encourage hospitals to directly make settlements of drug payments with drug production enterprises, while the drug production enterprises making settlements of the distribution costs with the distribution companies, for the purpose of reducing the circulation links of drugs and achieving transparency of the prices added in between to further abate the speculation of drug and reduce the public medical burden.

On 25 October 2016, the State Council issued the "Outlines of Healthy China 2030 Planning", which highlighted three key elements. The first one was prevention. The second one was adjustment and optimization of the health service system. The third one was the "Construction and Sharing for Achieving Universal Health" as a strategic theme, so as to achieve universal health. The issue of "Healthy China" planning clearly pointed out the directions for the establishment of the pattern of the universal health. In the future, a social health consensus on prevention will be formed to replace the current medical approach which relies on treatment. At the same time, this will also have a significant impact on the pharmaceutical industry.

On 9 January 2017, the Medical Reform Office of the State Council along with the National Health and Family Planning Commission and other 8 departments jointly published the "Notice on the Opinions on Implementation of Advancement of "Two Invoices System" in the Drug Procurement of the Public Medical Institutions (Trial)", in which, the public medical institutions were required to advance "Two Invoices System" in drug procurement, namely, when the drugs were sold from the production enterprises to the circulation enterprises, only one instance of invoices needed to be issued; when the drugs were sold from the circulation enterprises to the medical institutions, only one instance of invoices needed to be issued. In this Notice, the provinces (areas, cities) chosen to be comprehensive medical reform pilots and the public medical institutions in cities chosen to be the public hospitals reform pilots were required to take the lead in the implementation of the "Two Invoices System" and other areas were encouraged to implement the "Two Invoices System". The implementation scope of the "Two Invoices System" will further expand in 2017. And efforts will be made to implement such "Two Invoices System" nationwide in 2018.

Currently, the State Council has published the "13th Five-Year" Deepening Pharmaceuticals and Health System Reform Planning (the "**Planning**") to deploy to accelerate the establishment of basic medical and health system in line with national conditions and advance the modernization of the pharmaceuticals and health governance system and governance capacity. In this Planning, improvement in the concentration of pharmaceutical industry circulation was mentioned for many times, and backbone enterprises of the drug circulation industry were encouraged to play a greater role in industrial integration.

2017 will not only be an important year for the implementation of the "13th Five-Year" planning, but also the year for deepening the structural reform of the supply side. The central economic work conferences pointed out that the general working guideline for progress while maintaining stability to establish and implement the new concept of development; and to adapt to, grasp on and lead the norm of new economic development, and promote stable and healthy economic development and harmonious and stable society.

2017 will also be the year for implementation of the pharmaceutical industry policy. It is expected that the government will continue to intensify the implementation and promotion of the "Two Invoices System" in drug procurement of the public medical institutions. In the process to further deepen the implementation of the policy, national and regional pharmaceutical circulation leading enterprises will usher in long-term sustainable development and further improve the industry concentration.

IMS Health, an international information consulting platform, tends to be cautious in its prediction of China's pharmaceutical market growth in the next few years. It is expected that, from 2016 to 2020, China's pharmaceutical market will grow 6.9%. But China's ageing population will intensify and obesity population increase. This will drive medical rigid demand to rise. By 2040, the proportion of China's population over the age of 60 is expected to reach 28% of the total national population. The annual medical expenses of the people over the age of 65 will be 3 times of that of the young adults. The aged society's demand for medical resources will be huge. The prospects of the development of universal health areas is still bright.

BUSINESS REVIEW

During the Period, under the leadership of Mr. Jin Dongtao, the Chairman, and with the efforts from the management and all our employees, the Group solidly implemented the operation and management of traditional chain stores and distribution network and actively addressed the effect from the economic downturn on the Group's business. The Group has established upstream and downstream vertical ecosystem and universal health horizontal ecosystem through interaction and promotion of the "Internet + Universal Health" and mergers and acquisitions of capsules manufacturing companies. Leveraging on Chinese Medicine Law of the People's Republic of China and the benefit from "revitalizing old industrial bases in Northeastern China", the Group has put "Industry Chain of Traditional Chinese Medicine" into the strategic scope, actively prospected new industrial model, fostered increasing new drivers and built 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 Company, 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 Company made appropriate promotion in its distribution system, and continued to select and safeguard distributors, providing training and follow-up work, fully implementing the policy of "Two Invoices System" and increasing interaction with distributors to seize historical opportunities and endeavor to mitigate the downward impact of the macro environment. During the Period, the Group held 7 associations in total with strategic cooperation of distribution system, but subject to the development environment of real economy, the Group's sale revenue of distribution business decreased by 30.3% as a whole from RMB2,469.7 million last year to RMB1,720.7 million for the Period.

Chain Retail Business

During the Period, the Group stepped up training efforts in developing salesman of the retail chain system, proactively transforming the mode of thinking, strengthening the development and assessment of incentive mechanisms, demonstrating enthusiasm, initiative and creativity in regional management, and at the same time, made appropriate input in promotion so as to restrain the downward impact arising from the real economy. The Group has continued to integrate with the "Internet +" mode and made intensive efforts to advance precise marketing and membership activities so as to enhance membership cohesion and maintain membership's loyalty. 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 close 17 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 937 stores in total including 658 strategic stores (2015: 675 strategic stores) at the end of the Period and 279 non-strategic stores (2015: 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 29.0% as a whole from RMB2,336.2 million in 2015 to RMB1,658.0 million in 2016.

Direct supply and sales model

The Group's direct supply model effectively eliminated and reduced the traditionally heavily overlapped sales process, as well as simplified the supply chain to improve the sales efficiency and profitability and provide 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 take all necessary actions to safeguard the direct supply of branded products.

Branded Products Operation

Branded products were important tool for the Group to defense the effect from operation efficiency downturn. During the Period, the Company continued to maintain original pattern of the operation of branded products and build a multi-layer upstream network consisting of Original Equipment Manufacturers ("**OEM**") products, domestic brand products and international brand products. Apart from products under Yushi brand, there are 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 2,672 branded products in total for the benefit of the Company's development in the operation, of which included 355 licensed products and 2,317 products that we have obtained exclusive distribution rights.

Brand Promotion

Brand promotion and marketing were powerful weapons to strengthen influence and enhance competitiveness of the Company. 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, we media of WeChat as well as charity, taking advantage of the Group's resource and network. Therefore, appropriate promotional costs were invested in the operation to deal with uncertainties resulting from economic downturn.

Institute Training

Taken the lead in establishing business institute in the industry is an important characteristic that the Group develop rapidly and acquire high margin. During the Period, the Group continued to enhance its external and internal training activities. External training mainly focused on the continuous output of branded products, while the internal training focused on the extension of management concepts 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 match the business operation. During the Period, the Company held 108 internal trainings in total.

Membership Service

During the Period, branches of the Company worked to strengthen membership activities and offered continuous membership benefits or rewards during shops and holiday celebrations. Moreover, social value-added services were offered in various aspects. For example, the provision of shelters for the cold in winter and lost children, and order records facilitating the retrieval of individual member's consumption information so as to continue to enhance the membership cohesion and degree of voluntary consumption.

Industry Alliance

During the Period, the Company has enhanced the level of participation in industry alliance. Chief Executive Officer attended summits and forums of the alliance in person so as to master the industry information, promote branded products construction, strengthen the Company's interaction and exchange in 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 the development of market in southeast Asia leveraging on the strategy of "One Belt One Road".

Strategic Mergers and Acquisitions

During the Period, the Company merged and acquired of 36.38% shares of Jilin Wenhui Capsules Limited* (吉林文輝膠囊有限公司) ("**Jilin Wenhui**") through the issuance of 400,000,000 shares of the Company and partial payment in cash as consideration. As part of the Group's strategy, the realization of ecological mergers and acquisitions for upstream and downstream resources played a positive role in promoting enterprise competitiveness, improving the bargaining power of OEM of branded products, increasing the level of gross margin, improving the overall interests of the Group and underpinning the "Internet +" and internationalization strategy. The mergers and acquisitions help integrating commercial and production resources of the Group and give full play to advantages of pharmaceutical industry in northeast China across the country in developing an upstream capsule industrial park base, so as to bring new momentum for the Group's future development.

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 Province by the end of August 2016 with the effort from the executive Directors, thus to establish a large-scale logistic warehouse center covering the eastern area of Heilongjiang province, with more than 50% of works 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 plays an important role in optimizing distribution system of the Group.

FINANCIAL REVIEW

During the Period, the Group recorded revenue of RMB3,378.7 million, representing a decrease of 29.7% as compared with RMB4,805.9 million last year. Loss attributable to owners of the Company was RMB87.8 million, as compared with a profit attributable to owners of the Company of RMB31.2 million last year. Loss attributable to owners of the Company was arisen mainly due to a decrease in sales volume of the Group and the provision for the impairment of goodwill amounted to RMB129.1 million which arose from acquiring retail businesses and distribution businesses in the previous years. Loss per share for the Period was RMB3.92 cents (2015: earnings per share RMB1.57 cents).

Revenue

For the Period, the Group recorded revenue of RMB3,378.7 million, representing a decrease of RMB1,427.2 million or 29.7% as compared with RMB4,805.9 million last year. The decrease in revenue of the domestic retail and distribution businesses for the Period was mainly due to the market remains weak as a result of the continuous downturn of the real economy.

Analysis of revenue by business segment

	Revenue (RMB million)			Percentage (%) of total revenue		
	2016	2015	Changes (%)	**2016**	2015	Changes
Retails I	**1,398.5**	1,986.7	-29.6	**41.4**	41.3	+0.1pp
Retails II	**259.5**	349.5	-25.8	**7.7**	7.3	+0.4pp
	1,658.0	2,336.2	-29.0	**49.1**	48.6	+0.5pp
Distributions	**1,720.7**	2,469.7	-30.3	**50.9**	51.4	-0.5pp
	3,378.7	4,805.9		**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 the north-east China and more intense competition with the competitors resulted in the price adjustments during the Period. As at 31 December 2016, the Group had 937 (2015: 954) retail pharmacies in total, of which 688 (2015: 688) located in Heilongjiang, 160 (2015: 168) in Liaoning, 86 (2015: 94) in Jilin and 3 (2015: 4) self-operated retail pharmacies in Hong Kong. Among them, 658 (2015: 675) retail pharmacies were strategic stores and 279 (2015: 279) were non-strategic stores. In addition, the Group had 13 (2015: 16) supermarkets in Shenyang as at 31 December 2016, mainly selling healthcare products and consumer goods. The performance of all supermarkets are monitored in Retails I.

Distribution Business Segment

The sales in the distribution business decreased due to the Group continued to adopt a more prudent approach in running this business. The Group took appropriate actions to mitigate credit risks by strengthen the credit management of sales and minimising trade receivables in order to lower the risk of bad debts.

As at 31 December 2016, the Group had a nationwide distribution network covering approximately 6,400 active customers (2015: 5,800), including approximately 4,500 pharmaceutical retailers (2015: 4,000), hospitals and clinics and approximately 1,900 distributors (2015: 1,800).

Gross profit

Gross profit of the Group for the Period was RMB874.1 million, representing a decrease of RMB466.5 million or 34.8% as compared with RMB1,340.6 million last year. Overall gross profit margin decreased from 27.9% to 25.9%. The decrease in gross profit margin was mainly due to a change of product mix and an increase in inventory cost. During the Period, on one hand, the Group has applied various promotion measures and made price adjustments for some products to maintain relative competitiveness; on the other hand, upstream suppliers were in the peak period for the Certification of the Good Manufacture Practice of Medical Products, increasing the cost of purchase, which resulted in a decrease in the gross margin of the Group for the Period.

Analysis of gross profit by business segment

	Gross profit (RMB million)			Gross profit margin (%)		
	2016	2015	Changes *(%)*	**2016**	2015	Changes
Retails I	**502.0**	744.9	-32.6	**35.9**	37.5	-1.6pp
Retails II	**93.6**	135.7	-31.0	**36.1**	38.8	-2.7pp
	595.6	880.6	-32.4	**35.9**	37.7	-1.8pp
Distributions	**278.5**	460.0	-39.5	**16.2**	18.6	-2.4pp
	874.1	1,340.6				

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 35.6% over last year and the gross profit margin of these high-margin products decreased from 47.1% to 40.3%. As at 31 December 2016, the Group had 355 (2015: 360) types of licensed products and 2,317 (2015: 2,386) types of products with exclusive distribution rights.

Selling and marketing expenses

Selling and marketing expenses for the Period was RMB727.2 million, representing a decrease of RMB259.2 million or 26.3% as compared with RMB986.4 million last year and 21.5% (2015: 20.5%) of the Group's revenue. The decrease in selling and marketing expenses was mainly due to change of focus in marketing strategy. During the Period, the Group reduced the resources in TV advertising.

Administrative expenses

Administrative expenses for the Period was RMB91.6 million, representing a decrease of RMB56.5 million or 38.1% as compared with RMB148.1 million last year and 2.7% (2015: 3.1%) of the Group's revenue. The decrease in administrative expenses was mainly due to no share incentives during the Period while there was a one-off share-based payment in 2015.

Impairment of goodwill

Management reviewed the business performance based on types of businesses. The Group's goodwill were attributed to the acquisitions in distribution and retail business in prior years. Accordingly, goodwill were allocated to distribution and retail segments.

The Group will continue the prudent practice in the traditional retail and distribution businesses in order to hedge the impact of the macro economic environment. For this reason, the Group has made a provision for the impairment of goodwill arising from acquiring retail businesses and distribution businesses in the previous years. Based on the result of impairment test at the operating segment level, the Group made a provision for goodwill impairment in Retails I and Distributions of RMB103.7 million and of RMB25.4 million respectively, totally accounted for 3.8% of the revenue of the Group. In the year 2015, the Group made a provision of goodwill impairment amounted to RMB108.9 million and accounted for 2.3% of the revenue of the Group.

Finance income – net

Net finance income for the Period was RMB13.0 million, representing an increase of RMB4.4 million or 50.6% as compared with RMB8.6 million last year. The increase was due to the increase in exchange gains and the decrease in interest expenses for the Period.

Income tax expenses

Income tax expense for the Period was RMB24.6 million, representing a decrease of RMB48.4 million or 66.2% as compared with RMB73.0 million last year. The effective income tax rate for the Period was 39.3% (2015: 68.3%).

Acquisition of an associate

On 9 May 2016, the Company entered into an agreement with an independent third party, pursuant to which the Company acquired 36.38% of equity interest of Jilin Wenhui by a combination of cash and the issuance of 400,000,000 consideration shares. On 24 May 2016, issue of consideration shares was completed. Subsequent to the completion, Jilin Wenhui became an associate of the Group.

For further details, please refer to the announcement of the Company dated 9 May 2016.

LIQUIDITY AND CAPITAL RESOURCES

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

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

As at 31 December 2016, the Group's unpledged cash and cash equivalents totaled RMB1,107.3 million (2015: RMB1,333.3 million), and the Group's net current assets were RMB1,733.6 million (2015: RMB1,859.2 million).

During the Period, net cash flows generated from operating activities amounted to RMB35.3 million, as compared to RMB46.3 million last year. The decrease was in line with the Group's operating performance.

During the Period, the Group had capital expenditure of RMB132.2 million (2015: RMB23.3 million).

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 31 December 2016, the Group had RMB1,107.3 million in cash and bank balances of which the equivalent of RMB7.2 million was denominated in Hong Kong dollars and United States dollars.

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

CAPITAL STRUCTURE

As at 31 December 2016, the capital structure of the Company was constituted of 2,400,000,000 ordinary shares of USD0.001 each.

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

As at 31 December 2016, the Group had certain interest-bearing bank borrowings of RMB154.6 million (2015: RMB166.9 million). Bank borrowings carried annual interest rates at 2.8% (2015: 3.6%). All the bank borrowings were sourced from China and denominated in Renminbi.

The gearing ratio of the Group as at 31 December 2016, calculated as net debt divided by sum of total equity and net debt, was N/A (2015: N/A).

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2016, the Group has no significant contingent liabilities (2015: Nil).

As at 31 December 2016, the bank borrowings and notes payable of the Group were secured by the time deposits of the Group with net aggregate booking value of RMB217.1 million (2015: RMB227.4 million). As at 31 December 2016, the notes payable by the Group were secured by the time deposits of the Group with net aggregate booking value of RMB67.1 million (2015: RMB77.4 million).

HUMAN RESOURCES

As at 31 December 2016, the Group had 6,226 (2015: 6,220) full-time employees in Hong Kong and the PRC with total employee benefit expenses amounted to RMB321.4 million (2015: RMB332.5 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 incentivise its employees to perform well by linking a portion of their compensation to their performance and the overall performance of the Group. The performance-based portion depends on the employee's job function and seniority. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of China. 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.

FUTURE PLAN

The management of the Company will take the Golden Rules as its guidelines, follow the leadership of the Chairman in strategic plan, stabilize and optimize the existing retail chain network and distribution system and strive for breakthrough and integration advantages in the development of cross-border e-commerce, "Future Store" and universal health industry fund, respectively. During the transitional period of economic transformation lasting one to two years or even more, the Company has adopted the multilateral cooperation by employing the "Sharing Rule" and continues to take a leading position in Chinese medicine industry chain and industrial merger and acquisition. The details are as follow:

Reform the Institutional Mechanism and Promote Sharing Rule

Sharing Rule is a component of the Golden Rules, is an important clue that spans through each platform. In the phase of business repositioning, we should attach more importance to the value created by strategic cooperation. Internally, the management of "Profit Center" may be deemed as "Profit Creating Partners" and the management of "Expense Center" as "Economy Partners"; externally, take the "Projects Cooperation System" and "Company's Share Consolidation" as the cooperation basis with upstream suppliers, e-commerce providers and financial project providers. Taking the brand and network advantages of the Company and creating new profit growth point by developing dominate projects, the Company realized the transformation and upgrade of a new development mode – "Industry + Finance + Capital".

Aim at Industry Chain of Traditional Chinese Medicine ("TCM"), and Foster a New Industrial Ecosphere

By leveraging on the opportunity of TCM legislation and a new round of rejuvenation in the old industrial base in the northeast part of the PRC, development of under-forest economy in the northeast China was further advanced. In such case, planting typical traditional Chinese medicinal materials under forest in the northeast China was policy-supported by government at all levels. The Company will definitely seize this historical opportunity to develop the business of planting traditional Chinese medicinal materials under forest as and when appropriate, involving in extraction, processing and marketing by virtue of the Group's own multi-layer network. The Group strives to join in or develop a future platform dealing with Chinese medicinal materials so as to explore new profit growth opportunity.

Promote the Construction of Future Store, and Cultivate New Business Model

The Company develops the "Future Store" network. The "Future Store" means the integration of real business and virtual channel on the backdrop of internet age through Online-to-Offline ("**O2O**") model, thus to form the trinity structure (multi-framework cloud e-mall) with "E-mall", "Industry O2O" and "WeChat-Marketing", which integrates the shopping terminals comprising online and offline communication, including site experience, online selecting and purchasing, mobile payment, store pick-up or logistics and post-delivery. The features of "Future Store" are asset-light, low cost, focusing on experience, low inventory and high capacity. "Future Store" has more flexibility as it can use the existing chain store network and also develop the community network.

Plan for Universal Health Industry Fund, and Explore Financial and Capital Advantages

The Company strives to establish universal health industry fund to combining industry and finance. "Healthy China" has become the PRC's state strategy, which renders the universal health industry an accelerated development phase supported by the following three engines: First, domestic potential demand for health care and medical treatment increased due to ageing population and pollution; Second, the raising health awareness of the public increased health care expenditures; Third, the government policy promoted the construction of "Healthy China". The establishment of the universal health industry fund, through professional operation to seek suitable universal health enterprises, could reserve high-quality objects for merger and acquisition for the Company and lay a foundation for the Company to further expand in the universal health field by investment and education.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2016 (2015: Nil).

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 13 June 2017 to Friday, 16 June 2017, both days inclusive, in order to determine the identity of the shareholders of the Company (the "**Shareholders**") who are entitled to attend the forthcoming annual general meeting to be held on Friday, 16 June 2017. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Monday, 12 June 2017.

USE OF PROCEEDS FROM SHARE OFFER

The shares of the Company were listed on 12 December 2013 (the "**Listing Date**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The total net proceeds amounted to RMB868.1 million (equivalent to approximately HK$1,101.6 million). As at 31 December 2016, 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 12 December 2013 (the "**Prospectus**") and for the following purposes:

Use of proceeds	**Net Proceeds**	**Proceeds used in**	**Proceeds unused**
		RMB Million	
For acquisitive expansion	347.2	(347.2)	–
For organic growth	260.4	(212.3)	48.1
For brand promotion	173.6	(173.6)	–
For working capital	86.9	(82.1)	4.8
Total	868.1	(815.2)	52.9

As at 31 December 2016, the unused net proceeds were placed with banks in the PRC as short-term deposits or term deposits.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the Period. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") is comprised of three Directors, namely Ms. Hao Jia (chairman), Mr. Cheng Sheung Hing and Ms. Chiang Su Hui Susie. The main duties of the Audit Committee are to examine, review and monitor the financial data and financial reporting procedure of the Group, and overseeing the Group's financial reporting system, risk management and internal control systems. The Audit Committee had reviewed the audited annual results of the Group for the Period.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft audited consolidated financial statements for the year ended 31 December 2016. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

During the Period, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PUBLICATION OF THE ANNUAL RESULTS AND 2016 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange and the Company, and the 2016 annual report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.uhighl.com) in due course.

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

Hong Kong, 23 March 2017

As at the date of this announcement, the Board comprises four executive directors, namely, Mr. Jin Dongtao, Mr. Jin Dongkun, Mr. Zhao Zehua and Mr. Sun Libo and three independent non-executive directors, namely, Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Ms. Hao Jia.

* *Denotes English translation of the name of a Chinese entity is provided for identification purpose only.*