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UNIVERSAL HEALTH INTERNATIONAL GROUP HOLDING LIMITED

大健康國際集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2211)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2021

ANNUAL RESULTS HIGHLIGHTS				
	Unit	2021	2020	Change
Revenue	RMB million	1,185.2	1,510.1	-21.5%
Gross profit	RMB million	156.9	188.5	-16.8%
Operating loss	RMB million	(663.4)	(510.5)	-152.9 RMB million
Loss for the year	RMB million	(676.0)	(493.5)	-182.5 RMB million
			(Restated)	
Basic loss per share	RMB cents	(174.83)	(127.45)	-47.38 RMB cents
Gross margin	%	13.2	12.5	+0.7 pp
Operating loss margin	%	(56.0)	(33.8)	-22.2 pp
Net loss margin	%	(57.0)	(32.7)	-24.3 pp

The board (the “**Board**”) of directors (the “**Directors**”) of Universal Health International Group Holding Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 30 June 2021 (the “**Year**”) together with the comparative figures for the year ended 30 June 2020 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 30 June	
		2021	2020
		RMB'000	RMB'000
Revenue	2	1,185,168	1,510,126
Cost of sales	4	<u>(1,028,264)</u>	<u>(1,321,626)</u>
Gross profit		156,904	188,500
Selling and marketing expenses	4	(533,776)	(617,318)
Administrative expenses	4	(66,583)	(75,305)
Impairment loss on goodwill and other intangible assets	4	(313)	(11,809)
Impairment loss on property, plant and equipment	4	(3,972)	–
Impairment loss on right-of-use assets	4	(3,893)	–
Impairment loss on investment in an associate	4	(210,373)	–
Other income		2	1,930
Other losses – net		(1,495)	(533)
Change in fair value of biological assets		<u>90</u>	<u>4,041</u>
Operating loss		<u>(663,409)</u>	<u>(510,494)</u>
Finance income	5	1,253	9,586
Finance costs	5	<u>(11,868)</u>	<u>(2,198)</u>
Finance (costs) income – net	5	<u>(10,615)</u>	<u>7,388</u>
Share of post-tax results of joint ventures		9	103
Share of post-tax results of an associate		<u>3,211</u>	<u>10,777</u>
		<u>3,220</u>	<u>10,880</u>
Loss before income tax		(670,804)	(492,226)
Income tax expenses	6	<u>(5,203)</u>	<u>(1,245)</u>
Loss for the year		<u>(676,007)</u>	<u>(493,471)</u>

		Year ended 30 June	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
Other comprehensive loss			
<i>Item that will not be reclassified to profit or loss</i>			
Fair value changes in equity instruments designated as at fair value through other comprehensive income		<u>(5,066)</u>	<u>(8,579)</u>
<i>Items that are or may be reclassified to profit or loss in subsequent periods</i>			
Release of other reserves upon deregistration of subsidiaries		1,862	–
Currency translation differences		<u>9,774</u>	<u>(4,712)</u>
		<u>11,636</u>	<u>(4,712)</u>
Other comprehensive income (loss) for the year		<u>6,570</u>	<u>(13,291)</u>
Total comprehensive loss for the year		<u>(669,437)</u>	<u>(506,762)</u>
Loss attributable to:			
– Owners of the Company		(675,396)	(491,405)
– Non-controlling interests		<u>(611)</u>	<u>(2,066)</u>
		<u>(676,007)</u>	<u>(493,471)</u>
Total comprehensive loss attributable to:			
– Owners of the Company		(668,826)	(504,696)
– Non-controlling interests		<u>(611)</u>	<u>(2,066)</u>
		<u>(669,437)</u>	<u>(506,762)</u>
			<i>(Restated)</i>
Loss per share attributable to owners of the Company for the year (RMB cents)			
– Basic and diluted	7	<u>(174.83)</u>	<u>(127.45)</u>

CONSOLIDATED BALANCE SHEET

		As at 30 June	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		241,611	340,821
Right-of-use assets		12,467	27,864
Intangible assets		–	567
Investments in joint ventures		–	9,349
Investment in an associate		111,139	318,301
Equity instruments designated as at fair value through other comprehensive income		9,265	15,474
Biological assets		97,752	97,662
Deferred income tax assets		–	5,203
		<u>472,234</u>	<u>815,241</u>
Total non-current assets			
Current assets			
Trade and other receivables	9	137,477	179,274
Income tax recoverable		6,399	13,183
Inventories		273,916	310,858
Restricted cash		34,724	45,229
Cash and cash equivalents		33,091	131,317
		<u>485,607</u>	<u>679,861</u>
Total current assets			
		<u>957,841</u>	<u>1,495,102</u>
Total assets			

		As at 30 June	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		24,833	24,833
Reserves		1,729,755	1,723,185
Accumulated loss		<u>(1,179,616)</u>	<u>(504,220)</u>
		<u>574,972</u>	<u>1,243,798</u>
Non-controlling interests		<u>945</u>	<u>1,556</u>
Total equity		<u>575,917</u>	<u>1,245,354</u>
LIABILITIES			
Non-current liabilities			
Lease liabilities		<u>–</u>	<u>3,930</u>
Total non-current liabilities		<u>–</u>	<u>3,930</u>
Current liabilities			
Trade and other payables	<i>10</i>	377,994	235,607
Lease liabilities		<u>3,930</u>	<u>10,211</u>
Total current liabilities		<u>381,924</u>	<u>245,818</u>
Total liabilities		<u>381,924</u>	<u>249,748</u>
Total equity and liabilities		<u><u>957,841</u></u>	<u><u>1,495,102</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both periods presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”), which collective term includes all applicable IFRSs, International Accounting Standards (“**IASs**”) and Interpretations issued by International Accounting Standards Board and the applicable disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared under the historical cost convention, except for equity instruments designated as at fair value through other comprehensive income (“**FVOCI**”) and biological assets which are measured at fair value.

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

(a) New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time:

Amendments to IASs 1 and 8: Definition of Material

The amendments clarify the definition of material and align the definition used across IFRSs.

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

Amendments to IFRS 3: Definition of a Business

The amendments, among others, revise the definition of a business and include new guidance to evaluate whether an acquired process is substantive.

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

Amendments to IFRS 16: COVID-19-Related Rent Concessions Beyond 30 June 2021

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the novel coronavirus disease 2019 (COVID-19) epidemic (the “Epidemic”) are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before 30 June 2022. The amendments do not affect lessors. These amendments shall be applied for annual periods beginning on or after 1 April 2021 with earlier application permitted. The Group has elected to early adopt the amendments in the current year. The adoption of the amendments does not have any significant impact on the consolidated financial statements.

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

A number of new and amended standards are effective for annual periods beginning on or after 1 January 2021, and have not been applied in preparing these consolidated financial statements. The Group will apply the new and amended standards when they become effective. The Group is in the process of making an assessment of the impact of the new and amended standards and does not expect that the adoption of these new and amended standards will result in any material impact on the consolidated financial statements of the Group.

		Effective for annual years beginning on or after
Amendments to IAS 39, IFRSs 4, 7, 9 and 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to IAS 16	Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual Improvements to IFRSs	2018-2020 Cycle	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 1	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a single Transaction	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

2. REVENUE

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

	Year ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers (a)	<u>1,185,168</u>	<u>1,510,126</u>

(a) Disaggregation of revenue

	Year ended 30 June 2021		
	Distributions	Retails	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Major products			
Prescribed drugs	146,666	90,532	237,198
Non-prescribed drugs	624,102	290,169	914,271
Healthcare products	91,182	118,394	209,576
Other pharmaceutical products	<u>42,637</u>	<u>20,653</u>	<u>63,290</u>
	904,587	519,748	1,424,335
Eliminations	<u>(239,167)</u>	<u>–</u>	<u>(239,167)</u>
Revenue from external customers	<u>665,420</u>	<u>519,748</u>	<u>1,185,168</u>
Timing of revenue recognition:			
Products transferred at a point in time	<u>665,420</u>	<u>519,748</u>	<u>1,185,168</u>

	Year ended 30 June 2020		
	Distributions	Retails	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Major products			
Prescribed drugs	191,259	124,609	315,868
Non-prescribed drugs	803,147	395,181	1,198,328
Healthcare products	125,369	160,683	286,052
Other pharmaceutical products	<u>57,303</u>	<u>33,922</u>	<u>91,225</u>
	1,177,078	714,395	1,891,473
Eliminations	<u>(381,347)</u>	<u>–</u>	<u>(381,347)</u>
Revenue from external customers	<u>795,731</u>	<u>714,395</u>	<u>1,510,126</u>
Timing of revenue recognition:			
Products transferred at a point in time	<u>795,731</u>	<u>714,395</u>	<u>1,510,126</u>

3. SEGMENT INFORMATION

The Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

The Group is principally engaged in the distributions and retails of drugs and other pharmaceutical products in the northeastern region of the People's Republic of China ("PRC").

Distributions, Retails and Others are presented to the Board of Directors to assess their performance and for making respective business decisions which are considered to be three segments in accordance with IFRS 8 "Operating Segment". The "Others" segment mainly comprises investment companies.

The Group's principal market is the northeastern region of the PRC. The Group has a large number of customers, which are widely dispersed within the northeastern region of the PRC, no single customer accounted for 10% or more of the Group's total revenues for the years ended 30 June 2021 and 2020. Accordingly, no geographical segment is presented.

Inter-segment sales are charged at cost. The revenue from external customers and the costs, the total assets and the total liabilities are measured in a manner consistent with that of the Group's consolidated financial statements.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted loss 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, impairment loss or if applicable its reversal on intangible assets, property, plant and equipment, right-of-use assets and investment in an associate.

The segment information for the year ended 30 June 2021 and as at 30 June 2021 is as follows:

	Year ended 30 June 2021			Total RMB'000
	Distributions RMB'000	Retails RMB'000	Others RMB'000	
Segment revenue	904,587	519,748	–	1,424,335
Inter-segment revenue	(239,167)	–	–	(239,167)
Revenue from external customers	<u>665,420</u>	<u>519,748</u>	<u>–</u>	<u>1,185,168</u>
Adjusted EBITDA	(60,206)	(268,701)	(7,031)	(335,938)
Impairment loss on intangible assets	(213)	(100)	–	(313)
Impairment loss on investment in an associate	(210,373)	–	–	(210,373)
Impairment loss on property, plant and equipment	(1,609)	(2,363)	–	(3,972)
Impairment loss on right-of-use assets	(229)	(3,664)	–	(3,893)
Depreciation and amortisation	(19,753)	(89,167)	–	(108,920)
Finance income	487	764	2	1,253
Finance costs	(108)	(1,123)	(10,637)	(11,868)
Share of post-tax results of joint ventures	–	9	–	9
Share of post-tax results of an associate	3,211	–	–	3,211
Income tax expenses	–	(5,203)	–	(5,203)
Loss for the year	<u>(288,793)</u>	<u>(369,548)</u>	<u>(17,666)</u>	<u>(676,007)</u>
Additions of non-current assets (excluding financial assets and deferred tax assets)	<u>228</u>	<u>1,696</u>	<u>–</u>	<u>1,924</u>
	As at 30 June 2021			Total RMB'000
	Distributions RMB'000	Retails RMB'000	Others RMB'000	
Total assets before eliminations	1,746,181	683,691	1,310,274	3,740,146
Inter-segment assets	(923,525)	(558,831)	(1,299,949)	(2,782,305)
Total assets	<u>822,656</u>	<u>124,860</u>	<u>10,325</u>	<u>957,841</u>
Total liabilities before eliminations	1,245,834	986,444	25,120	2,257,398
Inter-segment liabilities	(995,839)	(855,729)	(23,906)	(1,875,474)
Total liabilities	<u>249,995</u>	<u>130,715</u>	<u>1,214</u>	<u>381,924</u>
Investment in an associate	<u>111,139</u>	<u>–</u>	<u>–</u>	<u>111,139</u>

The segment information for the year ended 30 June 2020 and as at 30 June 2020 is as follows:

	Year ended 30 June 2020			Total RMB'000
	Distributions RMB'000	Retails RMB'000	Others RMB'000	
Segment revenue	1,177,078	714,395	–	1,891,473
Inter-segment revenue	<u>(381,347)</u>	<u>–</u>	<u>–</u>	<u>(381,347)</u>
Revenue from external customers	<u>795,731</u>	<u>714,395</u>	<u>–</u>	<u>1,510,126</u>
Adjusted EBITDA	(135,395)	(313,017)	(6,625)	(455,037)
Impairment loss on goodwill and other intangible assets	–	(11,809)	–	(11,809)
Depreciation and amortisation	(15,691)	(27,957)	–	(43,648)
Finance income	954	1,841	6,791	9,586
Finance costs	(167)	(2,027)	(4)	(2,198)
Share of post-tax results of joint ventures	–	103	–	103
Share of post-tax results of an associate	10,777	–	–	10,777
Income tax (expenses) credit	<u>(2,390)</u>	<u>1,145</u>	<u>–</u>	<u>(1,245)</u>
(Loss) profit for the year	<u>(141,912)</u>	<u>(351,721)</u>	<u>162</u>	<u>(493,471)</u>
Additions of non-current assets (excluding financial assets and deferred tax assets)	<u>30,813</u>	<u>82,951</u>	<u>–</u>	<u>113,764</u>
	As at 30 June 2020			
	Distributions RMB'000	Retails RMB'000	Others RMB'000	Total RMB'000
Total assets before eliminations	1,898,920	781,190	1,438,192	4,118,302
Inter-segment assets	<u>(769,306)</u>	<u>(521,178)</u>	<u>(1,332,716)</u>	<u>(2,623,200)</u>
Total assets	<u>1,129,614</u>	<u>260,012</u>	<u>105,476</u>	<u>1,495,102</u>
Total liabilities before eliminations	1,116,682	838,069	24,491	1,979,242
Inter-segment liabilities	<u>(985,469)</u>	<u>(721,239)</u>	<u>(22,786)</u>	<u>(1,729,494)</u>
Total liabilities	<u>131,213</u>	<u>116,830</u>	<u>1,705</u>	<u>249,748</u>
Investments in joint ventures	<u>–</u>	<u>9,349</u>	<u>–</u>	<u>9,349</u>
Investment in an associate	<u>318,301</u>	<u>–</u>	<u>–</u>	<u>318,301</u>

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

4. EXPENSES BY NATURE

	Year ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Costs of inventories sold	1,026,006	1,318,486
Employee benefit expenses	316,511	275,990
Advertising and other marketing expenses	47,378	215,406
Impairment loss on goodwill and other intangible assets	313	11,809
Impairment loss on property, plant and equipment	3,972	–
Impairment loss on right-of-use assets	3,893	–
Impairment loss on investment in an associate	210,373	–
Lease payments on short-term leases	76,383	75,944
Lease payments on low-value assets	88	173
Transportation and related charges	33,543	47,570
Depreciation of property, plant and equipment	97,141	28,611
Depreciation of right-of-use assets	11,504	12,937
Amortisation of intangible assets	275	2,100
Other tax expenses	3,866	5,202
Office and communication expenses	8,011	11,256
Auditors' remuneration	2,104	2,547
Electricity and other utility fees	1,950	2,894
Professional fees	597	2,164
Travelling and meeting expenses	901	896
Donations	780	9,782
Other expenses	1,585	2,291
	<u>1,847,174</u>	<u>2,026,058</u>

5. FINANCE INCOME AND COSTS

	Year ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Exchange gains	–	6,803
Interest income	1,253	2,783
	<u>1,253</u>	<u>9,586</u>
Finance costs		
Interest on lease liabilities	(1,065)	(2,017)
Exchange losses	(10,681)	–
Other charges	(122)	(181)
	<u>(11,868)</u>	<u>(2,198)</u>
Finance (costs) income – net	<u>(10,615)</u>	<u>7,388</u>

6. INCOME TAX EXPENSES

	Year ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current income tax		
PRC corporate income tax	–	34
Deferred income tax	<u>5,203</u>	<u>1,211</u>
Total income tax expenses	<u><u>5,203</u></u>	<u><u>1,245</u></u>

Hong Kong profits tax has not been provided as there were no assessable profits subject to Hong Kong profits tax for the years ended 30 June 2021 and 2020. The subsidiaries of the Group in the PRC are subject to corporate income tax at a rate of 25% (2020: 25%) on its taxable income or deemed profit method as determined in accordance with the relevant PRC income tax rules and regulations.

7. LOSS PER SHARE

(a) Basic

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

	Year ended 30 June	
	2021	2020
		(Restated)
Loss attributable to owners of the Company (RMB'000)	(675,396)	(491,405)
Weighted average number of ordinary shares in issue (thousands)	<u>386,313</u>	<u>385,561</u>
Basic loss per share (RMB cents)	<u><u>(174.83)</u></u>	<u><u>(127.45)</u></u>

Note: The number of shares for the purpose of calculating basic loss per share for the Year has been adjusted to reflect the share consolidation during the Year.

The number of shares for the year ended 30 June 2020 has been adjusted and restated to reflect the share consolidation during the Year.

(b) Diluted

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

As the effect of the assumed conversion of the potential ordinary shares from exercising the Company's share options is anti-dilutive, the basic loss per share are equal to diluted loss per share for the years ended 30 June 2021 and 2020.

8. DIVIDENDS

The Board does not recommend the payment of any dividend in respect of the Year (2020: Nil).

9. TRADE AND OTHER RECEIVABLES

	As at 30 June	
	2021	2020
	RMB'000	RMB'000
Trade receivables (<i>Note</i>)		
– Due from third parties	85,794	110,963
– Due from related parties	–	49
	<u>85,794</u>	<u>111,012</u>
Prepayments		
– Prepayments to third parties	39,650	56,074
– Tax input credits – value added tax	6,013	3,557
	<u>45,663</u>	<u>59,631</u>
Other receivables		
– Deposits	896	2,666
– Consideration receivable	–	913
– Others	5,124	5,052
	<u>6,020</u>	<u>8,631</u>
Total	<u>137,477</u>	<u>179,274</u>

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

Note: 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 trade receivables are with credit periods of not more than 90 days. The ageing analysis based on recognition date of the trade receivables is as follows:

	As at 30 June	
	2021	2020
	RMB'000	RMB'000
Up to 3 months	84,806	109,244
4 to 6 months	988	1,768
	<u>85,794</u>	<u>111,012</u>

10. TRADE AND OTHER PAYABLES

	As at 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables (a)		
– Due to third parties	<u>269,666</u>	<u>115,080</u>
Notes payable (b)	34,724	45,229
Other payables	<u>73,604</u>	<u>75,298</u>
	<u>108,328</u>	<u>120,527</u>
Total	<u><u>377,994</u></u>	<u><u>235,607</u></u>

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

	As at 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	231,277	112,976
4 to 6 months	30,771	–
7 to 12 months	6,550	–
1 year to 2 years	558	–
Over 2 years	<u>510</u>	<u>2,104</u>
	<u><u>269,666</u></u>	<u><u>115,080</u></u>

(b) As at 30 June 2021, the entire balance of notes payable was secured by restricted cash of RMB34,724,000 (2020: RMB45,229,000). As at 30 June 2021 and 2020, the notes payable is expected to be settled within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The Epidemic has significantly impacted on global economy, including the pharmaceutical industry. However, in fact, China's pharmaceutical market maintained a growth rate faster than that of the global market prior to the Epidemic. From 2016 to 2020, the market size of China's pharmaceutical industry increased from RMB1,329.4 billion to RMB1,791.9 billion. Due to the effective control of the Epidemic in China, its pharmaceutical industry has gradually recovered since the second quarter of 2020. The market prosperity and profitability have steadily improved. Benefiting from the accelerated aging population worldwide and the increasing health awareness of the general public, it is expected that the medical industry characterized by inelastic demand will gradually recover, at least, to the level before the Epidemic. According to the forecast of AskCI Consulting Co., Ltd. (中商產業研究院), China's pharmaceutical market will continue to grow in 2021, and the market size of China's pharmaceutical industry will reach RMB1,885.8 billion in 2021.

According to data from the National Bureau of Statistics, as of May 2021, the pharmaceutical manufacturing industry realized a cumulative operating income of RMB1,116.23 billion, a year-on-year increase of 27.6%; and cumulative profit of RMB224.48 billion in total, a year-on-year increase of 81.7%. The pharmaceutical manufacturing industry maintained stable as a whole. In the first half of 2020, affected by the Epidemic, the revenue and profit declined slightly year-on-year, and grew after the third quarter, with the profit recovering faster than the revenue.

In terms of retail pharmacies, the market size has increased steadily and the industry has continued to concentrate. Leading pharmacies are expected to grow vigorously through internal and external means. In the long run, the trend of prescription outflow will bring more room for the retail pharmacy industry to develop. The consumption of traditional Chinese medicines remains policy-immunized. Enterprises engaged in traditional Chinese medicine consumption have strong variety and brand strength, thereby having a long-term space for both quantity and price to rise.

In terms of policies, China's medical reform has now entered a new era. Policies regarding bulk purchases of chemical and generic drugs, centralized purchases of high-priced consumables, and negotiation on medical insurance catalogue are advanced consistently. The progress and intensity of such policies exceed expectations. The central idea of this round of medical reform is to encourage innovation, improve the quality of medicines and equipment, and transform unreasonable expenditures on medical insurance into effective ones.

In recent years, the State has paid more and more attention to the burden of medical expenses, and has introduced policies to reduce the burden of medicines and increase people's livelihood and well-being. On 15 January 2021, the State Council executive meeting once again focused on the drug issues. This meeting required that in accordance with the medical reform deployment, adhere to the three-medicine linkage, and promote the normalization and institutionalization of centralized drug procurement. The promotion of this measure will squeeze out the earnings in the purchase of medicines. On the one hand, it is necessary to select pharmaceutical companies, drugs and consumables through fair competition in quality and price, so that medical institutions can ensure that the selected drugs are used first, and the purchase volume should be increased as much as possible according to demand. On the other hand, it is necessary to strengthen the supervision of the entire chain of drug production, circulation and use. As a pharmaceutical company, it is necessary to promote product innovation and upgrade, improve drug efficiency, and benefit patients, drug reform "reduces burden", and health dividend "benefits people's livelihood".

According to the trend, the prospects of the pharmaceutical industry are promising as in recent years, China has implemented the China's new fertility policy, aging of the population structure has accelerated, the economy has grown sustainably, the per capita disposable income has been increasing, and people have improved their health concepts. On the other hand, China's pharmaceutical industry still faces many challenges such as pressure of transformation, intensified international homogeneous competition, and insufficient innovation and R&D capabilities.

BUSINESS REVIEW

Under the leadership of Mr. Jin Dongtao, the chairman (the "**Chairman**") of the Group, and with the efforts of all employees, the Group anchors in and focuses on the pharmaceutical healthcare field, and has been actively promoting the development of traditional physical retail chain stores and distribution network while facing more intensive competition. Therefore, the Group has to look for new opportunities and explore new way of business and will make efforts in costs reduction and control in coming years. The employees of the Group's retail chain stores stand fast on their posts to provide medicine sales services to local people. In some areas, telephone ordering for home delivery of medicine and/or mobile internet reservation for products were carried out to maintain business continuity and form a complementary online and offline operation model.

The Golden Rules (王道哲學)

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

Chain Retail Business

During the Year, in order to minimise the impact on performance caused by the Epidemic, the Group had started to change its pricing strategies with a view to maintaining earnings of the Group. In the meantime, the Group has strengthened the construction of its O2O platform and formed an online and offline interactive operation system. At the end of the Year, the Group had a total of 845 chain stores (2020: 849 stores). However, the Group's retail business is still suffering from the continuous downturn of regional real economy within the northeastern region of the PRC and the impact of the Epidemic. The Group recorded sales revenue for retail business of RMB519.8 million for the Year (2020: RMB714.4 million), representing a year-on-year decrease of 27.2%.

Nationwide Distribution Business

During the Year, the Group has approximately 2,270 distribution customers and 5 large-scale distribution logistics centers. The Group made appropriate promotion in its distribution system, continued to optimise screening and maintaining of high-quality customers. However, in this circumstance, the Group's distribution business recorded sales revenue of RMB665.4 million (2020: RMB795.7 million), representing a year-on-year decrease of 16.4%.

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 so as to reduce the effect of the policy change of the Group. During the Year, 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.

Branded Products Operation

The Group continued to maintain the operational pattern of the original branded products and adjusted the brand structure according to actual operational requirements to eliminate certain non-applicable products and add new products, so as to maintain the competitiveness of the original branded products, on the other hand, increase the influence of new branded products. During the Year, a net increase of 2 branded products was recorded. Hence, there were 679 branded products in total in operation for the benefit of the Group at the end of the Year.

Intelligent Warehouse Construction

The Group has set up five large-scale logistics distribution centers in Shijiazhuang, Shenyang, Changchun, Harbin and Jiamusi, and has established a high-quality distribution system radiating across the whole country and covering the northeastern region. During the Year, continuously leveraging on Warehouse Management Software System, an intelligent sorting software system, the Group has improved the labor productivity. At the same time, the Group has improved the working environment, the work feelings of employees and customers have been improved, which helps the Group's image upgrade, and lays a solid foundation for planning of the industrial upgrading and intelligent transformation of the logistics park.

Brand Image Promotion

With traditional advantages in continuous brand promotion and marketing, the Group strengthened the influence and competitiveness of the Company and mitigated the further decline in operating performance. During the Year, the Group cut down on traditional media, including televisions, broadcasts, newspapers, vehicle advertisement, billboards and leaflets; adopted new media platforms including the internet, WeChat and internet live broadcast for promotional activities for product brands and enterprise brands, which significantly saved advertising costs. In addition, the Group has participated in the public charity. Especially during the Epidemic period, it carried out activities of free distribution of anti-epidemic supplies and specific donation as a way to enhance the reputation of the Company and practice its corporate social responsibilities.

Institute Training

According to the characteristics of new era, new economy, new technology and new retail, the Group continued to optimise the training activities of the institute and made best use of the business institute on the Group's business development, talent nurturing and public welfare promotion. Moreover, the Group took the advantage of the lead in establishing business institute in the industry to strengthen its cohesion as well as enhance the thinking of employees and help to adapt the new requirement of the transformation and upgrade of the business. During the Year, 49 online video internal trainings in total had been held by the Company due to anti-epidemic.

Membership Service

During the Year, the Group had provided follow-up services and promotion benefits for approximately 1.6 million offline members, enhancing the sense of affiliation and positivity of members while boosting their loyalty, and thus promoting a healthy image of the Company. Meanwhile, the Group provided social value-added services in various aspects such as the provision of public toilets, cold shelters, lost children service centres and epidemic prevented stations for couriers and continued to launch the public welfare activities such as "Love China", with a view to building up its positive corporate image.

Industry Alliance

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

FINANCIAL REVIEW

The Group recorded revenue of RMB1,185.2 million for the Year (2020: RMB1,510.1 million). Loss attributable to owners of the Company was RMB675.4 million for the Year (2020: RMB491.4 million). Loss per share for the Year was RMB174.83 cents (2020: Restated at RMB127.45 cents). The increase in loss attributable to owners of the Company was mainly due to:

- (i) the Group has made an analysis on the impact of the macro and industrial economic environment and performed an impairment assessment on investment in an associate and non-current assets. Attributable to the unfavourable actual performance of an associate, an impairment provision of RMB210.4 million was made for investment in an associate. Besides, an impairment provision of RMB8.2 million was made for non-current assets (including intangible assets, property, plant and equipment and right-of-use assets); and
- (ii) decrease in revenue mainly resulting from the Epidemic and increasing competition in the north-eastern region of China. The Pandemic resulted in prolonged strict control over the activities in the region, which includes travel restriction.

Revenue

For the Year, the Group recorded revenue of RMB1,185.2 million (2020: RMB1,510.1 million). The Group originally adhered to the principle of small profits but quick turnover and striving for customer resources, but the results was not as good as expected due to the influence of the market economy environment and national policies. The Group started to change the pricing strategies and then gradually increase the price level of products.

Analysis of revenue by business segment

	Revenue (RMB million)			Percentage (%) of total revenue		
	Year ended 30 June		Change	Year ended 30 June		Change
	2021	2020		2021	2020	
Retails	519.8	714.4	-27.2%	43.9	47.3	-3.4pp
Distributions	665.4	795.7	-16.4%	56.1	52.7	+3.4pp
	<u>1,185.2</u>	<u>1,510.1</u>		<u>100.0</u>	<u>100.0</u>	

Retail Business Segment

As at 30 June 2021, the Group had 845 (2020: 849) retail pharmacies in total, of which 650 (2020: 654) located in Heilongjiang, 127 (2020:127) in Liaoning, 67 (2020: 67) in Jilin and 1 (2020: 1) self-operated retail pharmacy in Hong Kong. In addition, the Group had 1 (2020: 1) supermarket in Shenyang as at 30 June 2021, mainly for selling healthcare products and consumer goods.

Distribution Business Segment

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

During the Year, the Group had a nationwide distribution network covering approximately 2,270 active customers (2020: 3,050), among which, approximately 1,410 pharmaceutical retailers, hospitals and clinics (2020: 2,020) and approximately 860 distributors (2020: 1,030).

Gross profit

Gross profit of the Group for the Year was RMB156.9 million (2020: RMB188.5 million). Overall gross margin increase from 12.5% to 13.2%. The increase in gross margin was mainly due to the decrease in promotion activities for offering discounts to customers and the increase in product prices.

Analysis of gross profit by business segment

	Gross profit (RMB million)			Gross margin (%)		
	Year ended 30 June		Change	Year ended 30 June		Change
	2021	2020		2021	2020	
Retails	107.0	149.3	-28.3%	20.6	20.9	-0.3pp
Distributions	49.9	39.2	+27.3%	7.5	4.9	+2.6pp
	156.9	188.5				

Selling and marketing expenses

Selling and marketing expenses for the Year was RMB533.8 million (2020: RMB617.3 million) and accounted for 45.0% (2020: 40.9%) of the Group's revenue. The decrease in selling and marketing expenses was mainly due to the decrease in advertising and other marketing but partially offset by the increase in depreciation of property, plant and equipment.

Administrative expenses

Administrative expenses for the Year was RMB66.6 million (2020: RMB75.3 million) and accounted for 5.6% (2020: 5.0%) of the Group's revenue. The decrease in administrative expenses was mainly due to the decrease in donation during the Year.

Finance costs – net

Net finance costs for the Year was RMB10.6 million (2020: Net finance income RMB7.4 million). The increase in net finance costs was mainly due to the increase in exchange losses and the decrease in interest income.

Income tax expenses

Income tax expenses for the Year was RMB5.2 million (2020: RMB1.2 million). Increase in income tax expenses mainly due to reversal of deferred tax assets recognised in prior years. The effective income tax rate for the Year was 0.8% (2020: 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 30 June 2021, the Group's unpledged cash and cash equivalents were RMB33.1 million in aggregate (2020: RMB131.3 million), and the Group's net current assets were RMB103.7 million (2020: RMB434.0 million).

During the Year, net cash flows used in operating activities amounted to RMB107.7 million (2020: RMB408.3 million). The decrease in cash flows used in operating activities was mainly attributable to the decrease in the Group's working capital.

During the Year, the Group had capital expenditure of RMB1.9 million (2020: RMB95.7 million).

Having considered the cash flow from operating activities and existing financial gearing, the management believes that the Group would replenish liquidity in a timely basis to fund its day-to-day operations, capital expenditures and prospective business development projects. The Board will continuously and closely monitor the Group's liquidity position and financial performance and implement measures to improve the Group's cash flows.

The Group mainly operates in the PRC, with most of its transactions denominated and settled in Renminbi. The Group's currency risk is insignificant and mainly arises from certain bank deposits that are denominated in Hong Kong dollars and United States dollars. As at 30 June 2021, the Group had cash and bank balances of RMB33.1 million, of which the equivalent of RMB0.2 million was denominated in Hong Kong dollars and United States dollars.

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

CAPITAL STRUCTURE

In the annual general meeting held on 10 December 2020, the resolution approving the share consolidation of every ten (10) issued and unissued shares with par value of US\$0.001 each in the share capital of the Company into one (1) consolidated share with par value of US\$0.01 (the "**Share Consolidation**") was passed and it took effect on 14 December 2020.

Upon the Share Consolidation became effective, the authorised share capital of the Company was US\$10,000,000 divided into 1,000,000,000 consolidated shares with par value of US\$0.01 each. As at 30 June 2021, 386,313,445 ordinary shares of US\$0.01 each (the "**Shares**") were issued by the Company.

As at 30 June 2021, the Group had no interest-bearing bank borrowings and no bank borrowings carried annual interest rates (2020: Nil).

The gearing ratio of the Group as at 30 June 2021, calculated as net debt divided by sum of total equity and net debt, was N/A (2020: N/A).

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 30 June 2021, the Group had no significant contingent liabilities (2020: Nil).

As at 30 June 2021, notes payable of the Group was secured by the time deposits of the Group with net aggregate booking value of RMB34.7 million (2020: RMB45.2 million).

HUMAN RESOURCES

As at 30 June 2021, the Group had 5,586 (2020: 5,612) full-time employees with total employee benefit expenses amounted to RMB316.5 million for the Year (2020: RMB276.0 million). Employees are paid according to their positions, performance, experience and prevailing market practices, and are provided with management and professional training. The Group has implemented a number of initiatives to enhance the productivity of its employees. In particular, the Group conducts periodic performance reviews on most of the employees, and their compensation is tied to their performance. Further, the Group's compensation structure is designed to incentivize its employees to perform well by linking a portion of their compensation to their performance and the overall performance of the Group. The performance-based compensation partly depends on the employee's job function and seniority. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of China. Meanwhile, the Group endeavours to provide its employees with a safe workplace and structured training programs.

FUTURE PLAN

Following the leadership of the Chairman in strategic plan and taking the Golden Rules as its guidelines, the management of the Group will adapt to the new situation, concentrate on universal health, focus on the pharmaceutical industry, and deeply cultivate the industry chain. On the basis of stabilizing and optimising the existing retail chain network and distribution system, it will further explore the structural transformation and digital upgrading of the "supply-side" reform with focus on the development of the following areas:

Firstly, “Specialization+” strategy is adopted to strengthen the service professionalism and improve the Company’s operation quality. Taking licensed pharmacists as the core and leveraging on the advantages of the business institute, the Group aims to train employees of the new era, and improve the level of pharmacy services for the public from the aspects of corporate culture, pharmaceutical knowledge, service skills, new marketing methods, or introducing famous doctors, as a way to win customers and develop markets with professionalism, and to shape professional brands in retail chain pharmacies and distribution field.

Secondly, “Platform+” strategy is adopted to expand the value-added service items of stores to meet the growing demand of consumers. With the change in living environment, people pay more attention to health, resulting in increasing demand for prevention and treatment. In particular, the COVID-19 outbreak has further reminded the public of the importance of health care and immunity. The Group will adopt new technological methods according to the new situation, such as introducing AI intelligent diagnostic medical equipment, or introducing resources in the field of universal health in the form of partners, to enhance the service capabilities of terminal stores and with alert marketing model, implement franchise store promotion model as to adapt to the market needs in the new situation.

Thirdly, “Internet+” strategy is adopted to strengthen the linking capability of internet to physical stores, and promote online and offline connectivity and integration. According to the development trend of technology and the internet, the Group will make full use of the new situation of the popularization of mobile internet terminals, including development of applets, use of short videos and live commerce, moments promotion, group development and bonding members, to develop a network for physical stores, explore a new marketing ecosystem integrating “new business, new retail, and new technology”, and build a dynamic and leading competitiveness.

Therefore, by leveraging the network layout advantages of traditional industries and grafting the new economic model, introducing to partnership model, the Group will make efforts to facilitate the optimization and digital transformation of the Group’s operation structure, and make plans for a new development cycle with the wing of new engine for the Company, so as to maintain the Group as one of the industrial leaders in terms of the construction of industrial chain ecosystem and operation channel innovation.

EVENTS AFTER THE YEAR

Mr. Jin Dongtao, the chairman of the Board and an executive Director, has resigned as the chief executive officer of the Company, and Mr. Chu Chuanfu has been appointed as the chief executive officer, with effect from 1 August 2021 for the sake of corporate governance of the Group; and Mr. Sun Libo has resigned as an executive Director with effect from 1 August 2021 but will remain as an executive affairs officer (行政外事主任) of the Group so as to enable him to focus on executive work of the Group.

For details, please refer to the announcement of the Company dated 30 July 2021.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 30 June 2021 (2020: Nil).

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 6 December 2021, to Thursday, 9 December 2021, both days inclusive, in order to determine the identity of the shareholders of the Company (the “**Shareholders**”) who are entitled to attend the forthcoming annual general meeting of the Company to be held on Thursday, 9 December 2021. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, 3 December 2021.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) throughout the Year, except for deviation from code provision A.2.1 of the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The positions of chairman and the chief executive officer of the Company have been held by Mr. Jin Dongtao during the Year. The Board believes that despite the responsibilities of the chairman and the chief executive officer of the Company vested by same person, all major decisions were made in consultation with the Board.

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

The Company has complied with all code provisions as set out in the CG Code since 1 August 2021 and, where appropriate, the applicable recommended best practices of the CG Code.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) comprises 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 data and financial reporting procedure of the Group, and overseeing the Group’s financial reporting system, risk management and internal control systems. The Audit Committee had reviewed the annual results of the Group for the Year.

SCOPE OF WORK OF MAZARS CPA LIMITED

The figures in respect of the Group’s consolidated balance sheet, consolidated statement of comprehensive income, and the related notes thereto for the Year as set out in this annual results announcement have been agreed by the Group’s auditor, Mazars CPA Limited (“**Mazars**”), to the amounts set out in the Group’s draft audited consolidated financial statements for the Year. The work performed by Mazars in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Mazars on the preliminary results announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PUBLICATION OF THE ANNUAL RESULTS AND 2020/21 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange and the Company, and the 2020/21 annual report containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.uhighl.com) in due course.

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

Hong Kong, 28 September 2021

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