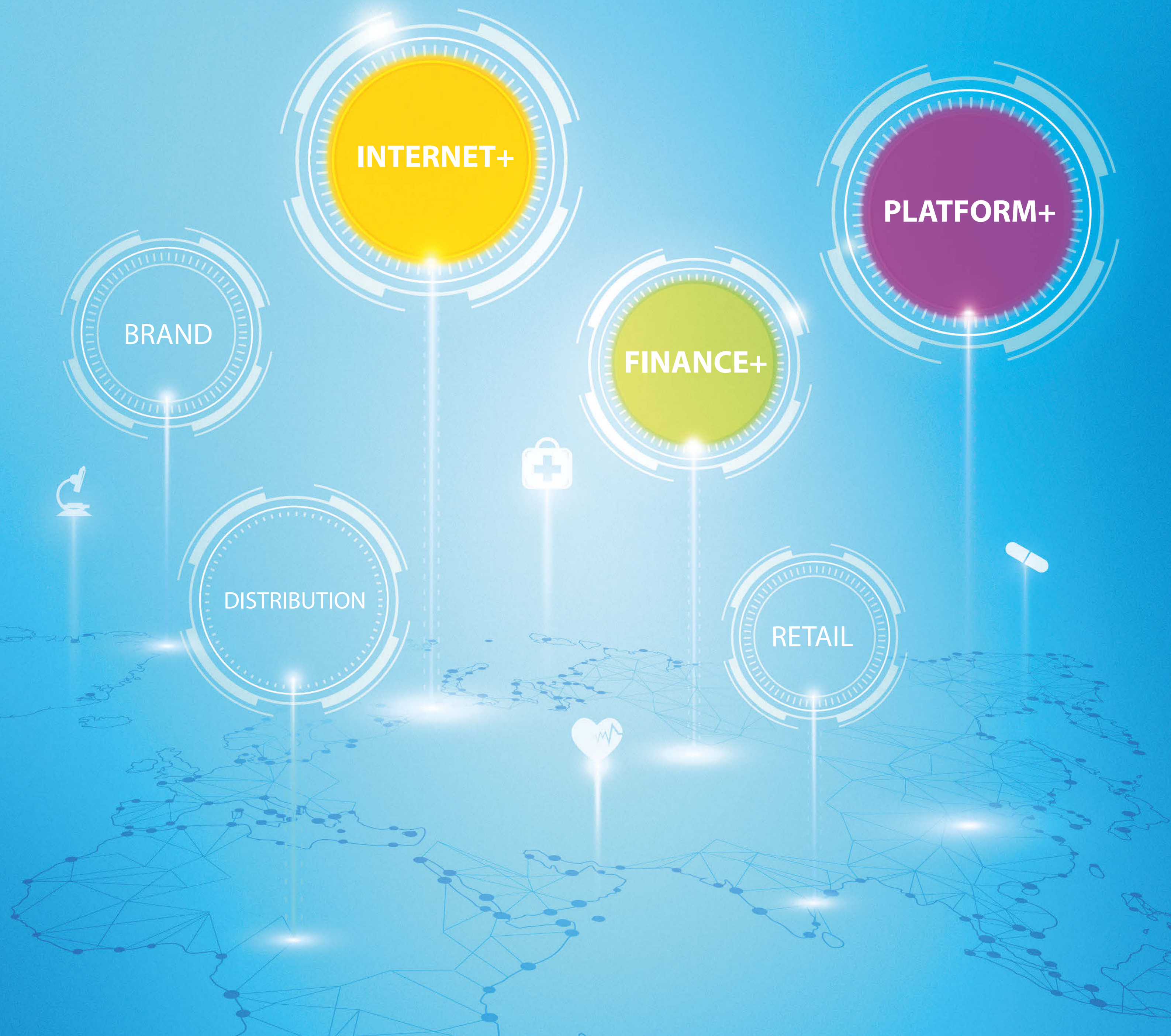
UNIVERSAL HEALTH

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2211



INTERIM REPORT 2018/19

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Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Jin Dongtao *(Chairman and Chief Executive Officer)*
Mr. Jin Dongkun *(Vice Chairman)*
Mr. Zhao Zehua
Mr. Sun Libo

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie
Mr. Zou Haiyan

AUDIT COMMITTEE

Mr. Zou Haiyan *(Chairman)*
Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Ge Junming
Mr. Zhao Zehua

COMPANY SECRETARY

Mr. Ge Junming

REGISTERED OFFICE

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

HEADQUARTERS

No. 14-1
Bei Yi Zhong Road
Tiexi District
Shenyang City
Liaoning Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2404, 24th Floor
World-Wide House
19 Des Voeux Road
Central
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

Mazars CPA Limited

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

	Unit	Six months ended 31 December 2018 (Unaudited)	2017 (Unaudited)	Change
Revenue	*RMB million*	**1,368.9**	1,348.0	+1.6%
Gross profit	*RMB million*	**187.7**	204.4	-8.2%
Operating loss	*RMB million*	**(123.5)**	(475.0)	+351.5
Loss for the period	*RMB million*	**(114.5)**	(474.3)	+359.8
EBITDA[1]	*RMB million*	**(111.3)**	(153.6)	+42.3
Basic loss per share[2]	*RMB cents*	**(3.68)**	(16.47)	+12.79
Gross margin	*%*	**13.7**	15.2	-1.5pp
Operating loss margin	*%*	**(9.0)**	(35.2)	+26.2pp
Net loss margin	*%*	**(8.4)**	(35.2)	+26.8pp

	Unit	As at 31 December 2018 (Unaudited)	As at 30 June 2018 (Audited)	Change
Current ratio[3]	*times*	**5.0**	5.4	-0.4
Trade receivables turnover[4]	*days*	**27.5**	23.1	+4.4
Inventory turnover[5]	*days*	**46.6**	57.2	-10.6
Trade payables turnover[6]	*days*	**25.3**	26.6	-1.3

Notes:

1. EBITDA is calculated by adjusting loss before interests, tax, depreciation and amortisation, excluding the effect of share of post-tax results of joint ventures and an associate, share-based payment expenses and impairment loss on goodwill.

2. Basic loss per share is calculated by dividing loss attributable to owners of the Company by weighted average number of ordinary shares (the weighted average number of shares of the Company for the six months ended 31 December 2018 was 3,040,538,000, versus 2,858,138,000 for the corresponding period in 2017).

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 31 December 2018 (the "**Period**").

Industry Overview

In 2018, the global economy has maintained its moderate growth with a slowdown in momentum. The major economies showed a significant divergence in growth momentum, inflation level and monetary policy. The continuous interest rate hike by the Federal Reserve Board led to large capital outflow from emerging economies, which caused continuous volatility in the financial market. A series of policies and measures introduced by the United States in 2018 also contributed to the changes in global economic growth, international financial market and international trade practices.

The People's Republic of China (the "**PRC**" or "**China**") experienced a continuous slowdown in economic growth in 2018. The government has flexibly adopted easing policies to slacken the pace of economic slowdown. According to the preliminary data from the National Bureau of Statistics of China, the PRC recorded an accumulated GDP of RMB65,089.9 billion for the first three quarters of 2018, representing a year-on-year increase of 6.7% for the first three quarters and, with a year-on-year increase of 6.5% for the third quarter, being the lowest quarterly growth rate of China since the global financial crisis in 2008.

According to the data from National Bureau of Statistics of the PRC, the national industrial enterprises above designated size in the PRC achieved a total profit of RMB6,116.88 billion from January to November 2018, representing a year-on-year increase of 11.8%, and a decrease of 1.8 percentage points of the growth rate compared with January to October 2018. Among the industries, the pharmaceutical manufacturing industry achieved an operating income of RMB2,245.7 billion (representing a year-on-year increase of 12.8%) and a total profit of RMB282.2 billion (representing a year-on-year increase of 8.4%). Due to spring influenza, price rise in active pharmaceutical ingredients and other factors, the pharmaceutical manufacturing industry recorded a faster growth during the first quarter in 2018 while its growth slowed down during the second and third quarters in 2018. The industry showed a decreasing growth rate after reaching a relatively high figure in early 2018, achieving steady growth in general over the year.

Management Discussion and Analysis

Reviewing the past year, pressures from medical insurance premium control, tender price cuts and other policies led to a low growth rate for the pharmaceutical industry. In addition, the conflict between China and the United States, the vaccine scandal and other factors brought mixed prospects to the development of the pharmaceutical industry. The development of the pharmaceutical industry is heavily dependent on the government policies. A number of policies introduced in the second half of 2018 have far-reaching implications for the healthcare and pharmaceutical markets.

On 10 October 2018, the National Medical Security Administration (the "**National Medical Security Administration**") issued "Notice on the Inclusion of 17 Anti-cancer Drugs into Class B of Drug Catalogue for Basic Medical Insurance, Work-Related Injury Insurance, and Maternity Insurance" (《關於將17種抗癌藥納入國家基本醫療、工傷保險和生育保險藥品目錄乙類範圍的通知》). On 29 November 2018, the National Medical Security Administration further issued "Notice on Effectively Adopting the 17 Anti-cancer Drugs Priced by Negotiation for National Medical Insurance" (《關於做好17種國家醫保談判抗癌藥執行落實工作的通知》) with the relevant authorities, requiring all areas to ensure that fees for drugs priced by negotiation shall be paid by the end of November 2018 as stipulated. The fees for drugs priced by negotiation are not limited by the range of total amount for medical institutions.

On 25 October 2018, the National Health Commission of the PRC (the "**National Health Commission**") issued "Notice on Issuing the National Catalogue of Essential Drugs (2018 Edition)" (《關於印發國家基本藥物目錄(二零一八年版)的通知》) on its official website. The number of essential drugs in the revised catalogue increases from 520 to 685. It also highlights the attributes of essential drugs, i.e. being necessary for clinical practices with determinate therapeutic effect. The revision of the catalogue focuses on cancer, pediatric disease and chronic disease. The National Health Commission will next promote the use of monitoring and comprehensive evaluation for drugs, as well as establishing a dynamic adjustment mechanism for the national catalogue of essential drugs.

On 15 November 2018, the full text of "Document on Centralized Procurement of Drugs in 4+7 Cities" (《4+7城市藥品集中採購文件》) was released. On 17 December 2018, the selection results of centralized procurement in 4+7 cities were announced. 25 varieties (involving 32 specifications) were selected with total procurement amount of RMB1.895 billion for 11 cities. The unexpected decrease in centralized procurement aroused great dissatisfaction among members of the pharmaceutical industry, which would have significant impact on the future of the pharmaceutical industry, especially, generic drugs.

New policies launched frequently may reshape the industry. In the future, due to the implementation and national promotion of policies such as procurement with pre-determined quantity, as well as the peaking of the economic growth of the United States, the uncertainty of the trade conflict between China and the United States, the rising global debt burden and the Chinese economy undergoing the key stage of "major adjustment", it is expected that the pharmaceutical industry will continue to face further pressure. However, driven by the ageing population of China, the higher consumption power of residents and the structural adjustment of medical insurance payment system, the pharmaceutical industry remains a sector with remarkable growth prospect in China.

Management Discussion and Analysis

Business Review

Under the leadership of Mr. Jin Dongtao, the chairman of the Group (the "**Chairman**"), and with the efforts of all employees, the Group has been actively promoting the development of traditional physical retail chain stores and distribution network while facing intensive competition. Meanwhile, the Group also endeavored to explore new business model.

The Golden Rules (王道哲學)

The Golden Rules, an operation philosophy with strategic vision, is put forward by Mr. Jin Dongtao, the Chairman, of which "王" is embodied as "1+1=1, 1+1=11, 1+1=101, 1+1=王, 1+1=田". The Golden Rules advocates "Team-work" cooperation spirit, "Platform" for multilateral cooperation, "Empathy" at multi-level and multi-dimension, "Sharing" win-win cooperation strategy and "Partnership" of seeking common development.

Chain Retail Business

During the Period, the Group committed to issue-specific management, continued to keep the division of strategic stores and non-strategic stores and conducted reasonable adjustments in line with the market competition and development. During the Period, 44 stores have been closed in due course. As such, the Group had 873 stores in total at the end of the Period, including 603 strategic stores (as at 30 June 2018: 648 strategic stores) and 270 non-strategic stores (as at 30 June 2018: 269 non-strategic stores). The sales revenue of retail business decreased by 1.1% as a whole from RMB642.1 million for the corresponding period in 2017 to RMB635.1 million for the Period.

Nationwide Distribution Business

During the Period, the Group had over 4,200 distribution customers and 5 large-scale distribution hubs. The Group made appropriate promotion in its distribution system, and continued to optimise screening and maintaining of quality distributors and held 5 associations in total with strategic cooperation distributors. The Group's sales revenue of distribution business increased by 4.0% as a whole from RMB705.9 million for the corresponding period in 2017 to RMB733.8 million for the Period.

Direct-supply and Sales Model

The Group's direct-supply model effectively addressed the issue of traditional heavily overlapped sales process, as well as simplified the supply chain to improve sales efficiency and profitability and provided a higher profit margin from the high-margin products of the Group. Meanwhile, the marketing model advanced to accord with the "Two Invoices System" carried out by the Chinese government, the Group was subject to minor effect of the 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 model covered 29 provinces in China.

Management Discussion and Analysis

Branded Products Operation

The Group continued to maintain its operational pattern of its original branded products and adjusted the brand structure according to its actual operational requirements to eliminate certain non-applicable products and add new products, so as to maintain the competitiveness of its original branded products and, on the other hand, increase the influence of its new branded products. There were 1,252 branded products in total for the benefit of the Group in operation, of which included 607 licensed products and 645 products that we had obtained exclusive distribution rights.

Warehouse Construction

The Group has set up five large-scale logistics distribution centers in Shijiazhuang, Shenyang, Changchun, Harbin and Jiamusi, and has established a high-quality distribution system radiating across the whole country and covering the northeastern region of the PRC. The logistics warehouse center in Jiamusi, Heilongjiang Province is a large-scale pharmaceutical and diversified commodity distribution logistics warehouse center integrated with "Business, Logistics and Information" in the eastern area of Heilongjiang Province and play an important role in optimising distribution system of the Group and hence providing a solid foundation for the industrial upgrading of the logistic park.

Brand Promotion

With traditional advantages in continuous brand promotion and marketing, the Group strengthened the influence and competitiveness of the Company and mitigated the further decline in operating performance. During the Period, the 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 and WeChat. In addition, the Group has participated in the charity to enhance the reputation of the Company and practice its corporate social responsibilities.

Institute Training

During the Period, according to the characteristics of new era, new economy, new technology and new retail, the Group continued to optimise the training activities of the institute and made best use of the business institute on the Group's business development, talent nurturing and public welfare promotion. Moreover, the Group maintained the advantage of taking the lead in establishing business institute in the industry, strengthened its cohesion as well as enhanced and transformed the mode of thinking of employees in response to the transformation and upgrade of the Company's business. During the Period, the Company held 81 internal trainings in total.

Management Discussion and Analysis

Membership Service

During the Period, the Group had provided follow-up services and promotion benefits to over 1.6 million offline members to enhance their sense of affiliation and positivity while boosting their loyalty and improving the healthy image of the Company. Meanwhile, the Group had provided social value-added services in various aspects, such as the provision of public toilets, cold shelters and lost children service centres and the launch of "Love China" public welfare activities, with a view to build up the Group's corporate image.

Industry Alliance

During the Period, the Company had proactively participated in the alliance activities, the Chairman, vice chairman and chief operating officer attended the tours and forums organised by the alliance on behalf of the Group, to seize the theme of era development, keep abreast of the industry information, promote development of branded products, strengthen the Company's interaction and exchange with industry alliance and enhance the Group's influence. Meanwhile, leveraging on the China's national strategic guidance of "Healthy China (健康中國)", "Beautiful China (美麗中國)", "Belt and Road (一帶一路)" and "Guangdong-Hong Kong-Macao Greater Bay Area (粵港澳大灣區)", the Company leveraged on its experience and focused on technological innovation for further transformation and upgrade of the Company's business.

Disposal of a Subsidiary

On 2 October 2018, Heilongjiang Jintian Aixin Pharmaceutical Distribution Co., Ltd. (黑龍江省金天愛心醫藥經銷有限公司), a wholly-owned subsidiary of the Group, entered into a share transfer agreement with Ms. Cao Lijuan (曹麗娟) ("**Ms. Cao**"), who was a non-controlling shareholder of Hegang Ji Shi Tang Pharmacy Chain Co., Ltd. (鶴崗市濟世堂醫藥連鎖零售有限公司), pursuant to which the Group agreed to sell and Ms. Cao agreed to purchase 51% equity interests of Hegang Ji Shi Tang Pharmacy Chain Co., Ltd. (鶴崗市濟世堂醫藥連鎖零售有限公司) (the "**Disposal**"), at a total consideration of RMB7.5 million. The completion of the Disposal took place on 9 October 2018, details are set out in Note 18 to the condensed consolidated interim financial statements.

Management Discussion and Analysis

Financial Review

For the Period, the Group recorded overall revenue of RMB1,368.9 million, representing an increase of 1.6% as compared with RMB1,348.0 million for the corresponding period in 2017. Loss attributable to owners of the Company was RMB112.0 million while loss attributable to owners of the Company was RMB470.8 million for the corresponding period in 2017. Loss per share for the Period was RMB3.68 cents (for the six months ended 31 December 2017: RMB16.47 cents).

Revenue

For the Period, the Group recorded overall revenue of RMB1,368.9 million, representing an increase of RMB20.9 million or 1.6% as compared with RMB1,348.0 million for the corresponding period in 2017. The decrease in revenue of the Group's retail business for the Period was mainly due to the decrease in the number of retail stores. However, the increase in revenue of the Group's distribution business for the Period was mainly due to the increase in applying various promotion initiatives and adding new licensed products to the product mix, resulting in an increase in overall revenue of the Group.

Analysis of revenue by business segment

	Revenue (RMB million) Six months ended 31 December			Percentage (%) of total revenue Six months ended 31 December		
	2018	2017	Change (%)	**2018**	2017	Change
Retails I	**535.4**	542.6	-1.3	**39.1**	40.2	-1.1pp
Retails II	**99.7**	99.5	+0.2	**7.3**	7.4	-0.1pp
	635.1	642.1	- 1.1	**46.4**	47.6	-1.2pp
Distributions	**733.8**	705.9	+ 4.0	**53.6**	52.4	+1.2pp
	1,368.9	1,348.0		**100.0**	100.0	

Management Discussion and Analysis

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 in allocating resources, while Retails II are retail business located in remote areas without strategic importance or high growth potential. The Group will timely redesignate the strategic stores to non-strategic stores or close non-strategic stores by assessing the market competition and development. The decrease in revenue of the retail business was mainly due to the decrease in the number of retail stores during the Period.

As at 31 December 2018, the Group had 873 retail pharmacies in total (as at 31 December 2017: 926), of which 653 located in Heilongjiang (as at 31 December 2017: 687), 132 in Liaoning (as at 31 December 2017: 151), 86 in Jilin (as at 31 December 2017: 86) and 2 self-operated retail pharmacies in Hong Kong (as at 31 December 2017: 2). As at 31 December 2018, the Group had 1 supermarket in Shenyang (as at 31 December 2017: 1), mainly selling healthcare products and consumer goods. The performance of the supermarket was included and monitored in Retails I.

Distribution Business Segment

The Group adopted a prudent approach in running the distribution business and took appropriate actions to mitigate credit risks by strengthening the credit management of sales and minimising trade receivables in order to lower the risk of bad debts.

As at 31 December 2018, the Group had reviewed the nationwide distribution network covering approximately 4,200 active customers (as at 31 December 2017: 5,000), among which approximately 2,700 pharmaceutical retailers, hospitals and clinics (as at 31 December 2017: 3,200) and approximately 1,500 distributors (as at 31 December 2017: 1,800).

Gross profit

Gross profit of the Group for the Period was RMB187.7 million, representing a decrease of RMB16.7 million or 8.2% as compared with RMB204.4 million for the corresponding period in 2017. Overall gross margin decreased from 15.2% to 13.7%. The decrease in gross margin was mainly due to more member events, promotions, discounts offered to consumers and decrease in the sale of the Group's high-margin products, which resulted in a decrease in the gross margin of the Group for the Period.

Management Discussion and Analysis

Analysis of gross profit by business segment

	Gross profit (RMB million) Six months ended 31 December			Gross margin (%) Six months ended 31 December		
	2018	2017	Change (%)	**2018**	2017	Change
Retails I	**124.4**	138.8	-10.4	**23.2**	25.6	-2.4pp
Retails II	**22.6**	26.3	-14.1	**22.7**	26.4	-3.7pp
	147.0	165.1	-11.0	**23.1**	25.7	-2.6pp
Distributions	**40.7**	39.3	+3.6	**5.5**	5.6	-0.1pp
	187.7	204.4				

The Group's high-margin products consist of licensed products and products with exclusive distribution rights. During the Period, revenue of the Group's high-margin products decreased by 63.3% over the corresponding period in 2017 and the gross margin of these high-margin products decreased from 33.3% to 27.4%. As at 31 December 2018, the Group had 607 types of licensed products (as at 31 December 2017: 355) and 645 types of products with exclusive distribution rights (as at 31 December 2017: 1,710).

Selling and marketing expenses

Selling and marketing expenses for the Period was RMB283.6 million, representing a decrease of RMB48.8 million or 14.7% as compared with RMB332.4 million for the corresponding period in 2017 and accounting for 20.7% of the Group's revenue (for the six months ended 31 December 2017: 24.7%). The decrease in selling and marketing expenses was mainly due to the decrease in advertising and other marketing expenses and license fee of trademarks.

Administrative expenses

Administrative expenses for the Period was RMB36.6 million, representing a decrease of RMB18.4 million or 33.5% as compared with RMB55.0 million for the corresponding period in 2017 and accounting for 2.7% of the Group's revenue (for the six months ended 31 December 2017: 4.1%). The decrease in administrative expenses was mainly due to the recognition of RMB12.6 million as share-based payment expenses in profit or loss for the corresponding period in 2017.

Management Discussion and Analysis

Impairment loss on goodwill

Management reviewed the business performance based on types of businesses. The Group's goodwill was attributed to the acquisitions in distribution and retail businesses in prior years. Based on that the Group made a provision for impairment loss on goodwill of RMB287.8 million for the corresponding period in 2017, while there was no provision for impairment loss on goodwill made during the Period.

Finance income (costs) – net

Net finance income for the Period was RMB7.4 million (for the six months ended 31 December 2017: Net finance costs of RMB1.1 million). Net finance income was resulted due to the increase in exchange gains for the Period.

Income tax (expenses) credit

Income tax expenses for the Period was RMB1.0 million (for the six months ended 31 December 2017: Income tax credit of RMB1.6 million). The effective income tax rate for the Period was 0.9% (for the six months ended 31 December 2017: -0.3%).

Liquidity and Capital Resources

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

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

As at 31 December 2018, the Group's unpledged cash and cash equivalents totalled RMB756.9 million (as at 30 June 2018: RMB929.2 million), and the Group's net current assets were RMB1,163.2 million (as at 30 June 2018: RMB1,287.4 million).

Management Discussion and Analysis

During the Period, net cash flows used in operating activities amounted to RMB168.2 million (for the six months ended 31 December 2017: RMB17.9 million).

During the Period, the Group had capital expenditure of RMB3.3 million (for the six months ended 31 December 2017: RMB50.1 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 2018, the Group had RMB756.9 million in cash and bank balances of which the equivalent of RMB8.4 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 2018, the capital structure of the Company was constituted of 3,040,537,670 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 16 to the condensed consolidated interim financial statements.

As at 31 December 2018, the Group had no interest-bearing bank borrowings and no bank borrowings carried annual interest rates (as at 30 June 2018: Nil).

The gearing ratio of the Group as at 31 December 2018, calculated as net debt divided by sum of total equity and net debt, was N/A (as at 30 June 2018: N/A).

Management Discussion and Analysis

Contingent Liabilities and Pledge of Assets

As at 31 December 2018, the Group had no significant contingent liabilities (as at 30 June 2018: Nil).

As at 31 December 2018, notes payable of the Group was secured by the time deposits of the Group with net aggregate booking value of RMB51.1 million (as at 30 June 2018: the notes payable of the Group were secured by the time deposits of the Group with net aggregate booking value of RMB45.1 million).

Human Resources

As at 31 December 2018, the Group had 5,789 (as at 31 December 2017: 6,161) full-time employees in Hong Kong China and the mainland China with total employee benefit expenses (including share-based payment expenses) amounted to RMB153.8 million (for the six months ended 31 December 2017: RMB175.2 million). Employees are paid according to their positions, performance, experience and prevailing market practices, and are provided with management and professional training. The Group has implemented a number of initiatives to enhance the productivity of its employees. In particular, the Group conducts periodic performance reviews on most of the employees, and their compensation is tied to their performance. Further, the Group's compensation structure is designed to incentivize its employees to perform well by linking a portion of their compensation to their performance and the overall performance of the Group. The performance-based 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 on 18 November 2013 (as amended on 20 December 2018) (the "**Share Option Scheme**") and a share award plan for the purpose of providing incentives to participants for their contributions 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 is committed to creating values for stakeholders and the community by a responsible mode of operation, and its major objectives are to maintain the sustainable development of the following factors: (I) environmental protection; (II) working environment; (III) operational management; and (IV) community participation/public welfare.

Management Discussion and Analysis

(I) Environmental Protection

To ensure emission reduction, the Group strives to formulate policies for the effective use of resources. The Group has been actively saving electrical energy and water, vigorously cutting down the use of vehicles and encouraging employees to commute by public transportation. The Group upholds the concept of harmonious development of human and nature.

(II) Working Environment

For optimising the working environment, the Group spares no effort to improve the management in order to meet the relevant China's national regulations on occupational safety and social insurance. The Group is in strict compliance with the labor law, and its employee benefits include statutory paid leaves, medical insurance, employment compensation insurance and Mandatory Provident Fund, etc. The Group establishes management policies and procedures for human resources, aiming to provide the employees with an ideal and safe working environment. For this purpose, the Group also persists in putting resources on improving occupational safety awareness as well as employee development and training.

(III) Operational Management

In order to enhance operation and management, the Group works on simplifying the supply chain management to reduce purchase cost and building a structure that combines upstream and downstream through mergers and acquisitions. For the responsibility in product sales, the Group pays attention to the quality management, complaint handling and customer privacy protection. On the other hand, there are strict internal guidelines within the Group which prohibit the employees' involvement in illegal activities, such as bribery, extortion and fraud.

(IV) Community Participation/Public Welfare

In order to increase the participation in social activities, the Group endeavors to launch more activities for community members and promote the development of public welfare brand "Love China". At the same time, the Group does its best to strengthen corporate governance and integrate its corporate development with public welfare.

The Group is committed to creating sustainable development value through economic, social and environmental aspects to fulfil its corporate social responsibility and achieve long-term sustainable growth of shareholder value. The management of the Group reviews the policy implementation, monitors and measures the progress from time to time to ensure its stated goals achieved in an effective manner.

Management Discussion and Analysis

Future Plan

Following the leadership of the Chairman in strategic plan and taking the Golden Rules as its guidelines, the management of the Group will, on the basis of stabilizing and optimising the existing retail chain network and distribution system, mainly explore the structural transformation and upgrading of the "supply-side" reform with focus on the development of the following three areas: firstly, "partners+" strategy, and develop a platform featuring "universal health + partners" (which refers to listed company + capital = partners of capital platform → accelerator; listed company + government industrial policy = partners of government guidance platform → local resources; listed company + corporations = partners of the corporation platform → incubator; listed company + public welfare brand = partners of the public welfare platform → reputation); secondly, "N+" strategy, and develop a new channel featuring "single system incorporating industry-wide products" (which refers to the exploration of a new marketing ecosystem featured with "new business, new retail, new technology and new finance"); and thirdly, "logistics upgrade" strategy. Therefore by leveraging the development trend of traditional industries and grafting the new economic model, the Group will make efforts to facilitate the structural transformation of the Group's operation and anchor a new development cycle with the wing of new engine for the Company, so as to maintain itself as one of the industrial leaders in terms of ecological integration of industry, finance and capital.

Condensed Consolidated Balance Sheet

	Note	As at 31 December 2018 (Unaudited) RMB'000	As at 30 June 2018 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	266,422	278,572
Land use rights	8	5,421	5,489
Intangible assets	9	15,528	16,560
Investments in joint ventures		9,136	8,883
Investment in an associate	10	222,538	220,099
Available-for-sale financial assets	11	–	22,869
Equity instruments designated as at fair value through other comprehensive income	12	22,869	–
Biological assets	13	87,690	87,690
Deferred income tax assets		9,981	11,498
Total non-current assets		639,585	651,660
Current assets			
Trade and other receivables	14	304,685	253,408
Income tax recoverable		44,175	46,429
Inventories		294,737	303,525
Restricted cash	15	51,149	45,147
Cash and cash equivalents		756,857	929,161
Total current assets		1,451,603	1,577,670
Total assets		2,091,188	2,229,330
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	19,167	19,167
Reserves		1,640,413	1,645,885
Retained earnings		139,885	251,904
		1,799,465	1,916,956
Non-controlling interests		1,949	20,419
Total equity		1,801,414	1,937,375

Condensed Consolidated Balance Sheet

	Note	As at 31 December 2018 (Unaudited) *RMB'000*	As at 30 June 2018 (Audited) *RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**1,408**	1,636
Current liabilities			
Trade and other payables	*17*	**288,311**	290,255
Current income tax liabilities		**55**	64
Total current liabilities		**288,366**	290,319
Total liabilities		**289,774**	291,955
Total equity and liabilities		**2,091,188**	2,229,330

The notes on pages 23 to 49 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Comprehensive Income

		Six months ended 31 December	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	***RMB'000***	*RMB'000*
Revenue	6	**1,368,873**	1,348,034
Cost of sales	19	**(1,181,188)**	(1,143,622)
Gross profit		**187,685**	204,412
Selling and marketing expenses	19	**(283,637)**	(332,419)
Administrative expenses	19	**(36,637)**	(54,980)
Impairment loss on goodwill	19	**–**	(287,818)
Other income		**396**	323
Other gains (losses) – net		**8,666**	(2,228)
Change in fair value of biological assets		**–**	(2,290)
Operating loss		**(123,527)**	(475,000)
Finance income	20	**7,591**	5,484
Finance costs	20	**(187)**	(6,552)
Finance income (costs) – net	20	**7,404**	(1,068)
Share of post-tax results of joint ventures		**253**	209
Share of post-tax results of an associate		**2,439**	(48)
Loss before income tax		**(113,431)**	(475,907)
Income tax (expenses) credit	21	**(1,029)**	1,578
Loss for the period		**(114,460)**	(474,329)
Other comprehensive (loss) income			
Item that may be reclassified to profit or loss in subsequent periods			
Currency translation differences		**(5,472)**	5,102
Total comprehensive loss for the period		**(119,932)**	(469,227)

Condensed Consolidated Statement of Comprehensive Income

	Note	Six months ended 31 December 2018 (Unaudited) *RMB'000*	2017 (Unaudited) *RMB'000*
Loss attributable to:			
– Owners of the Company		**(112,019)**	(470,827)
– Non-controlling interests		**(2,441)**	(3,502)
		(114,460)	(474,329)
Total comprehensive loss attributable to:			
– Owners of the Company		**(117,491)**	(465,725)
– Non-controlling interests		**(2,441)**	(3,502)
		(119,932)	(469,227)
Loss per share attributable to owners of the Company for the period *(RMB cents)*			
– Basic and diluted	*22*	**(3.68)**	(16.47)

The notes on pages 23 to 49 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company									
	Share capital (Unaudited) RMB'000 (Note 16)	Share premium (Unaudited) RMB'000 (Note 16)	Capital reserves (Unaudited) RMB'000	Statutory reserves (Unaudited) RMB'000	Share-based compensation reserves (Unaudited) RMB'000	Other reserves (Unaudited) RMB'000	Retained earnings (Unaudited) RMB'000	Total (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
Balance at 1 July 2018	19,167	1,719,133	(154,447)	65,059	21,507	(5,367)	251,904	1,916,956	20,419	1,937,375
Comprehensive loss										
Loss for the period	–	–	–	–	–	–	(112,019)	(112,019)	(2,441)	(114,460)
Other comprehensive loss										
Currency translation differences	–	–	–	–	–	(5,472)	–	(5,472)	–	(5,472)
Total comprehensive loss	–	–	–	–	–	(5,472)	(112,019)	(117,491)	(2,441)	(119,932)
Transactions with owners in their capacity as owners										
Dividends relating to non-controlling interests	–	–	–	–	–	–	–	–	(14,142)	(14,142)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(1,887)	(1,887)
Total transactions with owners in their capacity as owners	–	–	–	–	–	–	–	–	(16,029)	(16,029)
Balance at 31 December 2018	19,167	1,719,133	(154,447)	65,059	21,507	(10,839)	139,885	1,799,465	1,949	1,801,414
Balance at 1 July 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
Comprehensive loss										
Loss for the period	–	–	–	–	–	–	(470,827)	(470,827)	(3,502)	(474,329)
Other comprehensive income										
Currency translation differences	–	–	–	–	–	5,102	–	5,102	–	5,102
Total comprehensive loss	–	–	–	–	–	5,102	(470,827)	(465,725)	(3,502)	(469,227)
Transactions with owners in their capacity as owners										
Equity settled share-based transactions	–	–	–	–	12,629	–	–	12,629	–	12,629
Total transactions with owners in their capacity as owners	–	–	–	–	12,629	–	–	12,629	–	12,629
Balance at 31 December 2017	17,998	1,697,629	(154,447)	65,059	21,507	(4,286)	615,975	2,259,435	19,894	2,279,329

The notes on pages 23 to 49 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Cash Flow Statement

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Net cash used in operating activities	**(168,212)**	(17,864)
Investing activities		
Change in restricted cash	**(6,002)**	168,939
Purchase of property, plant and equipment	**(3,340)**	(50,075)
Loans repayment received from third parties	**–**	105,000
Others	**4,947**	9,231
Net cash (used in) generated from investing activities	**(4,395)**	233,095
Financing activities		
Repayments of borrowings	**–**	(154,550)
Net cash used in financing activities	**–**	(154,550)
Net (decrease) increase in cash and cash equivalents	**(172,607)**	60,681
Cash and cash equivalents at beginning of the reporting period	**929,161**	1,003,677
Effect of foreign exchange rate changes	**303**	(364)
Cash and cash equivalents at end of the reporting period	**756,857**	1,063,994

The notes on pages 23 to 49 form an integral part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

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**" or "**China**").

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.

These condensed consolidated interim financial statements are presented in thousands of Renminbi ("**RMB'000**"), unless otherwise stated.

2. Basis of preparation

On 31 August 2017, the Board of Directors of the Company has resolved to change the financial year end date of the Company from 31 December to 30 June. Since stocktake of the wild ginsengs in the forest land is not practicable due to severe weather condition around winter in the northeastern region of the PRC, this change of financial year end will enable a more accurate reflection of the value of the wild ginsengs. Accordingly, the current interim financial period covers a six months period from 1 July 2018 to 31 December 2018 with the comparative financial period covers six months period from 1 July 2017 to 31 December 2017.

These condensed consolidated interim financial statements for the six months ended 31 December 2018 has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "**Interim Financial Reporting**" and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of these condensed consolidated interim financial statements for the six months ended 31 December 2018 in conformity with IAS 34 requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

Notes to the Condensed Consolidated Interim Financial Statements

2. Basis of preparation *(continued)*

These condensed consolidated interim financial statements for the six months ended 31 December 2018 include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 30 June 2018, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"). They shall be read in conjunction with the consolidated financial statements for the eighteen months ended 30 June 2018.

These condensed consolidated interim financial statements for the six months ended 31 December 2018 have been prepared on a historical cost basis, except for equity instruments designated as at fair value through other comprehensive income ("**FVOCI**") and biological assets which are measured at fair value.

3. Accounting policies

The accounting policies adopted in preparing these condensed consolidated interim financial statements for the six months ended 31 December 2018 are consistent with those in the preparation of the Group's consolidated financial statements for the eighteen months ended 30 June 2018, except for the adoption of the new/revised standard of IFRSs which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1 July 2018 as described below.

Annual improvements	2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency Transactions and Advance Consideration

The adoption of the new/revised standard of IFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years except for IFRS 9 and IFRS 15.

Notes to the Condensed Consolidated Interim Financial Statements

3. Accounting policies *(continued)*

IFRS 9: Financial instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading or a contingent consideration) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 ''Financial Instruments: Recognition and Measurement''. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Notes to the Condensed Consolidated Interim Financial Statements

3. Accounting policies *(continued)*

IFRS 9: Financial instruments (continued)

On 1 July 2018, the directors of the Company has assessed which business models apply to the financial assets held by the Group at the date of initial application of IFRS 9 and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

		Measurement category		Carrying amount	
		Original	New	Original	New
	Note	(IAS 39)	(IFRS 9)	*RMB'000*	*RMB'000*
Financial assets					
Unlisted equity instruments		Available-for-sale, at fair value	Equity instruments designated as at FVOCI	22,869	22,869
Trade and other receivables	*(a)*	Amortised cost	Amortised cost	253,408	253,408
Restricted cash	*(a)*	Amortised cost	Amortised cost	45,147	45,147
Cash and cash equivalents	*(a)*	Amortised cost	Amortised cost	929,161	929,161

Note (a): Impairment based on expected credit loss model on these financial assets has no significant financial impacts.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue'', IAS 11 ''Construction contracts'' and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Notes to the Condensed Consolidated Interim Financial Statements

3. Accounting policies *(continued)*

IFRS 15: Revenue from Contracts with Customers (continued)

Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control'' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The adoption of IFRS 15 did not have any significant impact on recognition of revenue. However, the application of IFRS 15 results in the additional disclosures in note 6 to these condensed consolidated interim financial statements.

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 statements, 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 eighteen months ended 30 June 2018.

Notes to the Condensed Consolidated Interim Financial Statements

5. Financial risk management

5.1 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.

These condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements for the eighteen months ended 30 June 2018.

There have been no changes in the risk management policies.

5.2 Liquidity risk factors

Compared to the reporting period ended 30 June 2018, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

5.3 Fair value estimation

(a) Fair value estimation of financial assets and liabilities

The following table presents the financial assets and liabilities measured at fair value or required to disclose their fair values in these condensed consolidated interim financial statements on a recurring basis at 31 December 2018 and 30 June 2018 across the three levels of the fair value hierarchy defined in IFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level of input that is significant to the entire measurement. The levels are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

Notes to the Condensed Consolidated Interim Financial Statements

5. Financial risk management *(continued)*

5.3 Fair value estimation *(continued)*

(a) Fair value estimation of financial assets and liabilities *(continued)*

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
As at 31 December 2018 (Unaudited)				
Assets				
Equity instruments designated as at FVOCI *(Note 12)*				
– Unlisted equity instruments	–	–	22,869	22,869
As at 30 June 2018 (Audited)				
Assets				
Available-for-sale financial assets *(Note 11)*				
– Unlisted equity instruments	–	–	22,869	22,869

During the six months ended 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

There is no movement in the fair value of the unlisted equity instruments during the six months ended 31 December 2018.

5. Financial risk management *(continued)*

5.3 Fair value estimation *(continued)*

(a) Fair value estimation of financial assets and liabilities *(continued)*

Valuation techniques and significant inputs used in Level 3 fair value measurement

As at 31 December 2018 and 30 June 2018, the fair value of the unlisted equity instruments are estimated by the management using price-to-earnings (P/E) multiple model. In estimating the fair value of the unlisted equity instruments, assumptions are used that are not supported by observable market price or rates, including the average price-to-earnings (P/E) multiples of comparable companies or the corresponding industries and the discount rate applied for lack of marketability which is estimated based on Black Scholes option pricing model.

Sensitivity to changes in significant unobservable inputs

In the opinion of the directors, the impact of changes in significant unobservable inputs on the Level 3 fair value measurement and the Group's profit and other comprehensive income for the period have no significant difference with those in the Group's consolidated financial statements for the eighteen months ended 30 June 2018, as there was no significant change in the reasonably possible range of significant unobservable inputs for Level 3 fair value measurements as at 31 December 2018 comparing to 30 June 2018.

(b) Fair values of financial assets and liabilities carried at amounts other than fair values

In the opinion of the management of the Group, no other financial assets and liabilities of the Group are carried at amounts materially different from their fair values as at 31 December 2018 and 30 June 2018.

Notes to the Condensed Consolidated Interim Financial Statements

6. Revenue

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

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue from contracts with customers *(a)*	**1,368,873**	1,348,034

(a) Disaggregation of revenue

	Six months ended 31 December 2018			
	Distributions	**Retails I**	**Retails II**	**Total**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Major products				
Prescribed drugs	**224,141**	**88,707**	**27,419**	**340,267**
Non-prescribed drugs	**671,102**	**302,274**	**49,234**	**1,022,610**
Healthcare products	**121,804**	**117,807**	**19,476**	**259,087**
Other pharmaceutical products	**57,847**	**26,562**	**3,556**	**87,965**
	1,074,894	**535,350**	**99,685**	**1,709,929**
Eliminations	**(341,056)**	**–**	**–**	**(341,056)**
Revenue from external customers	**733,838**	**535,350**	**99,685**	**1,368,873**
Timing of revenue recognition:				
Products transferred at a point in time	**733,838**	**535,350**	**99,685**	**1,368,873**

Notes to the Condensed Consolidated Interim Financial Statements

6. Revenue *(continued)*

(a) Disaggregation of revenue *(continued)*

	Six months ended 31 December 2017			
	Distributions (Unaudited) *RMB'000*	Retails I (Unaudited) *RMB'000*	Retails II (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Major products				
Prescribed drugs	166,726	75,762	19,490	261,978
Non-prescribed drugs	711,281	311,837	61,850	1,084,968
Healthcare products	105,482	117,248	15,465	238,195
Other pharmaceutical products	37,759	37,802	2,645	78,206
	1,021,248	542,649	99,450	1,663,347
Eliminations	(315,313)	–	–	(315,313)
Revenue from external customers	705,935	542,649	99,450	1,348,034
Timing of revenue recognition:				
Products transferred at a point in time	705,935	542,649	99,450	1,348,034

Notes to the Condensed Consolidated Interim Financial Statements

7. 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 PRC. Individual financial statements 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 31 December 2018 and 2017. Accordingly, no geographical segment is presented.

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

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

Notes to the Condensed Consolidated Interim Financial Statements

7. Segment information *(continued)*

The segment information for the six months ended 31 December 2018 and as at 31 December 2018 is as follows:

	Six months ended 31 December 2018				
	Distributions (Unaudited) *RMB'000*	Retails I (Unaudited) *RMB'000*	Retails II (Unaudited) *RMB'000*	Others (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Segment revenue	1,074,894	535,350	99,685	–	1,709,929
Inter-segment revenue	(341,056)	–	–	–	(341,056)
Revenue from external customers	733,838	535,350	99,685	–	1,368,873
Adjusted EBITDA	(53,395)	(34,465)	(17,133)	(6,352)	(111,345)
Depreciation and amortisation	(7,099)	(4,692)	(391)	–	(12,182)
Finance income	2,319	1,029	43	4,200	7,591
Finance costs	(71)	(100)	(4)	(12)	(187)
Share of post-tax results of joint ventures	–	253	–	–	253
Share of post-tax results of an associate	2,439	–	–	–	2,439
Income tax expenses	(75)	(867)	(87)	–	(1,029)
Loss for the period	(55,882)	(38,842)	(17,572)	(2,164)	(114,460)
Additions of non-current assets	26	107	–	–	133

	As at 31 December 2018				
	Distributions (Unaudited) *RMB'000*	Retails I (Unaudited) *RMB'000*	Retails II (Unaudited) *RMB'000*	Others (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Total assets before eliminations	2,274,224	1,010,536	24,968	1,620,479	4,930,207
Inter-segment assets	(597,043)	(731,392)	(474)	(1,510,110)	(2,839,019)
Total assets	1,677,181	279,144	24,494	110,369	2,091,188
Total liabilities before eliminations	1,358,441	588,115	63,462	30,146	2,040,164
Inter-segment liabilities	(1,170,115)	(501,018)	(51,253)	(28,004)	(1,750,390)
Total liabilities	188,326	87,097	12,209	2,142	289,774
Investments in joint ventures	–	9,136	–	–	9,136
Investment in an associate	222,538	–	–	–	222,538

Notes to the Condensed Consolidated Interim Financial Statements

7. Segment information *(continued)*

The segment information for the six months ended 31 December 2017 and as at 30 June 2018 is as follows:

	Six months ended 31 December 2017				
	Distributions (Unaudited) *RMB'000*	Retails I (Unaudited) *RMB'000*	Retails II (Unaudited) *RMB'000*	Others (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Segment revenue	1,021,248	542,649	99,450	–	1,663,347
Inter-segment revenue	(315,313)	–	–	–	(315,313)
Revenue from external customers	705,935	542,649	99,450	–	1,348,034
Adjusted EBITDA	(71,665)	(48,945)	(20,241)	(12,778)	(153,629)
Share-based payment expenses	(6,289)	(4,597)	–	(1,743)	(12,629)
Impairment loss on goodwill	(24,294)	(263,524)	–	–	(287,818)
Depreciation and amortisation	(6,322)	(13,123)	(1,459)	(20)	(20,924)
Finance income	2,438	2,785	258	3	5,484
Finance costs	258	(681)	(13)	(6,116)	(6,552)
Share of post-tax results of joint ventures	–	209	–	–	209
Share of post-tax results of an associate	(48)	–	–	–	(48)
Income tax credit	1,354	83	141	–	1,578
Loss for the period	(104,568)	(327,793)	(21,314)	(20,654)	(474,329)
Additions of non-current assets	80,177	806	–	–	80,983

	As at 30 June 2018				
	Distributions (Audited) *RMB'000*	Retails I (Audited) *RMB'000*	Retails II (Audited) *RMB'000*	Others (Audited) *RMB'000*	Total (Audited) *RMB'000*
Total assets before eliminations	2,336,942	1,042,660	24,189	1,623,418	5,027,209
Inter-segment assets	(574,225)	(709,668)	(478)	(1,513,508)	(2,797,879)
Total assets	1,762,717	332,992	23,711	109,910	2,229,330
Total liabilities before eliminations	1,380,828	527,156	51,725	25,326	1,985,035
Inter-segment liabilities	(1,193,173)	(433,097)	(43,063)	(23,747)	(1,693,080)
Total liabilities	187,655	94,059	8,662	1,579	291,955
Investments in joint ventures	–	8,883	–	–	8,883
Investment in an associate	220,099	–	–	–	220,099

Notes to the Condensed Consolidated Interim Financial Statements

7. Segment information *(continued)*

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

8. Property, plant and equipment and land use rights

	Property, plant and equipment (Unaudited) *RMB'000*	Land use rights (Unaudited) *RMB'000*
Six months ended 31 December 2018		
Opening net book amount as at 1 July 2018	**278,572**	**5,489**
Additions	**115**	**–**
Disposals	**(514)**	**–**
Disposal of a subsidiary	**(687)**	**–**
Depreciation and amortisation *(Note 19)*	**(11,064)**	**(68)**
Closing net book amount as at 31 December 2018	**266,422**	**5,421**
Six months ended 31 December 2017		
Opening net book amount as at 1 July 2017	224,209	5,622
Additions	80,909	–
Disposals	(504)	–
Depreciation and amortisation *(Note 19)*	(11,744)	(67)
Closing net book amount as at 31 December 2017	292,870	5,555

The Group's interests in land use rights represent prepaid operating lease payments. The Group's land use rights are located in the PRC and held under the following unexpired lease terms:

	As at 31 December 2018 (Unaudited) ***RMB'000***	As at 30 June 2018 (Audited) *RMB'000*
Over 50 years	**1,991**	2,011
10 to 50 years	**3,430**	3,478
	5,421	5,489

Notes to the Condensed Consolidated Interim Financial Statements

9. Intangible assets

	Goodwill (Unaudited) *RMB'000*	Other intangible assets (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Six months ended 31 December 2018			
Opening net book amount as at 1 July 2018	**8,918**	**7,642**	**16,560**
Additions	**–**	**18**	**18**
Amortisation *(Note 19)*	**–**	**(1,050)**	**(1,050)**
Closing net book amount as at 31 December 2018	**8,918**	**6,610**	**15,528**
Six months ended 31 December 2017			
Opening net book amount as at 1 July 2017	344,220	164,479	508,699
Additions	–	74	74
Amortisation *(Note 19)*	–	(9,113)	(9,113)
Impairment *(Note 19)*	(287,818)	–	(287,818)
Closing net book amount as at 31 December 2017	56,402	155,440	211,842

For the six months ended 31 December 2018, the following is a summary of goodwill and other intangible assets (including trademarks, licenses and brand loyalty and contractual supplier relationship and computer software license) allocation for each operating segment:

	Goodwill (Unaudited) *RMB'000*	Other intangible assets (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Distributions	–	448	448
Retails I	8,918	6,162	15,080
	8,918	6,610	15,528

Goodwill arising on the acquisitions of distribution and retail businesses in prior years were allocated to the operating segments of Distributions and Retails I, and were monitored at the respective operating segment levels.

Notes to the Condensed Consolidated Interim Financial Statements

9. Intangible assets *(continued)*

Management reviews the business performance and monitors the goodwill and other non-current assets which are closely related for each operating segment.

The recoverable amount of all cash generating units ("**CGUs**") has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the management covering a five-year period (the "**Projection Period**"). Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follow:

	Distributions (%)	**Retails I (%)**
Gross margin	7.9-15.4	27.6-35.4
Growth rate in the Projection Period	3-10	3-5
Long-term growth rate beyond the Projection Period	1.5	1.5
Pre-tax discount rate	17	17

Management determined budgeted gross margin based on past performance and its expectations of market development and its business strategy. The weighted average growth rates used are consistent with the management forecasts. The discount rates used are pre-tax and reflect specific risks relating to the relevant business.

For the six months ended 31 December 2018, no further impairment loss was made for goodwill and other non-current assets which are closely related to the operating segments of Distributions and Retails I. For the six months ended 31 December 2017, impairment losses of RMB24,294,000 and RMB263,524,000 were provided for goodwill in relation to the operating segments of Distributions and Retails I respectively. As at 31 December 2018, goodwill of the Group relating to CGUs of Distributions and Retails I were amounted to Nil (as at 30 June 2018: Nil) and RMB8,918,000 (as at 30 June 2018: RMB8,918,000) respectively.

Notes to the Condensed Consolidated Interim Financial Statements

10. Investment in an associate

	As at 31 December 2018 (Unaudited) *RMB'000*	As at 30 June 2018 (Audited) *RMB'000*
Share of net assets of the associate	50,100	47,661
Goodwill (net of impairment loss)	172,438	172,438
Carrying value	222,538	220,099

As at 30 June 2018 and 31 December 2018, Jilin Jintian Universal Health Capsule Limited ("**Jilin Jintian**") is an associate of the Group, in which the Group directly own 36.38% of equity interest. Jilin Jintian 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.

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.

11. Available-for-sale financial assets

	As at 31 December 2018 (Unaudited) *RMB'000*	As at 30 June 2018 (Audited) *RMB'000*
Unlisted equity instruments		
At fair value	–	22,869

Upon the adoption of IFRS 9 on 1 July 2018, the Group has designated the unlisted equity instruments in a private limited company incorporated in the Cayman Islands as at FVOCI (Note 12). As at 30 June 2018, the above investments with a carrying amount of RMB22,869,000 were stated at fair value.

Notes to the Condensed Consolidated Interim Financial Statements

12. Equity instruments designated as at fair value through other comprehensive income

	As at 31 December 2018 (Unaudited) *RMB'000*	As at 30 June 2018 (Audited) *RMB'000*
Unlisted equity instruments		
At fair value	**22,869**	–

The balance represents 11% equity interests in Wing Ming International Group Holding Limited ("**Wing Ming**") held by the Group. The investment was included in available-for-sale financial assets as at 30 June 2018 and has been irrevocably designated as at FVOCI following the adoption of IFRS 9 on 1 July 2018. The principal activity of Wing Ming is investment holding and its subsidiaries are principally engaged in manufacture and sales of Chinese medicines and supplements in Hong Kong.

Details of fair value measurement are set out in Note 5.3.

13. Biological assets

	As at 31 December 2018 (Unaudited) *RMB'000*	As at 30 June 2018 (Audited) *RMB'000*
Wild ginsengs		
At fair value	**87,690**	87,690

Notes to the Condensed Consolidated Interim Financial Statements

13. Biological assets *(continued)*

Biological assets represent the wild ginsengs planted in a forest land, which is located in Tonghua City, Jilin Province in the PRC.

The wild ginsengs are measured at fair value less costs to sell. As at 31 December 2018 and 30 June 2018, the fair value of wild ginsengs is RMB87,690,000 and there is no change in fair value during the six months ended 31 December 2018.

As at 31 December 2018, the fair values of the wild ginsengs are determined by the management having taking into considerations of various factors related to the wild ginsengs and consulted with an independent professional valuer.

The fair value measurement for the biological assets is categorised into Level 3 in the fair value hierarchy based on the inputs to valuation techniques used. There was no transfer occurred between levels in the fair value hierarchy during the six months ended 31 December 2018.

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

At end of each reporting period, the General Manager of Finance ("**GMF**") works closely with a team of external experts, including independent professional valuer and ginsengs experts to establish an appropriate valuation technique and inputs to the valuation model, verify all major unobservable inputs in the valuation, and assesses valuation movements when compared to the results of prior period valuation. Discussions of valuation process and results are held between the GMF and the external experts once every six months, which are in line with the Group's half-yearly reporting requirements.

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 30 June 2018, the Group has an estimation of 160,000 wild ginsengs in accordance with the valuation report issued by the valuer using statistic techniques with an acceptable deviation estimated by the Group. As at 31 December 2018, the management, having consulted with the valuer and ginsengs experts regarding the growth pattern of the wild ginsengs under severe weather conditions in the northeastern region of the PRC, estimated that there would not be any significant change in the quantities of wild ginsengs during the six months ended 31 December 2018.

Notes to the Condensed Consolidated Interim Financial Statements

13. Biological assets *(continued)*

Valuation Process *(continued)*

- The wild ginsengs are graded according to quality of growth and there can be a considerable wide spectrum of grades that may affect the prices achieved. According to the valuation report as at 30 June 2018, 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 China Ginsengs Products Standardization Technical Committee. As at 31 December 2018, based on an analysis made by the management and consultation with the valuer and ginsengs experts, the Group estimated that there would not be any significant change in the grading and its spread over total population of wild ginsengs during the six months ended 31 December 2018.

- As at 30 June 2018, the prices of the wild ginsengs for various grades are quoted by reference to the quotations obtained from certain trading companies or pharmaceutical companies that purchase wild ginsengs in their normal business. As at 31 December 2018, the management, having analysed the current situation of ginsengs market in winter season and consulted with the valuer and ginsengs experts, estimated that there would not be any significant change in the market selling price of wild ginsengs for all grades during the six months ended 31 December 2018.

14. Trade and other receivables

	As at 31 December 2018 (Unaudited) ***RMB'000***	As at 30 June 2018 (Audited) *RMB'000*
Trade receivables *(a)*	**239,196**	170,602
Prepayments	**56,225**	72,345
Note receivables	**621**	–
Other receivables	**8,643**	12,235
Provision for impairment	**–**	(1,774)
Total	**304,685**	253,408

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

Notes to the Condensed Consolidated Interim Financial Statements

14. Trade and other receivables *(continued)*

(a) Retail sales at the Group's pharmacies are usually settled in cash or by debit or credit cards. For distribution sales, there is no concentration of credit risk with respect to trade receivables, as the majority of the Group's sales are settled upon delivery of goods. The remaining amounts are with credit items of not more than 90 days. The ageing analysis based on recognition date of the trade receivables is as follows:

	As at 31 December 2018 (Unaudited) ***RMB'000***	As at 30 June 2018 (Audited) *RMB'000*
Up to 3 months	**222,879**	169,061
4 to 6 months	**11,340**	1,127
7 to 12 months	**4,669**	14
Over 1 year	**308**	400
	239,196	170,602

15. Restricted cash

	As at 31 December 2018 (Unaudited) ***RMB'000***	As at 30 June 2018 (Audited) *RMB'000*
Restricted cash	**51,149**	45,147

The balance of the restricted cash was pledged to secure notes payable (Note 17).

16. Share capital

	Number of ordinary shares	**Nominal value of ordinary shares** *USD*
Authorised:		
Ordinary shares of USD0.001 each as at **31 December 2018 (Unaudited)** and 30 June 2018 (Audited)	10,000,000,000	10,000,000

Notes to the Condensed Consolidated Interim Financial Statements

16. Share capital *(continued)*

Issued and fully paid:

	Number of ordinary shares	Nominal value of ordinary shares *USD*	Equivalent nominal value of ordinary shares *RMB'000*	Share premium *RMB'000*
As at 1 January 2017	2,400,000,000	2,400,000	14,878	1,618,899
Share issued	640,537,670	640,538	4,289	100,234
As at 30 June 2018 (Audited) and **31 December 2018 (Unaudited)**	3,040,537,670	3,040,538	19,167	1,719,133

17. Trade and other payables

	As at 31 December 2018 (Unaudited) *RMB'000*	As at 30 June 2018 (Audited) *RMB'000*
Trade payables *(a)*	166,170	158,645
Notes payable *(b)*	50,936	44,858
Other payables	71,205	86,752
Total	288,311	290,255

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

	As at 31 December 2018 (Unaudited) *RMB'000*	As at 30 June 2018 (Audited) *RMB'000*
Up to 3 months	161,612	155,254
4 to 6 months	–	75
7 to 12 months	1,685	1
1 year to 2 years	885	2,929
2 years to 3 years	1,988	386
	166,170	158,645

(b) As at 31 December 2018, the entire balance of notes payable was secured by restricted cash of RMB51,149,000 (as at 30 June 2018: RMB45,147,000) (Note 15).

Notes to the Condensed Consolidated Interim Financial Statements

18. Disposal of a subsidiary

On 9 October 2018, the Group completed the disposal of its entire 51% equity interests in a subsidiary, Hegang Ji Shi Tang Pharmacy Chain Co., Ltd. ("**Hegang**") to its non-controlling shareholder, at a consideration of RMB7,500,000. The net assets of Hegang shared by the Group at the date of disposal was amounting to approximately RMB1,964,000. As a result, a gain on disposal of a subsidiary amounting to RMB5,536,000 was recognised as other gain in the profit or loss for the six months ended 31 December 2018.

19. Expenses by nature

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Changes in inventories	**1,177,788**	1,139,230
Employee benefit expenses	**153,777**	162,611
Impairment loss on goodwill *(Note 9)*	**–**	287,818
Advertising and other marketing expenses	**60,012**	87,055
Rental expenses	**49,663**	52,848
Transportation and related charges	**34,894**	34,215
Depreciation of property, plant and equipment *(Note 8)*	**11,064**	11,744
Amortisation of intangible assets *(Note 9)*	**1,050**	9,113
Share-based payment expenses	**–**	12,629
Office and communication expenses	**5,529**	4,958
Other tax expenses	**4,303**	5,418
License fee of trademarks	**(4,000)**	4,000
Professional fees	**3,366**	1,012
Electricity and other utility fees	**1,402**	1,907
Travelling and meeting expenses	**752**	1,085
Auditors' remuneration	**701**	1,370
Amortisation of land use rights *(Note 8)*	**68**	67
Training fees	**11**	–
Other expenses	**1,082**	1,759
Total	**1,501,462**	1,818,839

20. Finance income and costs

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Finance income		
Exchange gains	**5,815**	–
Interest income	**1,776**	5,484
	7,591	5,484
Finance costs		
Interest expenses on loans	**–**	(906)
Exchange losses	**–**	(5,478)
Other charges	**(187)**	(168)
	(187)	(6,552)
Finance income (costs) – net	**7,404**	(1,068)

21. Income tax (expenses) credit

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
PRC corporate income tax		
– Current income tax	**(326)**	(307)
– Overprovision in prior years	**19**	581
Hong Kong profits tax		
– Current income tax	**(75)**	(73)
Deferred income tax	**(647)**	1,377
Total income tax (expenses) credit	**(1,029)**	1,578

Notes to the Condensed Consolidated Interim Financial Statements

21. Income tax (expenses) credit *(continued)*

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 31 December 2018 (2017: 16.5%). The subsidiaries of the Group in the PRC are subject to corporate income tax at a rate of 25% (2017: 25%) on its taxable income or deemed profit method as determined in accordance with the relevant PRC income tax rules and regulations.

22. Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company *(RMB'000)*	**(112,019)**	(470,827)
Weighted average number of ordinary shares in issue *(thousands)*	**3,040,538**	2,858,138
Basic loss per share *(RMB cents)*	**(3.68)**	(16.47)

(b) Diluted

As the effect of the assumed conversion of the potential ordinary shares from exercising the Company's share options is anti-dilutive, the basic loss per share for the periods are equal to diluted loss per share for the six months ended 31 December 2018 and 2017.

23. Dividend

No interim dividend was declared for the six months ended 31 December 2018 (2017: Nil).

24. Capital commitments

The Group had no significant capital commitment as at 31 December 2018 and 30 June 2018.

Notes to the Condensed Consolidated Interim Financial Statements

25. Related-party transactions

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

(a) Transactions with related parties

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Joint ventures of the Company:		
– Sales of goods	**3,040**	2,413
A company controlled by a director of the Company:		
– Operating lease	**1,500**	1,500

(b) Balances with related parties

	As at 31 December 2018	As at 30 June 2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Joint ventures of the Company:		
– Trade receivables	**607**	672

Notes to the Condensed Consolidated Interim Financial Statements

25. Related-party transactions *(continued)*

(c) Key management compensation

Key management includes directors (executive directors and non-executive directors), 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:

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**1,308**	1,365
Post-employment benefits	**12**	10
Share-based payments	**–**	1,743
	1,320	3,118

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. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

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

Model Code for Securities Transactions

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

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

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

Review of the Interim Results by Audit Committee

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

Changes to Information in Respect of Directors

There was no change in Directors' biographical details since the date of the 2017/18 annual report of the Company 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 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares and underlying shares of the Company (the "**Share(s)**") 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:

Other Information

Name of Director	Nature of Interest	Number and class of Shares/ underlying Shares	Approximate percentage of shareholding
Jin Dongtao	Founder of a discretionary trust *(Notes 2 and 3)*	804,600,135 (Long Position)	26.46%
	Beneficial owner *(Notes 1 and 4)*	6,168,000 (Long Position)	0.20%
	Interest of spouse *(Notes 1 and 5)*	4,234,000 (Long Position)	0.14%
Zhao Zehua	Beneficial owner *(Notes 1 and 6)*	4,234,000 (Long Position)	0.14%
Jin Dongkun	Beneficial owner *(Notes 1 and 7)*	2,800,000 (Long Position)	0.09%
Sun Libo	Beneficial owner *(Notes 1 and 7)*	2,800,000 (Long Position)	0.09%

Notes:

1) In September 2017, the Company granted a total of 200,000,000 share options (the "**Share Options**") to 20 eligible participants which include 4 executive Directors and an associate (as defined under Rule 17.06A of the Listing Rules) of an executive Director. All the Share Options were accepted by the grantees under the rules of the Share Option Scheme.

2) 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 held 804,600,135 Shares in the Company.

3) 398,000,000 Shares out of the 804,600,135 Shares were 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. As at 31 December 2018, Zhongrong International Alternative Asset Management Limited held 242,585,182 Shares in the Company.

4) Mr. Jin Dongtao beneficially owned 3,368,000 Shares and was the grantee of 2,800,000 Share Options granted under the Share Option Scheme. Pursuant to the Share Option Scheme, 2,800,000 Shares will be issued upon exercise of such Share Options.

5) Ms. Chen Xiaoyan beneficially owned 1,434,000 Shares and was the grantee of 2,800,000 Share Options granted under the Share Option Scheme. Pursuant to the Share Option Scheme, 2,800,000 Shares will be issued upon exercise of such Share Options.

6) Mr. Zhao Zehua beneficially owned 1,434,000 Shares and was the grantee of 2,800,000 Share Options granted under the Share Option Scheme. Pursuant to the Share Option Scheme, 2,800,000 Shares will be issued upon exercise of such Share Options.

7) Mr. Jin Dongkun and Mr. Sun Libo were each granted 2,800,000 Share Options under the Share Option Scheme. Pursuant to the Share Option Scheme, each of them is entitled to subscribe for 2,800,000 Shares upon exercise of such Share Options.

Other Information

Save as disclosed above, as at 31 December 2018, 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 31 December 2018, 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 and 2)*	810,768,135 (Long Position)	26.67%
	Beneficial owner	4,234,000 (Long Position)	0.14%
Asia Health	Beneficial owner *(Notes 1 and 2)*	804,600,135 (Long Position)	26.46%
Global Health	Interest of corporation controlled by the substantial shareholder *(Notes 1 and 2)*	804,600,135 (Long Position)	26.46%
1969 JT Limited	Interest of corporation controlled by the substantial shareholder *(Notes 1 and 2)*	804,600,135 (Long Position)	26.46%
Tenby Nominees Limited	Nominee *(Notes 1 and 2)*	804,600,135 (Long Position)	26.46%
Brock Nominees Limited	Nominee *(Notes 1 and 2)*	804,600,135 (Long Position)	26.46%
Credit Suisse Trust Limited	Trustee *(Notes 1 and 2)*	804,600,135 (Long Position)	26.46%
Lu Baocai	Interest of corporation controlled by the substantial shareholder *(Note 3)*	458,137,670 (Long Position)	15.07%
Elite Grand Holdings Limited	Beneficial owner *(Note 3)*	458,137,670 (Long Position)	15.07%

Other Information

Name	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding
Wu Qiaofeng	Interest of corporation controlled by the substantial shareholder *(Note 4)*	242,585,182 (Long Position)	7.98%
	Beneficial owner	1,516,000 (Long Position)	0.05%
Dragon Ocean Development Ltd.	Interest of corporation controlled by the substantial shareholder *(Note 4)*	242,585,182 (Long Position)	7.98%
ZR International Holding Company Limited	Interest of corporation controlled by the substantial shareholder *(Note 4)*	242,585,182 (Long Position)	7.98%
Zhongrong International Alternative Asset Management Limited	Beneficial owner *(Note 4)*	242,585,182 (Long Position)	7.98%
Xie Wei	Interest of corporation controlled by the substantial shareholder *(Note 5)*	182,400,000 (Long Position)	6.00%
	Beneficial owner *(Note 5)*	114,567,000 (Long Position)	3.77%
Huang Yu Holdings Limited	Beneficial owner *(Note 5)*	182,400,000 (Long Position)	6.00%

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 held 804,600,135 Shares in the Company.

2) 398,000,000 Shares out of the 804,600,135 Shares were 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. As at 31 December 2018, Zhongrong International Alternative Asset Management Limited held 242,585,182 Shares in the Company.

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

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

5) Mr. Xie Wei held the entire issued share capital of Huang Yu Holdings Limited, which held 182,400,000 Shares in the Company.

Other Information

Save as disclosed above, as at 31 December 2018, 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.

Share Option Scheme

The Share Option Scheme was adopted 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 Share Option Scheme remains in force for a period of 10 years until 17 November 2023. Details of the Share Option Scheme are set out in the 2017/18 annual report of the Company.

Amendment to the definition of "Participants"

In order to allow the Board to have more flexibility in the administration of the Share Option Scheme and to expand the scope of the Share Option Scheme to include persons who have otherwise made contributions to the Group and improve the attractiveness of the Share Option Scheme as incentive or reward, the definition of "**Participants**" provided in the Share Option Scheme was amended by passing an ordinary resolution at the annual general meeting (the "**AGM**") of the Company held on 20 December 2018. The definition of "**Participants**" was amended as follows:

> "**Participants** means executive and non-executive Directors including independent non-executive Directors or employees (whether full-time or part-time) of members of the Group, advisers and consultants (in the areas of legal, technical, financial and corporate management) to the Group, providers of goods and/or services to the Group and persons who the Board considers, in its sole discretion, have contributed or will contribute to the Group to take up Options under this Scheme."

Refreshment of Share Option Scheme Mandate Limit

In the AGM, the scheme mandate limit on the grant of share options under the Share Option Scheme was also refreshed provided that the total number of Shares which may be allotted and issued upon exercise of any options to be granted under the Share Option Scheme (excluding share options previously granted, outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme(s) of the Company) shall not exceed 10% of the aggregate number of the issued Shares as at the date of passing the resolution (the "**Refreshed Scheme Mandate Limit**").

Further, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the issued Shares from time to time under the Listing Rules.

Other Information

The maximum number of Shares that can be allotted and issued upon the exercise of share options which may be granted by the Company pursuant to the Share Option Scheme under the Refreshed Scheme Mandate Limit is 304,053,767, being 10% of the total number of issued Shares as at the date of the AGM. Together with the total of 200,000,000 outstanding Share Options granted in September 2017 and accepted by the grantees, representing approximately 6.58% of the total number of issued Shares, the Company will be allowed to allot and issue a maximum of 504,053,767 Shares (representing approximately 16.58% of the issued Shares as at the date of the AGM), upon the exercise of share option which may be/have been granted by the Company under the Share Option Scheme, which will not exceed the overall limit 30% of the issued Shares of the Company.

Save for the aforesaid amendments to the definition of Participants and the Refreshed Scheme Mandate Limit, all principal terms of the Share Option Scheme remain unchanged and are set out in Appendix V to the prospectus of the Company dated 2 December 2013.

Particulars of Share Options outstanding under the Share Option Scheme at the beginning and at the end of the Period and Share Options granted, exercised, lapsed or cancelled under the Share Option Scheme during the Period are as follows:

						Number of Share Options			
Grantees	**Date of grant**	**Closing price per share** *(Note)* *HK$*	**Exercise price per option** *HK$*	**Exercise period**	**Outstanding as at 1/7/2018**	**Granted during the Period**	**Exercised during the Period**	**Lapsed/ cancelled during the Period**	**Outstanding as at 31/12/2018**
Director & substantial shareholder									
Jin Dongtao	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	2,800,000	–	–	–	2,800,000
Directors									
Jin Dongkun	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	2,800,000	–	–	–	2,800,000
Zhao Zehua	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	2,800,000	–	–	–	2,800,000
Sun Libo	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	2,800,000	–	–	–	2,800,000
Associate of Director									
Chen Xiaoyan (the spouse of Jin Dongtao)	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	2,800,000	–	–	–	2,800,000
Continuous contract employees	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	186,000,000	–	–	–	186,000,000

Other Information

Note:

The closing price per share refers to the closing price of the share of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date immediately before the date on which the Share Options were granted.

Upon acceptance of the Share Options, each grantee paid a consideration of HK$1.00 at the time the Share Options were granted. The Share Option Scheme was effective from the date it was adopted and shall remain effective within a period of 3 years from the date falling 1 month after the date of vesting of the Share Options.

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 31 December 2018, 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 31 December 2018 (2017: Nil).