

LEVEL 7 ASSESSMENT SPECIFICATION

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Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

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Executive Summary

The Greater Bay Area presents significant potential for Hong Kong companies to deliver differentiated services and products to capture new growth opportunities. As one of the leading cities within the Greater Bay Area, Hong Kong has much expertise to offer, especially so in the healthcare sector.

With China's ageing population and increasing disposable income, consumers have become increasingly health conscious. In particular, corporates and insurance companies are increasingly seeing the importance of healthy employees and customers in China. Such increasing desire for healthier lives have led to waves of different technological solutions, empowering consumers to seek healthcare advices from the convenience of their mobile phones. However, as of today, there is yet a real solution provider that helps consumers to seek quality, affordable and accessible care. While various IT giants have solved some of the accessibility issues, most consumers in China continue to have unsatisfactory experiences of queuing up for a long time to see quality doctors in China.

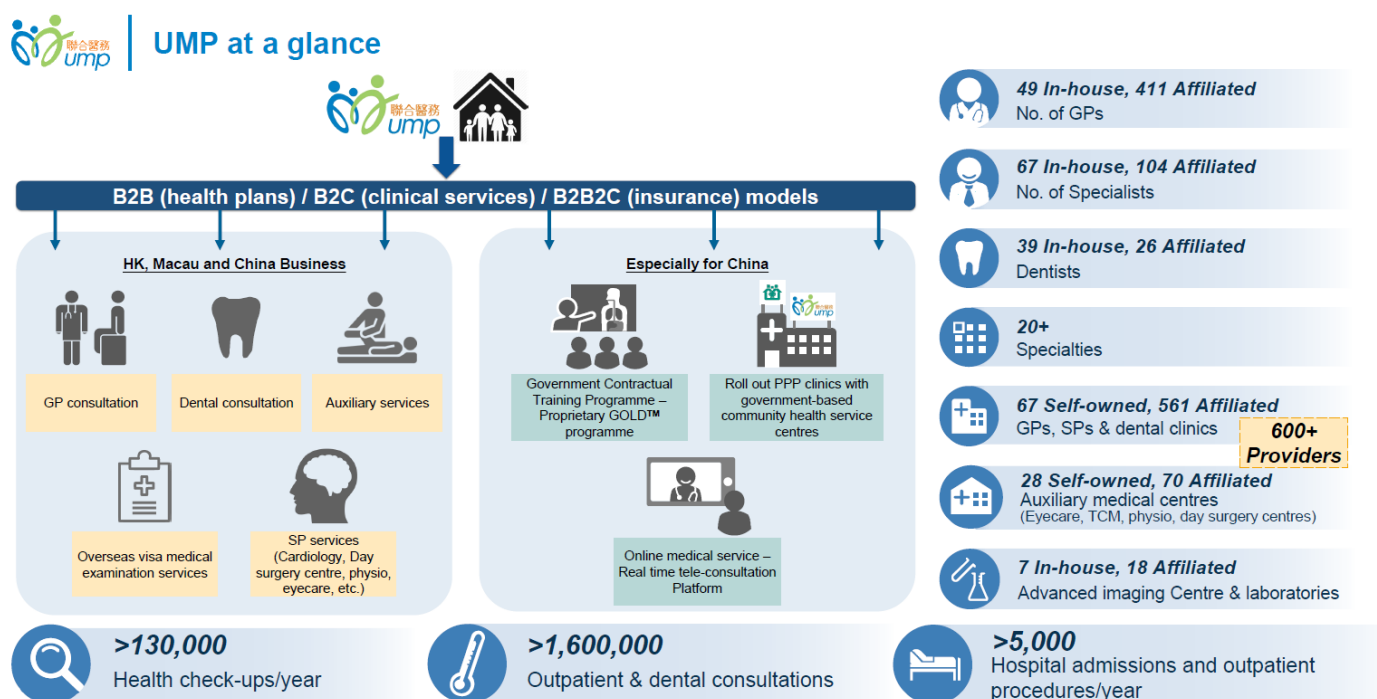
UMP is one of the leading Healthcare Maintenance Organisation ("HMO") in Hong Kong and is now planning to expand into the GBA. With its unique brand and significant experience in primary care and managing health plans, UMP stands to benefit from the increasing demand for quality healthcare solutions in the GBA.

This paper shall first discuss UMP's vision and its unique competitive strengths. It also discusses UMP's weaknesses, its external threats and the opportunities that the GBA presents. The paper will then examine various external factors before proposing various strategic options that UMP should consider in seizing the opportunities in primary care and in GBA. Lastly, the paper will also examine the likely barriers UMP will need to overcome in order to succeed. The paper concludes that, with perseverance and caution in executing the various strategic options proposed, UMP stands in a great position to pursue its vision of giving everyone in the GBA access to trusted and affordable care, thereby also delivering potential significant return to UMP's shareholders.

About UMP Healthcare Holdings Limited (“UMP”)

UMP is a Hong Kong based healthcare maintenance organisation (“HMO”) founded in 1990. Founded and managed by a group of doctors, UMP has been a consolidator, coordinator and administrator of a large number of doctors in providing custom-made health management plans to (i) employees of corporates and (ii) policy holders of insurance companies. From a humble beginning, UMP now delivers healthcare benefits management to over 1 million members annually, administering more than 10,000 health plans and delivering more than 1.6 million outpatient visits through its more than 600 doctors and services providers located across Hong Kong, Macau and various regions in China¹. UMP generated revenue of HK\$567.4 million for the financial year ended June 30, 2019.

Figure 1- UMP at a glance - The information is extracted from UMP's 2019 investor presentation, page 11. See www.ump.com.hk for more information



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UMP offers a comprehensive range of healthcare services to its members such as general outpatient services, specialist services, dental services, imaging services, lab services and auxiliary health services, including physiotherapy and health check-ups. UMP became a listed company in

Hong Kong in 2015. A summary of the healthcare services provided to UMP's members is set out below:

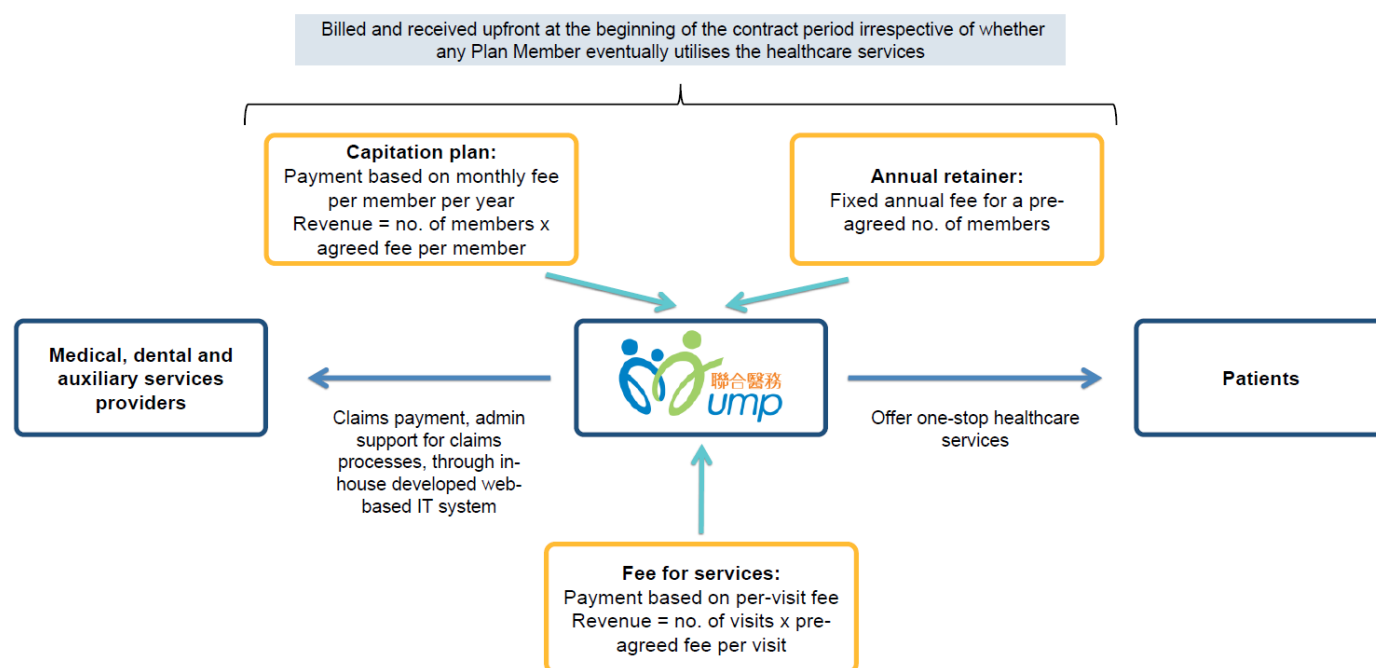
Figure 2 – range of healthcare services provided by UMP. The information is extracted from UMP's 2019 investor presentation, page 12. See www.ump.com.hk for more information



UMP works with Corporate Customers to design outpatient and inpatient services plan that match their required product features and sales/cost budgets. UMP primarily charges its Corporate Customers based on (i) an annual fee per person or (ii) fee per usage of services. The covered members and employees can obtain, on credit, healthcare services at providers accredited and verified by UMP, and UMP will help the Corporate Customers to monitor whether the services provided are within the benefits coverage provided to such covered members.

UMP plays an important role in helping its Corporate Customers to design products that could cover a broad range of healthcare services. At the same time, UMP plays a critical role in cost containment, while ensuring quality healthcare services are provided. A summary of UMP's service fee model for its partnerships with its Corporate Customers are set out below:

Figure 3 – service fee model between UMP and its business customers. The information is extracted from UMP's 2019 investor presentation, page 9. See www.ump.com.hk for more information



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Vision and Mission

UMP's vision, as stated on www.ump.com.hk, is "to give everyone access to trusted and affordable care so that everyone can freely pursue their dreams without worrying about their health". To achieve such vision, UMP's mission is to "aim to be the leading offline and online primary care provider in the world". It is worth examining what UMP's vision statement means in practice. The vision statement is bold in its ambition to give (1) everyone access to (2) trusted and (3) affordable healthcare.

Trusted Care

As stated in UMP's IPO prospectus² and its subsequent annual reports after the IPO, UMP has invested significant resources to ensure it provides trusted care to its members and patients. Such commitment to trust is illustrated by (i) doctors' and service providers' initial and on-going annual accreditation procedures before they can join UMP's service network, (ii) independent background checks conducted on such doctors and service providers before they can serve UMP's members, (iii) regularly conducting medical committee meetings to review UMP's clinical and administrative service procedures and (iv) in the case of its China expansion strategy, UMP went as far as developing its own General Practitioner ("GP") training and accreditation programme for

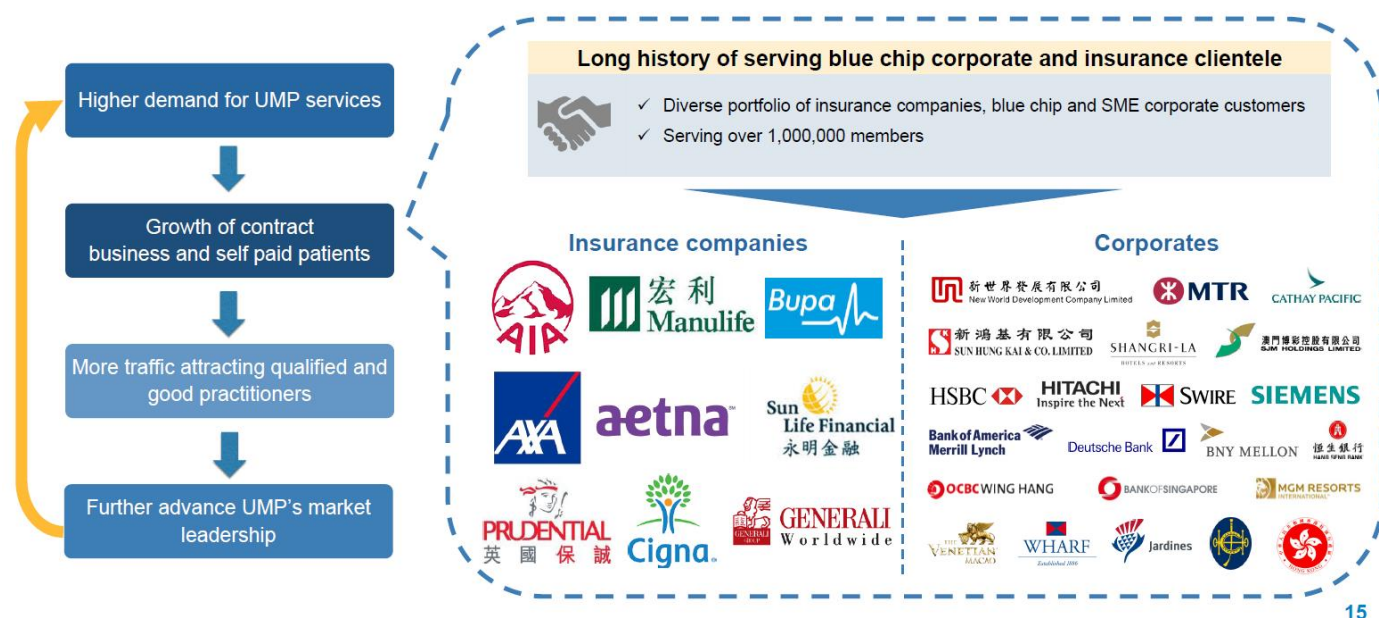
Chinese doctors³, setting minimum clinical standards expected from outpatient doctors who provide services to UMP's members in China.

Affordable Care

UMP has been formulating health plans based on a primary healthcare referral model, meaning that for patients who might require more expensive specialist services, lab services and imaging services, members are first required to consult their GPs and seek referral letters before using such services. This requirement to seek referral from GPs is not just a cost containment strategy of UMP, it is also from the perspective of wanting to deliver to patients a holistic care approach, preventing medically unnecessary examinations, and empowering the GP to act as a patient's overall care coordinator for all the medical needs of the patients.

Through such mandatory GP referral system, and together with other contributing success factors such as (i) commitment to invest in technology and (ii) commitment to training of its clinical and administrative staff, UMP has developed its own knowhow and industry knowledge on the pricing and designing of health plans for the appropriate type of Corporate Customers, at competitive and yet differentiated pricings. Such flexible and customised health plans pricing model has enabled UMP to continue to renew its contracts with an increasing number of Corporate Customers over the past decades, providing a predictable income stream for UMP to keep reinvesting back into its business to expand its range of services and strengthen its core capabilities. An illustration of such virtuous cycle is copied below from UMP's investor presentation:

Figure 4 Summary of corporate customer served by UMP and the virtuous cycle from such business model - see UMP investor relations for more details



Accessible to Everyone

The biggest challenge, and at the same time, the biggest entry barrier to the HMO market lies in an organisation's ability to connect, coordinate and integrate a large number of doctors and service providers to provide coordinated and agreed fee services to patients. UMP has managed to build a physical network of over 600 doctors and other healthcare service providers, through, among various other factors, sheer will, time, persistence, perseverance and a commitment to invest in technology to connect all the providers.

Corporate Customers generally trust UMP to select and engage with the appropriate providers. UMP has good value propositions to doctors by facilitating the members of these Corporate Customers to attend to the clinics of those doctors accredited by UMP. In its latest strategic move, UMP is also investing heavily in technology to roll out its virtual care telemedicine platform, which will allow members to seek health advice from UMP accredited doctors through video conference on their mobile phones at anytime and anywhere, 24 hours a day and 365 days of the year. More details about such strategy will be discussed in Part 2.

Financial performance analysis

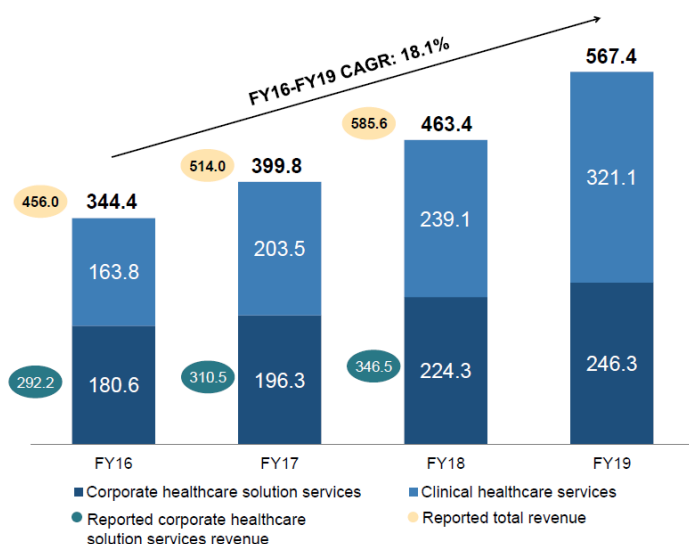
Profit and loss statement analysis

As a listed company, UMP publishes its audited financial results in September every year. A summary of UMP's financial performance is set out below:

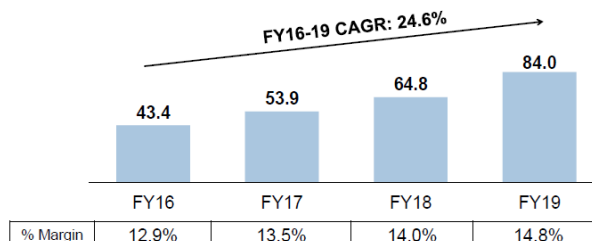
Figure 5- Key profit and loss items - see UMP investor relations for more details

Key profit & loss items

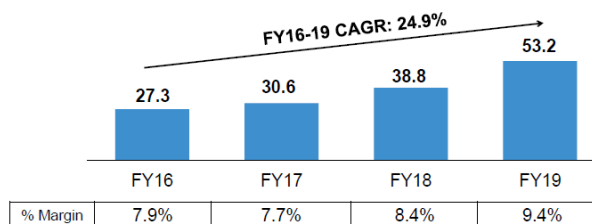
Revenue (HK\$m)



Adjusted EBITDA¹ (HK\$m)



Adjusted net profit² (HK\$m)



Note: Corporate healthcare solution services revenue in FY16-FY18 has been restated due to the revenue recognition policy of IFRS.

¹ Adjusted EBITDA is adjusted for one-off non-recurring items, non-cash warrant expenses and non-cash share-based payment giving shareholders a proxy of operating cash flow generated by the Group's business in Hong Kong, Macau and the PRC. FY17 and FY16 adjusted EBITDA and adjusted net profit is restated to include PRC healthcare business which was previously excluded in the results announcement.

² See appendix for adjustment.

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UMP has been growing its business through organic growth and also through acquisitions in the past 4 years. Its previous China expansion strategy, however, had led to operating losses since 2015. In addition, through various acquisitions and non-cash expenses, UMP reported a year on year decrease in reported net profit from HK\$37.5 million for financial year 2018 to HK\$19.5 million for financial year in 2019, as shown in the table below:

Figure 6 - Adjusted EBITDA illustration

	(HK\$ '000)	FY2016 (restated)	FY2017 (restated)	FY2018 (restated)	FY2019
• As we are fast expanding in China, net profit trend is not reflective of our expansion strategies	Reported Net profit	6,882	48,244	37,502	19,549
• UMP is committed to adopting a light asset approach and investing significantly to capture the untapped primary care opportunities in China	Interest income	(872)	(3,061)	(4,934)	(6,611)
• Strong debt free balance sheet - Selective strategic acquisitions can be executed quickly	Depreciation & amortisation	9,611	17,561	19,997	22,701
• Better for investors to focus on cash generation capabilities as reflected by Adjusted EBITDA	Income tax expenses	7,372	8,850	11,003	14,726
• Adopting a balance between (i) investing for growth through capital investment and equity incentives and (ii) delivering return to investors through growing dividend	EBITDA	22,993	71,594	63,568	50,365
	Reconciliations:				
	Equity-settled share-based payment expense	7,546	8,066	1,771	48,301
	Net gain on disposal of subsidiaries/associates	-	(16,483)	-	(9,315)
	Gain on disposal of items of property, plant and equipment	-	-	-	(520)
	Non-cash fair value gain / remeasurement / bargain of items	(3,499)	(9,246)	(500)	(4,813)
	One-off listing expenses	16,376	-	-	-
	Adjusted EBITDA¹	43,416	53,931	64,839	84,018
	Cash and treasury related products	329,021	501,011	369,169	274,128
	Full year dividend (HK cent per share)	2.0	2.7	2.9	3.2

Note: Corporate healthcare solution services revenue in FY16-FY18 has been restated due to the revenue recognition policy of IFRS.

1) Adjusted EBITDA is adjusted for one-off non-recurring items, non-cash warrant expenses and non-cash share-based payment giving shareholders a proxy of operating cash flow generated by the Group's business in Hong Kong, Macau and the PRC. FY17 and FY18 adjusted EBITDA is restated to include PRC healthcare business which was previously excluded in the results announcement

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It is however worth noting that UMP management team had provided explanations for such decreasing trend. During 2015 to 2018, UMP's China expansion strategy was focused on opening up physical clinics in China and managing such clinics directly. Such clinics however led to significant losses due to the high cost of maintaining such clinics and also a lack of sufficiently qualified suppliers (i.e. quality doctors) for private clinics in general.

This vicious cycle meant that UMP had to pay above the market salaries to attract doctors, while at the same time, bearing the high cost of running more than 10 clinics spread across Beijing, Shanghai, Guangzhou and Shenzhen. UMP implemented a few strategies to mitigate such loss, including working with private equity funds to share the initial ramp up cost of operating these newly set up clinics. In the end, however, UMP still decided to divest these clinics and refocused its strategy on its core strength of (i) clinics and service providers' network management, (ii) empowering its Corporate Customers to design competitively priced health plans, (iii) doctors and service providers' accreditation and (iv) in the case of China, defining the minimum clinical and service standards that would fit the requirement of Corporate Customers.

Such focus, together with its strategy of strengthening the group's services in Hong Kong and Macau through horizontal acquisitions, meant that, notwithstanding the investments being made in expanding UMP's business into the Greater China market, UMP still managed to achieve double digit growth in adjusted EBITDA⁴. UMP generated its historical high of HK\$84 million in adjusted

EBITDA for the financial year ended June 30, 2019. With such strong operating cashflow, UMP has continued to pay a growing dividend per share to its shareholders. A more detailed analysis showing year on year changes and margins is set out below:

Figure 7 - UMP Healthcare Holdings Limited - financial analysis

UMP Healthcare Holdings Limited - Consolidated Statement of Profit or Loss

(HK\$M)	FY2015	FY2016	FY2017	FY2018	FY2019
Corporate healthcare solution services	168.6	180.6	196.3	224.3	246.3
YoY growth (%)		7.1%	8.7%	14.3%	9.8%
% of total revenue	56.6%	52.4%	49.1%	48.4%	43.4%
Clinical healthcare services	129.2	163.8	203.5	239.1	321.1
YoY growth (%)		26.8%	24.2%	17.5%	34.3%
% of total revenue	43.4%	47.6%	50.9%	51.6%	56.6%
Total Revenue	297.8	344.4	399.8	463.4	567.4
YoY growth (%)		15.6%	16.1%	15.9%	22.4%
Other Income and gains, net	7.9	8.5	53.6	11.6	25.4
Professional services expenses	(131.2)	(146.8)	(173.4)	(187.1)	(229.3)
margin %	44.0%	42.6%	43.4%	40.4%	40.4%
Employee benefit expense	(65.8)	(78.7)	(100.3)	(121.4)	(143.8)
margin %	22.1%	22.8%	25.1%	26.2%	25.3%
Property rental & related expenses	(23.2)	(35.4)	(41.0)	(42.7)	(54.4)
margin %	7.8%	10.3%	10.2%	9.2%	9.6%
Cost of inventories consumed	(15.9)	(17.6)	(20.5)	(23.7)	(30.6)
margin %	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation and amortization	(6.0)	(9.6)	(17.6)	(20.0)	(22.7)
margin %	2.0%	2.8%	4.4%	4.3%	4.0%
Other expenses, net	(17.9)	(42.4)	(31.2)	(34.1)	(80.1)
margin %	6.0%	12.3%	7.8%	7.4%	14.1%
Share of profits/(losses) of associates	0.0	(10.0)	(14.0)	0.3	0.0
Share of profits/(losses) of joint venture	1.9	1.8	1.6	2.2	2.4
Profit before tax	47.7	14.3	57.1	48.5	34.3
margin %	16.0%	4.1%	14.3%	10.5%	6.0%
Income tax expense	(6.9)	(7.4)	(8.9)	(11.0)	(14.7)
Effective tax rate	14.5%	51.7%	15.5%	22.7%	42.9%
Reported net profit	40.8	6.9	48.2	37.5	19.6
YoY growth (%)		-83.1%	601.0%	-22.3%	-47.8%
margin %	13.7%	2.0%	12.1%	8.1%	3.4%
Reported EBITDA	53.8	23.0	71.6	63.6	50.4
YoY growth (%)		-57.2%	211.4%	-11.2%	-20.8%
margin %	18.1%	6.7%	17.9%	13.7%	8.9%
Reconciliations	(1.6)	20.4	(17.7)	1.3	33.7
Equity-settled share-based payment expense	0.0	7.5	8.1	1.8	48.3
Net gain on disposal of subsidiaries/associates	(3.0)	0.0	(16.5)	0.0	(9.3)
Gain on disposal of items of property, plant and equipment	0.0	0.0	0.0	0.0	(0.5)
Fair value gain on contingent consideration receivable	0.0	0.0	0.0	0.0	(2.8)
Fair value gain on derivative financial instrument	0.0	0.0	0.0	0.0	(2.0)
Net gain on remeasurement of previously held interest in an available-for-sale investment/joint ventures	0.0	0.0	(8.8)	(0.5)	0.0
Gain on bargain purchase	0.0	(3.5)	(0.4)	0.0	0.0
One-off listing expenses	1.4	16.4	0.0	0.0	0.0
Adjusted EBITDA ¹	52.2	43.4	53.9	64.8	84.0
YoY growth (%)		-16.8%	24.2%	20.2%	29.6%
margin %	17.5%	12.6%	13.5%	14.0%	14.8%

Note: Corporate healthcare solution services financials in FY2015-FY2018 has been restated due to the revenue recognition policy of IFRS.

1) FY2017 and FY2016 adjusted EBITDA is restated to include PRC healthcare business which was previously excluded in the results announcement

Source: UMP Healthcare Holdings Limited annual reports

Balance sheet analysis

UMP's balance sheet remains strong with no debt and a cash & cash equivalent of approximately HK\$274 million. The notable increase in receivables to HK\$105 million in 2019 is in line with the

growth of its business, with increase in receivable days being in line with the increase in payable turnover days in parallel (see balance sheet analysis highlighted in yellow below). A note of caution is the increase in goodwill on the balance sheet due to more than HK\$130 million of acquisitions UMP had completed in 2018. If these acquired targets do not financially perform as expected, such goodwill may need to be written down and will cause significant negative impact to the reported net profit in future financial results. Set out below is an analysis of UMP's balance sheet:

Figure 8- UMP Healthcare Holdings Limited - balance sheet analysis

UMP Healthcare Holdings Limited - Consolidated Statement of Financial Position

(HK\$M)	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>
Non-current assets					
Property, plant and equipment	27.0	38.4	43.9	103.8	101.1
Goodwill	28.1	32.8	41.4	58.2	163.7
Other intangible asset	0.0	0.3	0.2	9.4	79.4
Investments in joint ventures	0.0	23.8	0.9	1.2	1.2
Investments in associates	1.9	2.2	3.1	5.5	9.0
Held to maturity investments	0.0	26.7	46.0	58.6	0.0
Financial assets at amortised cost	0.0	0.0	0.0	0.0	46.7
Available-for-sale investments	3.5	9.0	9.4	9.8	0.0
Investments at fair value through other comprehensive income	0.0	0.0	0.0	0.0	52.9
Deferred tax assets	1.2	1.2	1.4	1.0	1.3
Long-term Deposits	5.0	16.3	15.3	15.7	15.9
Total non-current assets	66.7	150.7	161.6	263.2	471.1
Current assets					
Inventories	5.2	6.9	6.7	8.2	11.8
Trade receivables	45.1	47.5	56.8	78.8	105.0
Receivable turnover days	-	49	48	53	59
Prepayments, deposits and other receivables	9.8	9.4	8.8	12.3	21.0
Financial assets at fair value through profit or loss	2.7	2.0	2.4	2.4	2.4
Held-to-maturity investments	0.0	30.0	15.0	10.9	0.0
Financial assets at amortised cost	0.0	0.0	0.0	0.0	14.1
Due from associates	3.6	0.6	6.2	5.6	4.1
Due from related companies	31.9	0.0	5.3	2.7	3.6
Due from a joint venture	0.0	0.0	0.0	0.4	0.0
Tax recoverable	0.1	0.4	0.8	1.0	0.1
Pledged deposits	1.0	0.8	0.8	1.4	1.4
Cash and cash equivalents	83.5	261.3	434.1	294.0	207.6
Assets of a disposal group classified as held for sale	0.0	0.0	0.0	56.7	0.0
Total current assets	182.9	408.0	584.4	527.8	430.1

Current liabilities

Trade payables	41.1	47.3	53.7	39.2	49.6
Trade payable days	-	(98.1)	(95.1)	(80.4)	(62.3)
Other payables and accruals	46.2	41.5	37.2	48.5	73.1
Due to associates	0.1	0.3	0.2	0.2	0.1
Due to related companies	79.2	0.0	0.4	0.5	0.6
Due to a joint venture	0.0	0.0	0.0	0.0	0.2
Due to a director	6.8	0.0	0.0	0.0	0.0
Derivative financial instrument	0.0	0.0	0.0	0.0	0.7
Tax payable	8.2	7.8	9.2	9.5	14.4
Liabilities directly associated with the assets classified as held for sale	0.0	0.0	0.0	0.0	0.0
Total current liabilities	181.6	(1.2)	5.7	17.4	76.4
Net current assets	1.3	409.1	578.7	510.4	353.7
Total assets less current liabilities	68.0	559.8	740.3	773.6	824.8
Non-current liabilities					
Deferred tax liabilities	0.5	0.4	1.0	3.1	14.6
Provision	1.4	1.7	1.1	2.2	2.8
Total non-current liabilities	1.8	2.1	2.0	5.4	17.4
NET ASSETS	66.2	557.7	738.3	768.2	807.4
Equity					
Issued capital	0.0	0.7	0.7	0.8	0.8
Reserves	67.7	411.4	531.9	566.4	612.2
Non-controlling interests	(1.5)	(1.5)	64.0	67.3	73.0
TOTAL EQUITY	66.2	410.6	596.6	634.4	686.0

Note: FY2018 financials has been restated due to the revenue recognition policy of IFRS.

Source: UMP Healthcare Holdings Limited annual reports

Internal Audit – SWOT analysis

Strengths

Well established brand and long history creates high entry barrier in an industry that relies on trust - UMP has been providing health management plans to Corporate Customers since 1990 and has strongly established its brand as a trusted provider of healthcare services. Through such long history of operations and due to the quality services provided by UMP, UMP has accumulated a large customer base of more than 3,000 corporates, with high renewal rate for contracts annually.

Significant industry knowhow - UMP has developed significant in-house knowhow in doctors and healthcare services provider management, claims processing and clinic network management. UMP was also one of the early entrant to the China's private healthcare market by opening up its

first clinic in Beijing in 2001. Such early mover advantage means that UMP has significant experience in navigating the China private healthcare market.

Clear market positioning focusing on a GP led model - More fundamentally, and especially for the China market, UMP has clearly positioned itself as a leading primary healthcare / GP group with more than 400 GPs practicing across Hong Kong, Macau and Greater China. These GPs serve as gatekeepers on behalf of UMP for UMP's Corporate Customers, helping UMP to administer appropriate cost controls in accordance with the defined benefits for different members. While UMP does provide specialist services, it is the strategic positioning of UMP, as a GP group, that makes UMP uniquely suited to act as connectors among Corporate Customers, GPs, specialist doctors and auxiliary health service providers. In China, UMP has gone one step further by creating its own GP training programme⁵ to define GP practicing standards that are suitable for the private healthcare market.

Weaknesses

Lack of commitment to technology - Although UMP was the first in the market in rolling out IT solutions to connect a large number of healthcare services providers in the market, UMP overall has not caught up with how technological innovations might stand to evolve, or even disrupt, how healthcare services are delivered and how health plans might, in the future, be administered. Such lack of commitment on how technology and digitalization might disrupt traditional business models is not a unique issue to UMP, but rather, at the risk of generalization, is a lack of focus that applies to a large number of Hong Kong businesses. Focusing on technology requires investment in research and development, yet the Hong Kong market itself is too small to merit large amount of such investment, leading to a vicious cycle that Hong Kong lacks technologists to help traditional businesses to embrace the conveniences and innovations brought by modern technologies (such as potential applications of artificial intelligence and machine learning to established businesses).

Weak organizational culture posts bottlenecks for future managers and leaders development - UMP has not been upfront in communicating and preaching to its staff UMP's vision

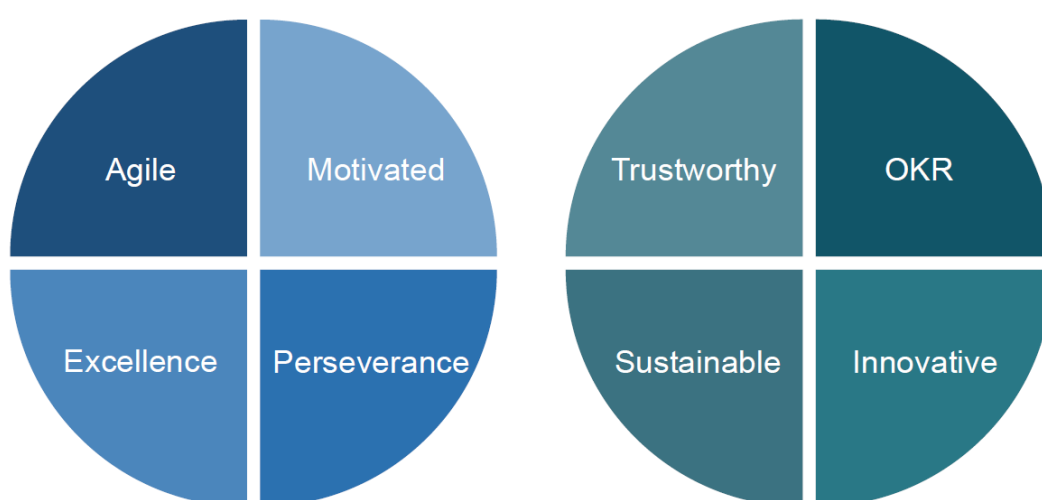
and mission, and what such vision and mission and values means in relation to different business units and UMP as a whole.

After reviewing UMP's IPO prospectus and its annual reports, it was not until the 2019 annual report that there is mentioning of UMP's purpose and the corporate values UMP upholds. The corporate values that UMP now evangelizes are copied below from its annual results presentation:

Figure 9 - UMP Corporate Values - see UMP investor relations for more details



Our Values



50

Without a firm organizational culture in place, it will be challenging for UMP to establish a talent development and people strategy for recruiting and training its next generation of managers and leaders for future growth. UMP will need to firmly establish its organizational culture to ensure its staff and the organization is structured and encouraged to practice such values, breaking the silos that currently exist across the organization (again, this is not a problem that is unique to UMP. As organisations get larger, it becomes increasingly challenging to channel to employees a consistent understanding of an organisation's vision, mission and values).

Weak marketing –UMP has been relatively weak in its marketing activities and external communications. It was not until recently in September 2019 that UMP re-established its corporate website. UMP also just attended, for the first time, industry conferences that are aimed at the health insurance sectors in September 2019. Many insurance companies' participants only heard of UMP

for the first time at such conference. UMP needs to revamp its external marketing effort to make its brand even more visual and leverage off different market channels to reach out to new Corporate Customers.

Opportunities

Digitalisation leading to new revenue source – UMP processes more than 1.6 million outpatient records every year. At the moment, all such processing is mostly done manually, or at most, through OCR scans for data keeping without further analysis. There are significant data insights that can be harnessed through greater digitalisation of claims information, such as data analysis for population health management, efficiency gains through pattern analysis for drug procurement and developing preventive healthcare management plans through greater digital interaction with customers. Embracing digitalisation will also increase UMP's market positioning. Due to UMP's long operating history in Hong Kong and in Greater China, UMP has the largest amount of health data of its members among all competitors, a real competitive resource that could set UMP apart for future growth through identifying new growth engines and business models based on data analysis.

Telemedicine and virtual care - UMP can also leverage telemedicine and virtual care to start developing a B2C / B2B2C model of reaching out to members directly. With the forever increasing connection speeds and the expected roll out of 5G technology in Hong Kong and in Greater China, making doctors available for reach to members through telemedicine will provide UMP massive opportunities to start building better CRM and engagement with members and patients. Internationally, companies such as Teladoc (a US listed company that provides telemedicine services through mobile phones, market capitalisation of US\$5.8 billion as of November 30, 2019) and Babylon Health⁶ (a UK technology company that provides telemedicine services, with latest private equity valuation in excess of US\$2 billion) have had great success in leveraging telemedicine as a portal for greater connectivity with members, ultimately leading to better renewal rates for health plans and better patient management through more personalised digital engagement with members.

Geographical expansion in China through GP training and health plans development & sales

– UMP’s extensive experience in health plans management and its deep primary care experiences stands to help the Chinese government in primary healthcare. China is committed to its healthcare reform plans by setting a goal of having 5 GP doctors for every 10,000 citizen by 2030. China has been seeking trainings from around the world, collaborating with professional GP organisations from United Kingdom, Australia and Canada. However, due to English language and cultural differences, the expected outcome from such collaborations have been mixed. UMP can become the first in the market by delivering primary care educational training courses in Chinese and also with a true appreciation of the local Chinese culture and medical practices. The potential market is significant as China will need to train, by 2030, over 700,000 GP doctors⁷. Such types of training will also require on-going assessment and updates, meaning that there is potential for recurring training revenue beyond just an initial course fee. With enough trained GPs, UMP can also leverage on its strengths and develop health management plans for sales in China.

Threats

Fierce competition– the biggest threat to UMP’s future growth is complacency with its strength and not being able to appreciate and taking prompt response to how peer competitors and non-traditional competitors could take market share from UMP on the HMO business.

Obvious peer competitor threats - Hong Kong listed healthcare groups such as Human Health (stock code 1419:HK), New Century Healthcare (1518:HK), Union Medical Group (2138:HK), Town Health (stock code 3886:HK) and Medinet (8161:HK) are all competing with UMP in a red ocean, whereby all market players are offering *more of the same* healthcare services and more physical locations. Since 2015, all these competitors have invested to set up more clinical locations across Hong Kong and China and recruited more doctors to join their groups. Such investments have led to increasing demand for quality private market doctors, driving up salaries and directly also putting pressure on operating margins. More analysis shall be provided under the Porter’s analysis below.

Not so obvious competitors' threat - UMP was innovative in the past in first contracting with a large number of doctors and service providers in order to package health plans to Corporate Customers, earning in such process (i) a product design fee, (ii) an administration fee and (iii) a spread from utilisation rate predictions (i.e. Corporate Customers pay a fee per person for usage, and UMP and Corporate Customers have different judgment on healthcare services utilisation rates). In this new digital era, however, such middleman business model is most ready to be disrupted by technology, as can be seen that the largest taxi service providers own no taxis and sign no contracts with drivers (i.e. Uber), the largest hospitality group owns no real estate and sign no contracts with owners (i.e. Airbnb) and the largest retailer owns no inventory and sign no contracts with merchants (i.e. Alibaba and Amazon).

Platform and on demand business models to becoming a norm - the global economy is moving to an on-demand business model, both from a customer's and supplier's perspective. For UMP, there is a risk that customers (i.e. patients) eventually will want to see any doctors any time they want, and suppliers (i.e. doctors) will want to deliver services at anywhere and at anytime they want. Such flexibility requires an agile adoption of technology and business processes, including embracing the need to adopt artificial intelligence, cloud technology and most importantly, acknowledging the need to become a *platform based business model* where UMP will work collaboratively with both customers and suppliers. UMP needs to examine what its true *comparative* competitive advantages are versus its peers and other non-traditional competitors urgently in order to chart the future path for growth.

External Audit – PESTEL and Porter's Five Forces Analysis

PESTEL

Political

UMP operates across Hong Kong and mainland China. Regarding Hong Kong, there is enough political will to enhance primary care⁸, with recent government policies including the setting up of public-private-partnership district health centers and the launch of the voluntary health insurance schemes to make healthcare more accessible to the Hong Kong population. Hong Kong government is also under significant pressure to reduce waiting time for services at various public hospitals, and has submitted proposals by working with the Hong Kong Medical Council to make it easier for foreign qualified doctors to practice in Hong Kong⁹.

Regarding China, the Chinese Government has also made reforming of primary care one of its key national healthcare initiatives. With an ageing population, prevalence of non-communicable chronic diseases and a fast increasing health expenditure, the Chinese government has launched series of health reform initiatives, one of such being the primary healthcare reform, with the Chinese government investing significantly on recruiting, training and retaining general GPs to practice at community health centres. The Chinese government understands that making healthcare services accessible to the mass public is one of the key tools in maintaining a stable China. In addition, as part of the Chinese government national policies of developing the GBA, Hong Kong will play an important role in sharing its expertise in various sectors, in particular, in the healthcare sector. UMP should seize such opportunity to expand its scale under such favourable government policies.

Economic

UMP currently derives approximately 80% of its revenue from Hong Kong. Hong Kong is currently experiencing a significant down turn in business activities as its economy contracted by 2.9% in 3Q 2019 as compared to same period last year. According to the Hong Kong government, this is the first period-to-period contraction in economy since 2009¹⁰, affecting many different industries, including healthcare. UMP has 2 different business segments, being (i) administering health plans for corporates and insurance companies and (ii) delivering consultation services in its medical facilities. Although patients would still need to obtain healthcare services notwithstanding

the macro economic conditions, the economic downturn is likely to affect non-essential healthcare spending (i.e. such as annual health check-ups). The health plan business segment will unlikely be affected immediately, given a majority of the revenue is on a pre-paid basis, but there is a high probability that given the macro conditions, insurers and corporates will demand for pricing adjustment in 2020.

Social-cultural

In Hong Kong, patients generally would first approach their GPs to seek medical advice and obtain referrals to specialists if needed. Such culture forms the foundation of UMP's health plan management business, whereby through a network of GPs, UMP is able to achieve the dual goal of health outcome for patients and also achieve cost containment through avoid medically unnecessary procedures. In China, the culture of patients wanting to visit specialists at hospitals directly (often leading to long queues for outpatient services in various Class 3 hospitals in China¹¹) mean that Chinese patients remain sceptical on whether GPs would have the necessarily skills to conduct accurate diagnosis or referral services to specialists. Such difference in culture between Hong Kong and China means that UMP must localise its GP business model for the China market by addressing these cultural differences. A literal application of the Hong Kong GP business model would likely lead to sunk investments without positive impact.

Technological

China is in a leading position on technology application to the healthcare sector. Such technological innovations are already leading to advances in administration procedures such as online booking for hospital and clinic services, medical expenses claims administration and access to electronic medical records, to more advanced applications such as using artificial intelligence to examine medical images and providing clinical suggestions for potential diagnosis. While we are still far from having artificial intelligence and technology to replace doctors, healthcare organisations must embrace the use of technology to re-examine their product and service offering in order to stay ahead of competition.

Environmental

UMP's business model overall does not generally cause any negative environmental impact. Certain aspects of the business such as infection control, handling of medical equipment and medical wastes handling are handled by professional firms as required by regulations. UMP is also beginning to digitalise its business to reduce paper consumption.

Legal

As a company listed on the mainboard of the Hong Kong Stock Exchange, UMP is required to comply various legislations and reporting requirements. UMP's business in China is also regulated by various agencies. The three most significant legal aspects of UMP's business are (i) ensuring its providers are legally qualified to deliver medical services (i.e. ensuring the providers have the necessary practicing licenses, (ii) the medical facilities in both Hong Kong and in China comply fully with the relevant regulations and (ii) patient data handling. UMP continues to adhere to all regulations and has not materially breached any regulations that would impact its business development.

Porter's Five Forces Analysis

Bargain Power of Suppliers

The core suppliers for UMP's business model are high quality doctors practicing evidence-based medicine and who are also patients / customers centric in providing friendly services. In Hong Kong, UMP does not have much bargaining power over these types of doctors, as they can easily work for themselves by opening up their own practice or work for another healthcare organisation. This has therefore led to healthcare organisations competing based on offering higher salaries to these doctors, offering other better employment terms such as more holidays and more freedom on work schedules.

In China, healthcare organisations similarly does not have much bargaining power over *high quality* doctors. Most doctors prefer to work in public hospitals due to better promotion opportunities, learning opportunities and eventual potential transition to management roles. For the good and capable doctors who are already practicing in the private market, they are usually in high demand by private healthcare organisations like us (i.e. driving up salary costs) or would prefer to open up their own clinical practices. In conclusion, UMP has little bargaining power over its suppliers based on the *traditional model* of hiring doctors to provide services in UMP managed clinics.

Bargaining Power of Customers

Patients as customers in seeking medical services

In Hong Kong, patients can readily access high quality doctors who practice in private. This is due to the keen competition among both GPs and specialists in the market. Customers therefore have more bargaining power and can generally seek access to quality healthcare without much hassle.

In China, access to high quality *specialist* doctors is much more difficult (i.e. little bargaining power of patients). This is often reflected by the long queues outside well known hospitals in China. However, access to GPs is readily available, although the concept of accessing *quality* GP is still very much in an infancy stage. China lacks qualified GPs to provide outpatient services as China had historically under-invested in the training and development of GPs.

Insurance companies and brokers as customers

UMP works with insurance companies and brokers to design health management plans for their customers. Bargaining power of these type of customers are relatively weaker, as there are limited number of health management organisations in the market that can organise a large panel of doctors (UMP organises more than 600 doctors to provide services to health plans) to provide coordinated healthcare services. However, such relative advantage in bargaining power also facing increasing risks as this category of customers is also looking to establish their own network of doctors instead of working with or through UMP.

Potential entry of new competitors

Providers of healthcare services

UMP provides a wide range of healthcare services in Hong Kong. There will likely to be a continuous flow of new healthcare services providers entering the market. Just in Central alone in Hong Kong, more than 5 large scale, multi-specialty centers providing a wide range of both GP and specialist services have opened up in since 2017. UMP currently does not materially provide outpatient services in China.

Health management plans providers

The Hong Kong market is already saturated with only 4 sizeable health plan coordinators. The cost of setting up a health plan management company is significant, including investment in IT infrastructures, setting up 24/7 hotline services and hiring significant number staff to handle claims and account enquiries, product designs and pricings. At the same time, due to the other factors listed above, the margins for health plans management is facing increasing pressure, meaning that it seems unlikely for new competitors to enter this business segment.

For China, UMP primarily provides (i) GP training services and (ii) health plans management services (i.e. similar to what UMP offers to Corporate Customers in Hong Kong). It is still a new market for now as it requires significant expertise in GP education, GP clinic network development and the experience in designing and managing health plans that are suitable for China. There is unlikely to be any comparable competitors who can offer similar service offerings in China for at least another 24 months.

Threat of substitutes

In Hong Kong, there is currently less of a threat of substitutes for coordinated healthcare services that relies on GPs to serve as the coordinator and gatekeeper. In China, however, as the GP market is at its infancy, significant market education is still required for both end users (i.e. patients) and sales (i.e. Corporate Customers in China) to accept or believe that GPs can act as their healthcare coordinator. Chinese users have grown accustomed to seeking healthcare advices online through various portals, a list of these internet healthcare players are set out below:

Figure 10 - Description of internal healthcare players in China

Company	Description
WeDoctor	WeDoctor is China's leading technology-enabled healthcare solutions platform, providing seamless online and offline healthcare services as well as integration of general practitioner and specialist doctors. Founded by Jerry Liao and his team in 2010, WeDoctor operates four main business segments, namely, WeDoctor Healthcare, WeDoctor Cloud, WeDoctor Insurance, and WeDoctor Pharma. WeDoctor brings together government, hospitals, doctors, pharmaceutical companies and financial institutions to create an innovative and holistic healthcare provision and funding ecosystem. On the WeDoctor platform, there are over 2,700 hospitals, 260,000 leading doctors, 20,000 pharmacies and 180 million real-name registered users.
PAGD	Ping An Good Doctor leverages on its in-house full-time medical team and its proprietary AI-based consultation system to provide users with timely and quality medical services, covering 24/7 hour end-to-end services including online consultation, prescription, referral, registration, second medical opinion and 1-hour drug delivery. As of 30 June 2019, the number of registered users reached 289.3 million; the number of monthly active users and the number of monthly paying users reached 62.7 million and 2.2 million respectively. In addition, Ping An Good Doctor also leverages their competitive advantages to help the insurance companies and financial institutions differentiate and enhance their value proposition and solve their customer pain points in accessing quality medical services.
DXY	DXY is a leading connector and digital service provider in the healthcare industry of China. Through the past 19 years, DXY has built a leading online forum for physicians, launched a series of mobile applications, opened its wholly-owned clinics. DXY's services include professional information sharing platform, comprehensive data accumulation and management, high-quality medical services, which connect hospitals, physicians, researchers, patients, pharma, and insurance payers. By the end of 2016, DXY has tens of millions of public users in China, and more than 5.5 million registered life science members, including 2 million physicians. DXY has opened DingXiang Family Clinics in Hangzhou and Fuzhou, with plans for a continual expansion to metropolitan cities in the near future.
Tencent DoctorWork	Tencent Doctorwork is an internet and medical platform jointly funded by Tencent, Medlinker and Sequoia Capital China, offering quality, safe and comprehensive health management services for individuals and their families. Currently, Tencent Doctorwork has established 47 offline clinics in 8 cities such as Beijing, Chengdu, Shenzhen, Nanjing, Shanghai, etc. Their online platform has 440,000 verified doctors , 9.4million registered users, and connected with 30,000 hospitals. It is expecting to have 500 offline clinics in 15 cities by 2021.

Source: <https://www.linkedin.com/company/weddoctor>, <http://www.pahtg.com/en/about-us/company-overview>
<http://www.dxy.cn/pages/about.html>, <https://tr.zygoonet.com/article/26957315.html>

These new internet portals have provided significant conveniences to users by providing access to healthcare consultations through mobile phones, pharmacy home delivery, offline clinic booking and electronic medical records. Most of these portals are also very innovative in customers and patient engagement by actively working with different distribution channels (i.e. banks, insurance agents, fitness centers and pharmaceutical companies). As these internal portal gain further acceptances and with their increased investment in technology, these internal portals have the chance to become the new model for coordinated healthcare, accurately helping patients to seek the most appropriate care through the use of technology, instead of through GPs.

Rivalry among competing firms

In Hong Kong, rivalry remains intensive among the established HMO players, with each player constantly expanding their respective scope of services, investing further in digitalisation of both administrative and clinical procedures, and worst of all, even competing on pricing when the cost of suppliers continue to increase.

In China, UMP fortunately operates relatively under the radar, as most potential competitors do not actually view UMP as a threat due to UMP's clear positioning as a primary care service provider based on GPs.

Conclusion – the GBA

The Hong Kong market remains competitive and likely to remain so in the near future. Growth opportunities in Hong Kong will likely be driven by horizontal acquisitions of other service providers (as UMP has done so in the past 2 years), but such opportunities are ad hoc in nature.

China, on the other hand, presents an unprecedented opportunity for UMP to expand its service offerings. More specifically, it is recommended that UMP should focus on developing new products for its China expansion by first focusing on the GBA.

UMP's SWOT and TOWS Matrix

To systematically construct the appropriate strategies for UMP, the TOWS matrix is used to identify appropriate strategies. The TOWS matrix is a useful framework for companies to examine how it should leverage on its competitive strengths to capture market opportunities, while at the same time focusing companies to be transparent with their weaknesses and threats so as to improve their chances in formulating the appropriate strategies. Set out below is a summary of UMP's SWOT and the corresponding TOWS matrix:

Figure 11 - Summary of UMP's SWOT

<u>Strengths</u> 1. Well established brand 2. Significant knowhow in health plans management 3. Clear marketing positioning as a quality GP / primary care service provider	<u>Weaknesses</u> 1. Not yet technology enabled 2. Weak organization culture and people's strategy / training / recruitment 3. Weak marketing effort on what UMP can offer to its customers
<u>Opportunities</u> 1. Geographical expansion (i.e. GBA) a) GP educational training b) health plans development and sales c) Telemedicine / virtual care services 2. Digitalisation of internal administrations and service offering to increase scale and global reach	<u>Threats</u> 1. Fierce competition from other healthcare services providers 2. Unintended competition from non-healthcare service providers (i.e. technology companies) 3. Platform and on-demand business models challenging UMP's existing business model and management philosophy

Figure 12 - UMP's TOWS Matrix

	<u>Strengths</u>	<u>Weaknesses</u>
<u>Opportunities</u>	<u>SO Strategies</u> 1. Significantly expand the current GOLD training programme and the scale of the PPP clinics in the Greater Bay Area 2. Jointly develop primary care based capitation health management plans with insurance companies	<u>WO Strategies</u> 5. Expand in-house IT team significantly to capture the telemedicine / virtual care market opportunities 6. Leverage off insurance companies to build up the marketing of UMP's service offerings in China 7. Revamp UMP's people's strategy to develop a fit for purpose workforce
<u>Threats</u>	<u>ST Strategies</u> 3. Set the GOLD programme as industry standards for primary care so that Corporate Customers in the market will work with UMP 4. Embrace virtual care as UMP's OMO initiative (Online Merge Offline) to tackle IT giants' crossing over into primary care	<u>WT Strategies</u> 8. Diversify existing non-performing offline clinics in China 9. Work with IT giants in China to develop health management plans together with a platform based mindset

SO Strategies

1. *Expand GOLD significantly* - UMP should seize its early mover advantage and significant expand the reach and scale of its GOLD training programme, with an initial focus on the GBA. One of the unique selling point for the GOLD programme is that it was founded by Hong Kong doctors. The GOLD programme trains government GPs who practice in community health centers. As part of the GOLD programme feature, UMP also invests in these community health centers and clinics by revamping physical environment to be of international standards. These international clinics would then house GOLD trained GPs who can serve UMP's members too. By focusing on the GBA first, it will be easier for UMP to mobilise more Hong Kong doctors to participate in the training programme.

Key feature of the GOLD™ programme

1. Highly supported by multiple provincial and municipal governments
2. 1st private company in China to obtain the accreditation from the Royal College of General Practitioners from the UK ("RCGP")

Professional knowledge: **167** common diseases

Continuous learning / training:
3-years course (52-weeks course & assessment)

Teaching language: Chinese as the main language

Programme mentors: A team of doctors with extensive experience in family medicine



Before renovation



After renovation



The GBA itself is a significant market that is expected to have more than 100 million citizens by 2030. The GBA has more than 15,000 GPs, practicing across more than 2,200 government clinics (see Figure 13 below). As of November 30, 2019, UMP is training more than 150 GPs and have set up approximately 30 public-private-partnership clinics ("PPP Clinics") with various governments in the GBA. UMP should seize this early mover advantage and significantly increase its scale in both the number of GPs to be trained and number of PPP Clinics.

Figure 13 - number of community clinics in GBA

Total no. of community health service centers/stations in the Greater Bay Area					
	2014	2015	2016	2017	2018
Shenzhen	586	591	591	605	615
YoY growth (%)	(0.3%)	0.9%	0.0%	2.4%	1.7%
Guangzhou	320	315	342	325	331
YoY growth (%)	1.3%	(1.6%)	8.6%	(5.0%)	1.8%
Zhuhai	125	121	123	118	118
YoY growth (%)	0.8%	(3.2%)	1.7%	(4.1%)	0.0%
Foshan	365	366	361	363	380
YoY growth (%)	1.4%	0.3%	(1.4%)	0.6%	4.7%
Zhongshan	252	266	267	266	267
YoY growth (%)	1.6%	5.6%	0.4%	(0.4%)	0.4%
Dongguan	397	398	399	396	396
YoY growth (%)	2.1%	0.3%	0.3%	(0.8%)	0.0%
Huizhou	79	78	78	78	80
YoY growth (%)	(1.3%)	(1.3%)	0.0%	0.0%	2.6%
Jiangmen	31	23	24	23	28
YoY growth (%)	(13.9%)	(25.8%)	4.3%	(4.2%)	21.7%
Zhaoqing	29	34	35	31	31
YoY growth (%)	(3.3%)	17.2%	2.9%	(11.4%)	0.0%
Total	2,184	2,192	2,220	2,205	2,246
YoY growth (%)	0.6%	0.4%	1.3%	(0.7%)	1.9%

Source: Health Commission of Guangdong Province "2014-2018 广东省卫生健康统计年鉴 (广东省及各类卫生机构数)", <http://www.gdhealth.net.cn/ebook/2018nianjian/mobile/index.html#p=60>

2. *Design new type of capitated health plans with insurance companies* – With a vast number of GOLD trained GPs and a growing PPP clinic network, UMP can help insurance companies to design health plans based on the primary care model, similar to what it has been doing in Hong Kong since 1990. Currently, most outpatient focused health insurance plans in China are either priced in the premium category that delivers good services at high end private clinics or hospitals (this type of insurance plans typically cost up to RMB8,000 per year), or in the low price category that uses public clinics and hospitals and lack quality services (this type of insurance plans cost around RMB300-500 per year). UMP should seize such early mover advantage by proactively defining and designing a new generation of health plans. These health plans will leverage on the quality GOLD trained GPs and the revamped clinics, to be priced between RMB1,000 to 2,000 per year, for the premium middle class (i.e. annual disposal income of approximately RMB200,000 to RMB300,000 per year). For product differentiation, the health plans can also provide coverage for the whole GBA area, including cross border healthcare services in Hong Kong.

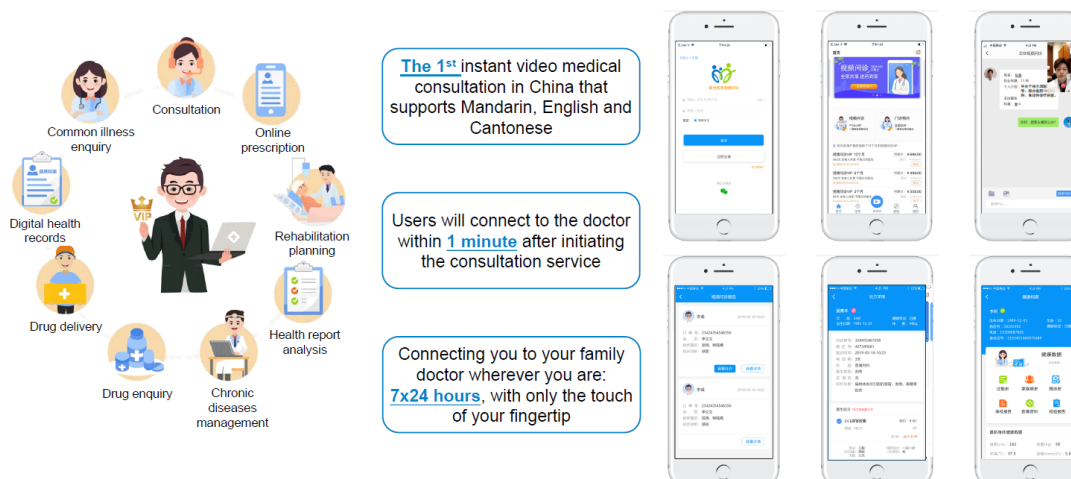
ST Strategies

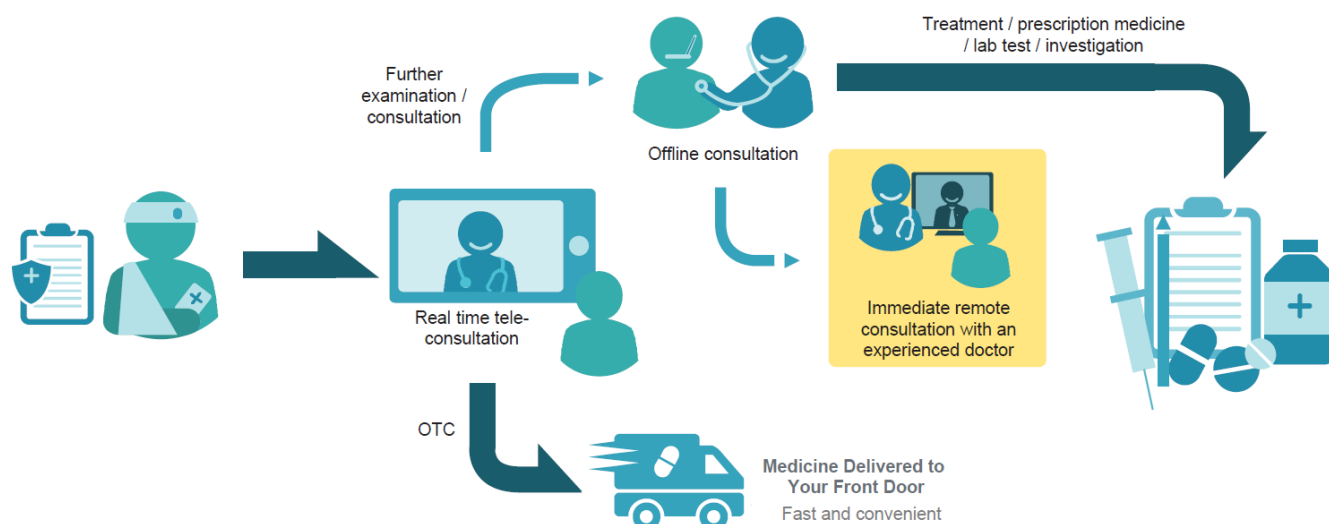
3. *Re-define outpatient service standards for GBA*– As the GOLD programme already sets out the minimum skills required for GPs to diagnose multiple illnesses, UMP can leverage on GOLD to identify suppliers (i.e. doctors). UMP can differentiate itself from other competitors in the market by actively marketing to Corporate Customers that the GOLD programme is, in the absence of any other alternatives in GBA, the most appropriate standards to access quality of outpatient care. Such market positioning will help UMP to win over potential mandates from other competitors operating in the GBA market.
4. *Embrace virtual care as UMP's new Online-Merge-Offline (“OMO”) initiatives* – UMP's virtual care platform, which leverages on the GOLD programme to recruit doctors who can deliver outpatient services online, is a very good entry point to a patient's journey. Patients can first seek consultation online through UMP's virtual care platform, and for more serious matters that require in person consultation, the patient can then attend to one of UMP's clinics located across the GBA. The virtual care platform also provides access to electronic medical records and pharmacy deliver to the home / office (available within China only). Such unique OMO offering will greatly differentiate UMP from its competitors, with patients experiencing the convenience of the online ecosystem and the reassurance of the offline PPP clinic network. A summary of UMP's virtual care offering is provided below:



3. The 1st offline & online bilingual real time virtual care service in Mainland China

A team of trained / assessed professional doctors + extensive offline clinic network empowerment





WO Strategies

5. *Expand UMP's IT team to capture new opportunities presented by technology development* – The virtual care / telemedicine market presents unprecedented growth opportunities for UMP in identifying and reach out to potential members without significant marketing costs. However, to capture such opportunity, UMP needs to invest to upgrade its IT capabilities. Such capabilities will need an IT team that captures a range of skill sets ranging from research and development, project management, coding and system analysts. By investing ahead for the future, UMP can also explore its big data strategy as it accumulates further members data, electronic medical records and other vital signs that, altogether, will help UMP to engage further with its members to keep them healthy.
6. *Leverage off insurance companies to market UMP's services* – in Hong Kong, UMP has been successful in designing health plans together with various insurance companies. To market UMP services in GBA, UMP will need to invest significantly to build up its sales team. Such effort will be difficult as the concept of GP is still relatively early for the market in GBA. Insurance companies, however, are pushing forward to work with GPs in order to have better cost control. UMP can leverage off insurance companies' large agency force and sales team to bundle its health plans into insurance policies for sale, perhaps

go as far as white labelling its virtual care services to insurance companies. Working with insurance companies at the initial stages of the product launch would allow UMP to minimise its sales personnel cost, yet at the same time, allow UMP to gather more on the ground experience of insurance products bundling.

7. *Revamp people's strategy to develop a fit for purpose workforce* – the biggest challenge to UMP's growth is its ability to attract, recruit, train and retain a wide range of staff from clinical, administration, IT, operations and marketing. UMP's growth strategy in GBA will require the re-building of a new team that will have backgrounds, cultures and performance targets that are different to UMP's current operations in Hong Kong. This will be discussed further below.

WT Strategies

8. *Diversify existing non-performance clinics in China* – UMP was managing numerous loss making outpatient clinics in Beijing and Shanghai. After about 5 years of operations, such outpatient clinics continue to be operating at a loss, and more importantly, using up a lot of management time resources. Such situation is not unique to UMP, as other market competitors providing private outpatient services in China are similarly suffering losses due to high operating costs and increasing human resources costs for quality clinical staff. UMP will be able to stay more focused by divesting such loss making outpatient clinics and concentrate on its SO / ST / WT strategies listed above.
9. *Work with IT giants to develop UMP into a platform mindset* – Even though UMP need to significantly upgrade its IT team, it will still be far off from competing with various IT giants from China who all now have a healthcare strategy. Each of Tencent, Alibaba and Baidu have announced their ambitions to apply the latest technologies (including but not limited to artificial intelligence, deep learning and blockchains) to resolve the difficulties of seeking quality healthcare in China. Even though UMP has a unique position in staying true to its strength as a GP services trainer and provider, UMP should seek partnerships with these IT giants to leverage on their technologies (instead of competing with them) to

help UMP to expand its scale and reach. Such partnership could take the form of business partnerships, joint ventures or even inviting these IT giants to become a strategic shareholder of UMP, raising additional capital in the process to fund UMP's future growth too. UMP needs to develop itself into a platform mindset and be open minded to work with IT giants, as they command vast resources from technology to distribution channels.

Likely barriers, worse case scenarios and mitigating solutions

UMP's likely barriers include (i) explaining to shareholders the potential short to medium term financial impact from executing these strategies, (ii) managing a new team to be based in the GBA and (iii) making changes to its organisational culture and structure to be fit for UMP's GBA growth strategies.

Explaining the financial impact from these strategies

UMP is a listed company in Hong Kong. UMP's Hong Kong operations have continued to deliver stable and growing cashflows, and hence a growing dividend to shareholders as a whole. The growth strategies inherently involve taking on new risks and making capital investments in GBA. If the strategies do not proceed as planned, the investment could lead to investment losses and negative movement in UMP's share price. UMP should actively communicate with shareholders to update them on their development in GBA, be transparent on the short to medium term financial impact, and most importantly, explaining to shareholders that the cash proceeds raised from the IPO in 2015 are still available to capture the growth opportunities in the GBA. Based on UMP's financial performance, UMP should communicate clearly with its shareholders that Hong Kong will continue to be the cash generator supporting a stable and growing dividend, yet at the same time the cash reserves will be used for developing UMP's GBA businesses. Such rein-fenced approach to dividend payout and frequent updating to investors on UMP's GBA development should alleviate concerns from shareholders.

Managing a new team to be based in the GBA

UMP's GBA expansion will require the recruiting of a large number of new team members. If UMP head office cannot clearly articulate its culture, philosophy and strategic directions to the new team members, it would become challenging for the new team members to perform. UMP should

utilise as much modern technology as possible to increase the frequency of communication. Recent advances in communication technology, such as always-on video conference that effectively allows people across offices to instantly communicate as if the offices are connected virtually, means that UMP head office can establish a 24/7 live communication window between head office and the new team members. In addition, UMP should consider setting up its China headquarters close to Hong Kong (e.g. in Shenzhen) so that Hong Kong staff can frequently travel to China to train and interact with the local staff in China.

Changing UMP's organisational culture and structure

The most difficult challenge UMP faces is it is already a listed company with a steady business in Hong Kong. To grow a new venture in China requires the management team to adopt a zero-to-one strategy, one in which a very different organisational culture and structure (from what UMP currently adopts) must be implemented to succeed.

Such differences include the willingness to hire new team members that (i) would need to be on a different remuneration structure, (ii) that values performance and deliverables, and one (iii) that pays packages that are in line with market rates in China. In addition, for all new start-up ventures in China, it is important to recruit people with similar vision and mission, and acknowledging that good employees in China generally want ownership in the company (i.e. they will likely ask for share options) as a reward for their contribution.

UMP will need to hire an experienced human resources director in China that is in tune with the market skillsets and remunerations. Such director must, at the same time, respect UMP's group overall human resources policies. UMP will also need to invest more time to be visual and vocal on what UMP values, what behaviour UMP expects from its team members and also be willing to set ambitious goals for team members to achieve.

UMP should consider adopting new management tools to ensure targets are met. It is suggested that UMP should consider adopting the Objective and Key Results management principle¹² that is now widely adopted in leading companies such as Google, Facebook and Huawei.

OKRs require team members to work together to achieve ambitious targets, while at the same time emphasising the importance of defining measurable results.

Conclusion

This paper has systematically conducted an internal and external audit on UMP Healthcare. The paper has listed out the opportunities UMP can seize in taking UMP to the next stage of growth, with a clear acknowledgement of the challenges it will face and how such challenges can be resolved.

The healthcare industry in China is at its infancy, with Hong Kong and UMP in a capable position to capture significant market share in the China HMO industry. UMP should continue to leverage on its 30 year brand as one of the leading primary care service provider *and* health plans administrator in the GBA, and in the process of adhering to its vision of giving everyone access to trusted and affordable care, UMP stands to generate good financial returns for its shareholders by striving to keep its members healthier and happier.

Such a vision is, indeed, inspiring and worth pursuing.

Glossary

China	For the purpose of this assignment, China is used to focus on UMP's business model in China excluding Hong Kong, as UMP's China business model is still at its infancy and is significantly different from UMP's business model in Hong Kong and Macau
Corporate Customers	UMP's Corporate Customers include corporations that may have more than 1,000 staff and who would contract with UMP directly to ask UMP to provide packaged healthcare services for an agreed fee per staff per year. Other types of customers also include insurance companies who would package UMP's health service offerings into their health related insurance products
GOLD	General Practice Oriented Learning and Development Programme, a primary care training programme that was developed by UMP in-house and which has successfully obtained a course accreditation by the Royal College of General Practitioners. The GOLD programme now trains more than 150 GP doctors for the Chinese government, setting the minimum standards that GPs should have in handling over 167 common illnesses
GPs	General Practitioners, also known as family doctor or family physician. GPs are generalists who can handle most common health enquiries and common illnesses. GPs will refer patients to specialists care and other services when appropriate and medically necessary
GBA, the Greater Bay Area	The "Greater Bay Area" refers to the Chinese government's scheme to link the cities of Hong Kong, Macau, Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, Huizhou, Jiangmen and Zhaoqing into an integrated economic and business hub
HMO	A health maintenance organization (HMO) is a network or organization that provides health insurance coverage for a monthly or annual fee. An HMO is made up of a group of medical insurance providers that limit coverage to medical care provided through doctors and other providers who are under contract to the HMO.
Primary care	Refers to the first point of contact between healthcare organisations and individuals seeking healthcare services. An effective primary care system goes beyond just delivering curative care. A functioning primary care system also emphasise on disease prevention and health promotion, aiming to divert patients from seeking care from hospitals ¹³ .
PPP clinic	Public-Private-Partnership clinics, where UMP would invest to refurbish and upgrade the government managed community clinics to international standards, with the aim to increase the public's awareness and confidence in government managed healthcare facilities
UMP, Healthcare	UMP UMP Healthcare Holdings Limited, a company listed on the main board of the Hong Kong Stock Exchange, stock code 722:HK

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¹ Please note that for ease of explanation, China is used in this report as referring to UMP's operations and market in China *excluding* the Hong Kong operations

² https://www2.ump.com.hk/files/file/20190927/20190927120924_30975.pdf

³ The General Practice Oriented Learning and Development Programme, also known as the GOLD programme (www.goldgptraining.com), is a vocational general practitioner programme developed by UMP and which has successfully obtained accreditation from the Royal College of General Practitioners ("RCGP") from the United Kingdom. RCGP is a world renowned General Practitioners organisation

⁴ Adjusted EBITDA stands for earnings before interests, tax, depreciation and amortization. It is broadly used in financial analysis as a proxy for the core level of operating cash generated from the underlying business

⁵ See www.goldgptraining.com for more details

⁶ <https://techcrunch.com/2019/08/02/babylon-health-confirms-550m-raise-to-expand-its-ai-based-health-services-to-the-us-and-asia/>

⁷ <http://www.scio.gov.cn/32618/Document/1618240/1618240.htm>

⁸ https://www.news.gov.hk/eng/2018/11/20181130/20181130_201531_367.html?type=ticker – speech from Ms. Carrie Lam, Chief Executive of HKSAR “First, I am committed to enhancing district-based primary healthcare services which I believe is the key to the right direction. The Food & Health Bureau is now setting up the first district health centre in Kwai Tsing District as I proposed in my Policy Address last year, with a view to starting operation around the third quarter of next year. Operating through district-based medical-social collaboration and public-private partnership, the district health centre will provide a range of services in health promotion, health assessment, chronic disease management, community rehabilitation, hence putting emphasis on all levels of prevention.”

⁹ https://www.ha.org.hk/visitor/ha_visitor_index.asp?Parent_ID=2010&Content_ID=250636

¹⁰ <https://www.hkeconomy.gov.hk/en/situation/development/index.htm>

¹¹ Chinese hospitals are graded based on their size and level of services provided, with Class 3 hospitals being ranked the highest. Class 3 hospitals provide up to 50% of China's total annual outpatient volume

¹² <https://www.whatmatters.com/> Please see this website for more details. OKRs has become one of the leading management tools that is now widely adopted by many Silicon Valley companies. It was put into popularity by John Doer, one of the earliest investors in Google.

¹³ See research summary published by the Bauhinia Foundation

http://phc.bauhinia.org/assets/docs/Executive_Summary_20190910_ENG.pdf