Annual Report 2013

JINTIAN

金天集团

JINTIAN PHARMACEUTICAL GROUP LIMITED

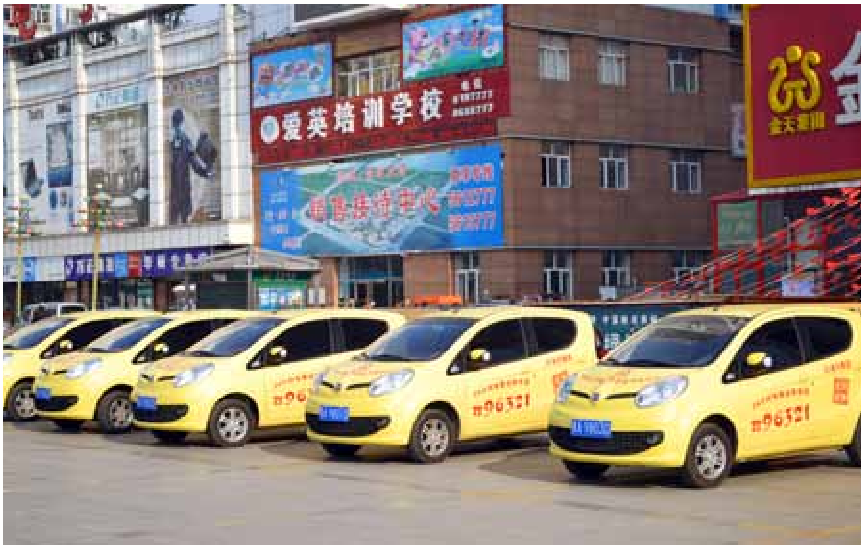
金天醫藥集團股份有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2211

CONTENTS

Company Profile



Jintian Pharmaceutical Group Limited ("Jintian Pharma", "the Company" or "we") is one of the leading pharmaceutical retailers and distributors in Northeast China.

Retail, distribution and member base: The Company has the largest direct-owned pharmaceutical retail chain network in Northeast China (According to the data from the China Southern Medicine Economy Research Institution of China Food and Drug Administration ("NFS") for 2012). As at 31 December 2013, the Company had 791 retail pharmacies in Northeast China and another 3 in Hong Kong. As the largest privately-owned pharmaceutical distributor in Northeast China, the Company has approximately 3,800 distribution customers and maintains good buyer-seller relationship with them. The Company also has over 960,000 consumer members, ranking number 1 in terms of retail sales among all private enterprises in the northeastern of China (According to the data from NFS for 2012).

Product mix, Direct-supply Model and centralized procurement: Through strategic acquisitions and organic growth, the Company achieves growth in the revenue from retail and distribution and has higher net profit margin thanks to our product mix focusing on high-gross-margin products (licensed products and products with nationwide or regional exclusive distribution rights), distinctive Direct-supply Model, centralized procurement platform and low operating costs.

Institute training: The Company offers training programme to employees and customers through Jintian Institute. With strong execution capability for acquisitions and integration, the Company implements its product mix, advanced business model and sophisticated operation procedures in the acquired businesses.

Company Profile

E-commerce: The Company intends to expand into pharmaceutical e-commerce business and has made preparation in advance for the expansion.

Corporate culture: Through years of development, the Company has developed a corporate culture matching with the corporate development model, namely the characteristic comprehensive model of “Caring Culture”.

In a word, the Company has developed a unique business model, distinctive corporate culture and core competitiveness. Together with an outstanding executive team with strong cohesion, they will continue to drive the Company to develop into a well-known pharmaceutical retail and distribution enterprise in China.

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Mr. Jin Dongtao *(Chairman)*
Mr. Jin Dongkun *(Vice Chairman)*
Ms. Chen Xiaoyan *(President)*
Mr. Chu Chuanfu *(Chief Executive Officer)*
Ms. Wu Qiong *(Chief Financial Officer)*

Independent Non-executive Directors

Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie
Mr. Chen Xiao

AUDIT COMMITTEE

Mr. Chen Xiao *(Chairman)*
Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie

REMUNERATION COMMITTEE

Mr. Cheng Sheung Hing *(Chairman)*
Ms. Chen Xiaoyan
Ms. Chiang Su Hui Susie

NOMINATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Ms. Wu Qiong
Ms. Yung Mei Yee

JOINT COMPANY SECRETARIES

Mr. Ge Junming
Ms. Yung Mei Yee

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

COMPLIANCE ADVISER

Guotai Junan Capital Limited
28/F Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS

No.15
Baogongbei Street
Tiexi District
Shenyang, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8/F Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
17/F, Standard Chartered Tower
388 Kwun Tong Road
Hong Kong

Harbin Bank Xue Fu Branch
47-1 Xue Fu Road
Nan Gang District
Harbin
PRC

UBS AG
52/F Two International Finance Center
8 Finance Street
Central
Hong Kong

INVESTOR RELATIONS

Ms. Winny Yip
ir@jtyyjt.com

COMPANY'S WEBSITE

www.jtyyjt.com

STOCK CODE ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

2211

DATE OF LISTING

12 December 2013

Financial Highlights

Assets and liabilities

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Total Assets	**2,744,231**	1,515,146
Total Liabilities	**288,455**	886,988
Total Equity	**2,455,776**	628,158
Equity attributable to owners of the Company	**2,354,892**	548,781
Non-controlling interests	**100,884**	79,377
Net current assets	**1,941,000**	236,401
Total assets less current liabilities	**2,478,787**	653,027

Operating results

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Revenue	**3,323,499**	2,326,292
Gross profit	**936,418**	545,769
Gross margin	**28.2%**	23.5%
Operating profit	**519,483**	301,755
Profit and total comprehensive income for the year	**385,060**	227,363
attributable to:		
– Owners of the Company	**355,103**	213,760
– Non-controlling interests	**29,957**	13,603
Earnings per share attributable to owners of the Company (RMB Yuan)		
– Basic	**0.22**	0.13

Financial Highlights

Key operation index

	As at 31 December	
	2013	2012
Return on Equity[1]	**15.1%**	39.0%
Return on total Assets[2]	**14.0%**	15.0%
Current ratio[3]	**831.2%**	127.4%
Gearing ratio[4]	**N/A**	21.3%
Inventory turnover (days)[5]	**39.8**	43.2
Trade receivables turnover (days)[6]	**20.2**	24.8
Trade payables turnover (days)[7]	**13.9**	18.8

Notes:

(1) Return on Equity is calculated by dividing net profit attributable to owners of the Company by equity attributable to owners of the Company.

(2) Return on Assets is calculated by dividing net profit by total assets.

(3) Current ratio is calculated by dividing total current assets by total current liabilities.

(4) Gearing ratio is calculated by dividing net debt by total capital. Net debt is calculated as shareholder's loan as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt.

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

(6) Trade receivables turnover days are calculated using the average of the beginning and ending trade receivables balances for the year, divided by revenue for the year, multiplied by the number of days for the year.

(7) Trade payables turnover days are calculated using the average of the beginning and ending trade payables balances for the year, divided by cost of sales for the year, multiplied by the number of days for the year.

CHAIRMAN'S STATEMENT

Chairman's Statement

Dear Shareholders,

I would like to express my heartfelt gratitude to the shareholders and the community for your great support and encouragement to Jintian Pharma over time. 2013 was an important year for Jintian Pharma, a year in which important progress was achieved on the hand of business development. On behalf of the board (the "Board") of directors (the "Directors") of Jintian Pharmaceutical Group Limited, I hereby present to you the annual report of Jintian Pharma and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013.

In 2013, China's pharmaceutical industry experienced unprecedented industrial upgrading and industry integration, through which, large-scale and innovative pharmaceutical enterprises with independent brand will become industry leaders. Meanwhile, the PRC government continued to introduce policies to support the development of pharmaceutical industry. The Opinions on Promoting the Development of Health Service Industry (《關於促進健康服務業發展的若干意見》) (the "Opinions") issued by the State Council explicitly proposed a plan to basically establish a health service system with abundant substance and rational structure by 2020, which will cover the entire life cycle of the masses so as to satisfy their health service demand. It is expected that the total size of health service industry will be more than RMB8 trillion. The Ministry of Commerce also set the target to build retail pharmacies into multi-purpose healthcare platform.

Chairman's Statement

Jintian Pharma is one of the leading pharmaceutical retailers and distributors in Northeast China. The Company owns 791 retail pharmacies in Northeast China and another 3 in Hong Kong. The Company is the number one in terms of number of direct-owned retail outlets in the three northeastern provinces of China (according to the data from NFS for 2012). The Company has about 3,800 distribution customers and over 960,000 consumer members, ranking number one in terms of distribution sales and retail sales respectively among all private enterprises in the three northeastern provinces of China (according to the data from NFS for 2012). Through years of development, the Company has established a product mix containing high-gross-margin products, distinctive Direct-supply Model and a centralized procurement platform with low operating costs. The Company provides training programmes to employees and customers through Jintian Institute, and has strong execution capability for acquisitions and integration to implement its product mix, advanced business model and sophisticated operation procedures in the acquired businesses. The Company has developed its unique business model and core competitiveness.

On the principle of "corporate culture-based development and guidance" and for the purpose of caring for the public, Jintian Pharma established the corporate culture system of "Caring Jintian" and carried out a number of caring projects, promoting the unique idea of "caring for your health with love" throughout China. In 2013, the Group was awarded the "Best Charity Communication Award of China Charity Festival" (中國公益節最佳公益傳播獎), and I won the honor of "Man of the Year in Pharmaceutical Industry in the First Brand China Appraisal in 2013" (2013首屆品牌中國醫藥年度人物).

Sustained and Stable Growth in Results

For the year ended 31 December 2013 (the "Reporting Period"), the revenue of the Group amounted to RMB3,323.5 million, representing an increase of RMB997.2 million or 42.9% as compared with last year.

During the Reporting Period, net profit of the Group amounted to RMB385.1 million, representing an increase of RMB157.7 million or 69.4% as compared with the corresponding period of last year. Profit attributable to equity owners of the Company amounted to RMB355.1 million, representing an increase of RMB141.3 million or 66.1% as compared with last year.

During the Reporting Period, earnings per share of the Company amounted to RMB0.22, representing a 69.2% increase over the corresponding period of last year.

Compared to 2012, total assets of the Group increased from RMB1,515.1 million to RMB2,744.2 million, total equity increased from RMB628.2 million to RMB2,455.8 million.

Mainland China achieved steady growth in recent years. As the problem of ageing population has become increasingly prominent and the incidence of heart diseases increased by 5-10% annually, healthcare spending in pharmaceutical market keeps on growing. The incidence of cardiovascular diseases and chronic diseases in Northeast China ranks first in China due to factors such as diet habits, extremely cold weather and environment, as a result, the relevant healthcare spending is higher.

Public available information shows that the scale of pharmaceutical market in Northeast China has reached RMB76.3 billion in 2012, and the figure is expected to double in 2016. Total sales of pharmaceuticals to customers through retail pharmacies in Northeast China also have grown rapidly in recent years, amounting

Chairman's Statement

to RMB16.7 billion in 2012, which is approximately 3.1% higher than the average growth rate of China. Although the pharmaceutical retail sales in Northeast China grow rapidly, the pharmaceutical retail industry in this region is highly fragmented. Through continuous acquisition and integration, Jintian Pharma has become the largest pharmaceutical retailer and distributor in Northeast China, and the largest private enterprise in terms of retail sales in this region with its pharmaceutical retail chain brand of "Jintian Aixin" and its retail customer base of over 960,000 members.

In 2013, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited. Funds raised from the capital market laid favourable foundations for the Company to enhance industrial scale and competitive advantages rapidly through acquisition and integration. The Company will comply with the government's policy of building retail pharmacies into multi-purpose healthcare platform, leveraging on its advantages on extensive networks across China, especially in Northeast China, to achieve rapid development and expansion.

Outlook

In 2014, while China economy maintains a steady growth, the ageing population and new urbanization will further lead to the increase of rigid demand in the domestic pharmaceutical market, and the pharmaceutical market is expected to maintain a rapid growth. The promulgation of the Opinions by the State Council will provide huge growth potentials for domestic retail pharmacies to transform into multi-purpose healthcare service platform. It is expected that the products and services offered by retail pharmacies will be more diversified in the future. Furthermore, as the acquisition and integration in pharmaceutical industry speed up, the pharmaceutical segments will experience a boom in acquisition and integration, thus the pharmaceutical industry will enter into the era of acquisition and integration. The Group will seize the historical opportunity to continue to expand our business network in Northeast China and proactively seek acquisition opportunities. Meanwhile, we will further expand our Direct-supply Model and constantly enhance the revenue of high-gross-margin products through retail and distribution businesses. While reinforcing and continuously developing the business model with high growth and high gross margin, we will explore the development of e-commerce platform so as to expand into new business fields.

Finally, I would like to express my sincere gratitude to the shareholders, directors, strategic partners, members of senior management of the Company and all my fellow colleagues for their great support and hard work during the past year, which have enabled the Group to continuously achieve outstanding operating performance, maintain a steady and rapid growth, and stride forward towards the Company's goal to be a leading pharmaceutical retailer and distributor in China.

We firmly believe that: "In all fighting, the direct method may be used for joining battle, but indirect methods will be needed in order to secure victory. Indirect tactics, efficiently applied, are inexhaustible as Heaven and Earth, unending as the flow of rivers and streams."

Jin Dongtao
Chairman
Shenyang, Liaoning
20 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

Industry Overview

In 2013, China's economy stabilized with positive growth momentum. According to the National Bureau of Statistics, China's GDP grew by 7.7% to RMB51,947.0 billion last year, a growth rate on the par with the same period in 2012 in terms of comparable price. As the country embraces continuous rise in disposable income, accelerating urbanization and aging demographics, the population attaches ever greater importance to health and quality of life, leading to the sustained expansion in inelastic demand for healthcare services and drugs, and in turn, a robust growth in China's pharmaceutical industry. China's pharmaceutical sales market is expected to continue to grow at a CAGR of over 20%, reaching RMB2,336 billion in 2016.

2013 was the second year for the comprehensive implementation of the government's detailed plans to deepen its medical and health system reform in the Twelfth-Five Year Plan Period, and a crucial year for such reform. The initiation of this round of medical and health system reform has brought some key developments: A universal medical insurance system is now in operation; an initial framework of basic medical and health system was put in place; and some solid foundations were laid for accelerated growth of healthcare industry down the road. In October 2013, the State Council issued the Opinions on Promoting the Development of Health Service Industry (《關於促進健康服務業發展的若干意見》), which explicitly proposes to establish a well-rounded and structured health care system that basically covers a citizen's full life cycle, with the aim to create a number of healthcare service industry segments featuring a group of top brands and virtuous cyclical effects by 2020. The Opinions foresees a health services industry with a scale of over RMB8 trillion, a powerful driving force for sustainable economic and social development. This plan provides opportunities to further facilitate the transformation and upgrading of retail pharmacies.

Northeast China consists of three provinces, namely Jilin, Heilongjiang and Liaoning. According to these provincial Bureaus of Statistics, these provinces all outperformed the national average in both annual GDP growth rate and per capital GDP growth rate from 2008 to 2012. In the context of rapid GDP growth, population aging, the urbanization drive, government support for the medical insurance system and other socio-economic dynamics, the pharmaceutical market of Northeast China grew from RMB37.6 billion in 2008 to RMB76.3 billion in 2012, representing a 5-year CAGR of 19.4% and is expected to reach RMB154 billion in 2016. Despite the tremendous market potential, pharmaceutical retail industry in Northeast China is highly fragmented and competitive in the absence of major national pharmaceutical retailers with dominant market share. In view of the rising tide of acquisition and consolidation in pharmaceutical industry over the recent years, the leading regional pharmacies are expected to lead and benefit from development of pharmaceutical retail industry in Northeast China.

Management Discussion and Analysis

According to the Southern Medicine Economy Research Institute of China Food and Drug Administration (國家食品藥品監督管理局南方醫藥經濟研究所), rapid urbanization development in Northeast China directly contributes to the growth of a more attractive pharmaceutical market with a higher level of per capita healthcare spending compared to areas in China with slower trend of urbanization. Total sales of pharmaceuticals to customers through retail pharmacies in Northeast China grows from RMB8.3 billion in 2008 to RMB16.1 billion in 2012, representing a CAGR of 18.1%. In 2012, the pharmaceutical retail market sales in Northeast China accounted for 7.1% of the national total. In addition, Northeast China is equipped with an extensive pharmaceutical distribution network where the sales of each of the top five pharmaceutical distributors in 2012 exceeded RMB1 billion. With the unfolding of a new stage of the region's urbanization process, the pharmaceutical retail and distribution market in Northeast China is expected to sustain the momentum of rapid growth.

Business Review

During the twelve months ended 31 December 2013 (the "Reporting Period"), Jintian Pharma strived to optimize its market footprint, expanded sales channels and networks through strategic acquisitions. Together with its consistently sound management and flexible market strategies, the Group further consolidated and strengthened the existing business base, which will continue to drive its further development.

In December 2013, the Company successfully completed its equity public offering and listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), raising total net proceeds of approximately RMB868.1 million (equivalent to approximately HK$1,101.6 million). This was another important milestone in the business development of the Group. Through the listing, the Group established a platform for international capital market, securing its solid financial position for continuous business expansion and enhancement of its business model, which broadens the space for the future development of the Group.

- **Retail Business Segment**

  During the Reporting Period, the Group continued to expand its retail network through organic growth and acquisitive expansion. The Group successfully acquired 192 retail pharmacies and opened 3 new ones. As at 31 December 2013, the Group had 794 retail pharmacies in total, of which 688 located in Heilongjiang, 93 in Liaoning, 10 in Jilin and 3 self-operated retail pharmacies in Hong Kong. Our self-operated pharmacies in Hong Kong will play an important role as our liaison between domestic and international markets, including approaching internationally well-known pharmaceutical and healthcare product suppliers and introducing suitable high-end pharmaceutical and healthcare products into the PRC market.

  In addition to the retail pharmacies, the Group opened 15 supermarkets in Shenyang during the Reporting Period, selling healthcare products and consumer goods. The supermarkets are operated under the "Jintian Aixin (金天愛心)" brand, and are each named "Jintian Aixin Life Supermarket (金天愛心生活超市)".

Management Discussion and Analysis

In respect of retail product mix, the Group is able to offer our customers a wide range of pharmaceutical products (including prescription and OTC products), healthcare products, medical devices and other personal and family care products at competitive prices.

- **Distribution Business Segment**

  Focusing on high margin products (including licensed products and products with exclusive distribution rights), the Group has established an effective Direct-supply Model and has an extensive nationwide distribution network with large number of end-customers (i.e. third-party retail pharmacies, hospitals and clinics). As at 31 December 2013, our distribution product mix consisted of over 19,000 types of products, which includes 371 types of licensed products offered under four product lines (i.e. Yu Shi (禦室), Kangyisheng (康醫生), Shequyisheng (社區醫生) and Taoqimao (淘氣猫)), and approximately 950 types of products with exclusive distribution rights. Revenue and gross profit of high margin products accounted for 32.7% and 57.5% of total revenue and gross profit of distribution business, respectively. The Group had a nationwide distribution network covering approximately 3,800 customers, including approximately 2,600 pharmaceutical retailers, hospitals and clinics and approximately 1,200 distributors. The Group also had four logistics centres in Shijiazhuang, Harbin, Jiamusi and Changchun.

- **Other Business Segment**

  Other business segment of the Group is managerial business.

- **Direct-Supply Model**

  Our established effective Direct-supply Model enables the Group to streamline our supply chain by eliminating and reducing distribution intermediaries and enhance distribution efficiency and profitability. Through provision of value-added services, the Group has established closer partnership with suppliers, which lays a foundation for the Group to continue to obtain high margin products. As at 31 December 2013, revenue and gross profit generated through our Direct-supply Model accounted for 26.8% and 41.5% of total revenue and gross profit of the Group, respectively. Our unique Direct-supply Model will continue to allow the Group to achieve a profit margin which is higher than the industry average.

- **Strategic Business Acquisitions**

  Strategic acquisitions have historically been the most efficient method for our expansion. Relying on the extensive experience of our management team in identifying targets with high growth potential and integrating the acquired businesses, we acquired 192 retail pharmacies during the Reporting Period. After completion of acquisitions, we implemented our proven product mix, advanced business model and sophisticated operation procedures in the acquired businesses through training programs provided through Jintian Institute. We also conducted comprehensive evaluation on the staff of newly acquired businesses, implemented a uniform employee incentive system and provided employees with training to make them accustomed to the Group’s corporate culture and management philosophy.

Management Discussion and Analysis

- **Centralised Procurement Platform**

  During the Reporting Period, through a number of measures such as further optimizing procurement process, sorting and optimizing procurement catalogues, strengthening assessment and control of cooperated suppliers and providing more value-added services to suppliers, the Group not only effectively controlled the procurement costs, but also accelerated the process of product serialization and branding.

- **Membership Programme**

  The Group's member base grew rapidly during the Reporting Period. As at 31 December 2013, the Group had over 960,000 members. During the Reporting Period, in addition to the traditional discounts on purchases and membership points, the Group's members also were provided with additional value-added services, such as free body check-ups, give-away and affectionate services, which further promoted customer loyalty, increased brand awareness and generated continuous sales growth for our pharmacies. The membership program has become a strong driver for the Group's sales revenue.

- **Jintian Institute**

  Jintian Institute is the Group's in-house training and development centre, providing training to the Group's employees as well as our important distribution customers. During the Reporting Period, Jintian Institute provided 190 training sessions to our employees, systematically and effectively improving the Group's employees' sales skills and understanding of the Group's corporate culture. As an effective marketing tool, Jintian Institute also strategically provided 47 training sessions to the Group's customers and potential customers, which not only effectively increased sales of the Group's high margin products, but also helped us maintain mutually beneficial relationships with our customers and enhanced our corporate image.

- **E-Commerce**

  The Group is committed to developing an e-commerce pharmaceutical retail business through cooperation with third-party internet service providers. During the Reporting Period, the Group has obtained the licences required for the e-commerce business and the value-added telecom service operation licence from the relevant provincial administrators of communications. We believe the e-commerce business will increase our retail revenue, enhance our market position and brand awareness, and extend our current retail network.

Financial Review

For the twelve months ended 31 December 2013, the Group recorded revenue of RMB3,323.5 million, representing an increase of RMB997.2 million or 42.9% as compared with RMB2,326.3 million last year. Gross margin was 28.2%, representing an increase of 4.7% as compared with 23.5% last year. Profit attributable to shareholders was RMB355.1 million, representing an increase of 66.1% as compared with RMB213.8 million for the corresponding period of last year. Earnings per share amounted to RMB0.22, representing an increase of 69.2% as compared with RMB0.13 in 2012.

Management Discussion and Analysis

Revenue

Through implementation of effective marketing strategies and smooth integration of newly acquired businesses during the Reporting Period, the Group achieved significant growth in both retail and distribution businesses. For the twelve months ended 31 December 2013, the Group recorded revenue of RMB3,323.5 million, representing an increase of RMB997.2 million or 42.9% as compared with last year.

Retail Business Segment

During the Reporting Period, revenue from retail business was RMB1,549.8 million, representing an increase of 69.9% as compared with RMB912.2 million in 2012 and accounting for 46.6% of the Group's revenue. The Group accelerated the organic growth of retail business through expanding member base, increasing the consumption per member and introducing more personalized services and product mix which are better adapted to the needs of customers. For example, revenue from companies acquired in 2011 increased by 62.8% during the Reporting Period as compared with 2012. During the Reporting Period, the four retail companies and 40 contracted stores acquired in 2012 entered into high growth stage through successful integration and reported strong growth of revenue, which is another driver for our significant increase in retail revenue.

Distribution Business Segment

During the Reporting Period, the Group's revenue from distribution business was RMB1,773.7 million, representing an increase of 25.4% as compared with RMB1,414.1 million in 2012. The increase of revenue from distribution business was due to the organic growth. The Group achieved rapid growth of revenue from distribution business through a number of measures such as providing more specific value-added service to key customers, intensifying efforts to explore new quality customers, and strengthening the provision of training related to high margin products and promotion of those products.

While improving the revenue, the Group was increasingly focused on the promotion and sales of high margin products. Revenue from our licensed products and products with exclusive distribution rights increased by RMB315.5 million or 48.5% from RMB650.6 million in 2012 to RMB966.1 million in 2013, contributing 31.6% to the total growth of revenue, of which revenue from licensed products increased by RMB214.0 million or 121.5% from RMB176.1 million in 2012 to RMB390.1 million in 2013, while revenue from products with exclusive distribution rights increased by 21.4% from RMB474.5 million in 2012 to RMB576.0 million in 2013.

Cost of Sales

For the twelve months ended 31 December 2013, cost of sales of the Group was approximately RMB2,387.1 million, representing an increase of 34.1% as compared with RMB1,780.5 million for the twelve months ended 31 December 2012, mainly attributable to the growth of revenue. The growth of cost of sales was lower than that of revenue, because the Group attached more importance to the promotion and sales of high margin products in 2013.

Management Discussion and Analysis

Gross Profit

Due to the above reasons, gross profit of the Group during the Reporting Period was approximately RMB936.4 million, representing an increase of 71.6% as compared with RMB545.8 million for the twelve months ended 31 December 2012, of which gross profit from retail business increased significantly by approximately 89.2% to RMB605.2 million, while gross profit from distribution business rose by approximately 46.6% to RMB331.2 million. Gross margins of the Group in 2013 and 2012 reached 28.2% and 23.5%, respectively, of which gross margins of retail business in 2013 and 2012 were 39.1% and 35.1%, respectively, while gross margins of distribution business were 18.7% and 16.0%, respectively. The significant increase of gross margin in 2013 as compared to 2012 was mainly attributable to the above-mentioned strong growth of revenue from licensed products and products with exclusive distribution rights. In addition, the Group also achieved improvement of gross margin through successful adjustment of product structure of acquired companies and more retail-oriented strategy, which helped the Group to increase the contribution of revenue from retail business to total revenue from 39.2% in 2012 to 46.6% in 2013.

Selling and Marketing Expenses

Sales and marketing expenses increased by 76.1% from RMB188.9 million for the twelve months ended 31 December 2012 to RMB332.7 million for the twelve months ended 31 December 2013. The increase was mainly due to our business expansion. In particular, we acquired Shenyang Wei Kang Drug Store Co., Ltd. in August 2012 and other new businesses in 2013, which led to the rise of employees' compensation expenses, rental expenses, transportation and related costs. In addition, in order to accelerate the promotion of licensed products, the Group increased investment in related promotions in 2013.

Administrative Expenses

For the twelve months ended 31 December 2013, the Group's administrative expenses were RMB83.0 million, representing an increase of 97.8% as compared with RMB42.0 million for the twelve months ended 31 December 2012. The increase was mainly due to the rise of employees' compensation expenses, rental expenses and depreciation expenses, resulting from business expansion, and due to the significant growth of professional fee incurred related to the fund raising in our initial public offering in 2013.

Other Income and Loss

Other income primarily comprises income from property leases, government subsidies. For the twelve months ended 31 December 2013, other income of the Group was RMB294,000, representing a significant decline of 73.8% as compared with RMB1.12 million for the twelve months ended 31 December 2012. The decrease was mainly because no government subsidies were received by the Group in 2013, while the Group was granted approximately RMB1 million of government subsidies in 2012.

Other loss primarily comprises loss we incurred from changes in the fair value of financial assets and the disposal of fixed assets. In 2013 and 2012, the Group's other loss was RMB1.5 million and RMB14.3 million, respectively, which was primarily the loss due to changes in the fair value of financial assets. The Company did not have similar financial assets since May 2013.

Management Discussion and Analysis

Operating Profit and Operating Margin

As a result of the foregoing, operating profit increased by 72.2% from RMB301.8 million for the twelve months ended 31 December 2012 to RMB519.5 million for the twelve months ended 31 December 2013. Our operating margin increased from 13.0% in 2012 to 15.6% in 2013.

Finance (Cost)/Income – net

Net finance income changed from RMB3.0 million for the twelve months ended 31 December 2012 to net finance cost of RMB1.2 million for the twelve months ended 31 December 2013. The change was primarily due to an increase in exchange loss resulting from the fluctuations in exchange rate.

Share of Profits of Joint Ventures

The Group's share of profits of joint ventures increased by 34.6% from RMB1.1 million in 2012 to RMB1.5 million in 2013. The increase was primarily because we strengthened our training efforts towards our joint venture partners with respect to management and marketing.

Income Tax Expense

Income tax expense increased by 71.7% from RMB78.5 million for the twelve months ended 31 December 2012 to RMB134.8 million for the twelve months ended 31 December 2013, primarily due to the increase in our profit before income tax. Our effective income tax rate remained stable, which was 25.9% in 2013 and 25.7% in 2012.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit increased by 69.4% from RMB227.4 million for the twelve months ended 31 December 2012 to RMB385.1 million for the twelve months ended 31 December 2013. Our profit margin increased from 9.8% in 2012 to 11.6% in 2013.

Profit attributable to Equity Owners of the Company

During the Reporting Period, profit attributable to equity owners of the Company was RMB355.1 million, representing an increase of 66.1% or RMB141.3 million as compared with RMB213.8 million for the twelve months ended 31 December 2012.

Profit attributable to Non-controlling Interests

During the Reporting Period, profit attributable to non-controlling interests was RMB30.0 million, representing an increase of approximately RMB16.4 million as compared with RMB13.6 million for the twelve months ended 31 December 2012. This increase was mainly attributable to the increase of profit attributable to the non-controlling interests in Shenyang Wei Kang Drug Store Co., Ltd..

Management Discussion and Analysis

Liquidity and Capital Resources

Working Capital

As at 31 December 2013, cash and cash equivalents of the Group amounted to RMB1,564.2 million, of which RMB868.1 million was the net proceeds from our initial public offering in the Stock Exchange on 12 December 2013 (as at 31 December 2013, RMB865.3 million has not been used), and other funds mainly comprised the income generated from our operating activities during the period and accumulated cash and bank balance at the beginning of the period.

Cash Flow

Cash inflows of the Group were principally generated from proceeds from sales of products of pharmaceutical retail and distribution business segments. During the Reporting Period, the Company was successfully listed on 12 December 2013 and raised funds of RMB868.1 million. The Company's primary cash expenditures were used to finance our working capital requirements, acquisitions, opening of retail outlets and other capital expenditures, as well as to fund the business growth and expansion. The following table sets out the Group's cash flows from operating activities, investing activities and financing activities for the years ended 31 December 2012 and 2013:

	Year ended 31 December	
	2013	2012
	RMB million	*RMB million*
Net cash from operating activities	**386.9**	161.6
Net cash used in investing activities	**(52.6)**	(323.4)
Net cash generated from/(used in) financing activities	**774.9**	(95.5)
Cash at the beginning of the year	**455.9**	713.3
Exchange losses on Cash	**(0.9)**	(0.1)
Cash at the end of the year	**1,564.2**	455.9

Net cash generated from operating activities

For the twelve months ended 31 December 2013, our net cash generated from operating activities was RMB386.9 million, which comprised cash generated from operations of RMB506.9 million, offset by bank charges paid and income tax of RMB120.0 million. Net cash generated from operating activities increased by RMB225.3 million or 139.4% as compared with the net cash of RMB161.6 million generated from operation activities for the twelve months ended 31 December 2012, mainly due to the surge in net profit for the year and the measures taken by the Group to increase the cash generated from operating activities, such as improving inventory turnover, reducing inventory, minimizing the use of funds and strengthening the recovery of accounts receivables.

Management Discussion and Analysis

Net cash used in investing activities

During the Reporting Period, the Group's net cash used in investing activities was RMB52.6 million, representing a decrease of RMB270.8 million as compared with RMB323.4 million for the twelve months ended 31 December 2012, mainly due to the decrease of the Group's investment in financial assets at fair value and the reduction of expenses for business acquisition in 2013.

Net cash generated from/used in financing activities

During the Reporting Period, the Group's net cash generated from financing activities was RMB774.9 million, representing an increase of RMB870.5 million as compared with net cash used in financing activities of RMB95.5 million for the twelve months ended 31 December 2012. The change was mainly due to the net cash from public offering of shares, amounting to RMB868.1 million.

Capital Expenditure

The Group's capital expenditure was mainly used to acquire businesses, open pharmacies, build and upgrade logistics center and improve IT level so as to expand the channels of retail and distribution businesses. At as 31 December 2012 and during the Reporting Period, the Group's net capital expenditures were RMB192.4 million and RMB164.8 million, respectively.

The Group's capital expenditure plan will be formulated based on the progress of business development and other factors such as market and macroeconomic conditions.

Indebtedness

At as 31 December 2013, the Group did not have any outstanding bank loans or overdrafts. The balance of the shareholder's loan was fully settled in November 2013 through conversion into equity.

Gearing Ratio

At as 31 December 2013 and 2012, the Group's gearing ratios were N/A and 21.3%, respectively, which was mainly because the Group did not have any outstanding bank loans or overdrafts during the Reporting Period, and the balance of the shareholder's loan was fully settled in November 2013 through conversion into equity. Gearing ratio is calculated by dividing net debt by total capital. Net debt is calculated as shareholder's loan as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt.

Management Discussion and Analysis

Foreign Exchange Risk Management

We mainly operate in the PRC, with most of our transactions denominated and settled in Renminbi. Our currency risk arises from certain bank deposits, financial assets at fair value through profit and loss and amounts due on a loan received from shareholders that are denominated in US dollars and Hong Kong dollars. As at 31 December 2013, we had RMB1,564.2 million in cash and bank balances, of which the equivalent of RMB370.6 million was denominated in Hong Kong dollars. The Company plans to convert Hong Kong dollars into equivalent Renminbi in due course so as to reduce the impact of fluctuations in exchange rate.

Major Acquisitions and Disposals

Business acquisitions have been an important driver for the growth of our revenue and profit. We began our expansion through business acquisitions in 2011 and acquired 574 pharmacies and three pharmaceutical distribution companies from 2011 to 2013. Our major acquisitions included Suihua New Century Drug Store Co., Ltd and Hebei Jintian Yanxiao Pharmaceutical Co. Ltd in 2011, and Shenyang Wei Kang Drug Store Co., Ltd and Harbin Jintian Aixin Pharmaceutical Chain Limited in 2012.

With our strong integration capability and under successful replication model, both revenue and gross margin of the acquired companies increased significantly. For example, retail companies acquired in 2011 recorded a 62.8% increase in revenue during the Reporting Period as compared with 2012, with gross margin increasing from 35.4% in 2012 to 40.1% in 2013. Distribution businesses acquired in 2011 recorded a 44.9% increase in revenue during the Reporting Period as compared with 2012, with gross margin increasing from 9.9% in 2012 to 17.4% in 2013.

As a key aspect of our overall growth strategy, we will continue to seek suitable targets for acquisitions mainly in North China with an aim to further expand our business coverage and increase our revenue and profit.

On 24 January 2014, we entered into an agreement with a pharmaceutical retail company, an independent third party which locates in North China and has 5 retail pharmacies. The transaction has been completed. On 22 February 2014, we entered into an agreement with a pharmaceutical retail company, an independent third party which locates in North China and has 30 retail pharmacies. We intend to complete the transaction by the end of March.

Overview of Investments Held

As at 31 December 2013 and 31 December 2012, financial assets measured at changes in fair value held by the Group amounted to nil and RMB97.0 million, respectively.

Management Discussion and Analysis

Pledge of Assets

As at 31 December 2013, the Group did not pledge any assets.

Going Concern

Based on current financial forecast and in view of facilities available, the Group has sufficient financial resources to continue its operation in the foreseeable future. Therefore, the financial statements have been prepared on the going concern basis.

Contingent Liabilities

As at 31 December 2013, the Group did not have any significant contingent liabilities.

Human Resources

For the twelve months ended 31 December 2013, the Group had 5,561 full-time employees. We have implemented a number of initiatives to enhance the productivity of our employees. In particular, we conduct periodic performance reviews of most of our employees, and their compensation is tied to their performance. Further, our compensation structure is designed to incentivise our employees to perform well by linking a portion of their compensation to their performance and the overall performance of the Group. The performance-based portion depends on the employee's job function and seniority.

Updates on Compliance and Regulatory Matters as Disclosed in the Prospectus

As disclosed in the section headed "Business" of the Prospectus, during the three years ended 31 December 2012 and the six months ended 30 June 2013, the Group has failed to comply with certain applicable laws and regulations in the PRC. Set out below is the status of the remedial actions taken in relation to those non-compliance matters as at the date of this annual report:

1. **Failure to obtain or renew GSP certificates**

   As disclosed in the Prospectus, due to administrative issues at local authorities, we were not able to obtain or renew the GSP certificates for four of our subsidiaries collectively operating 90 pharmacies before the Listing Date. The GSP certificates are required by pharmaceutical retail and wholesale operators under the Administrative Rules on Certification of Good Supply Practice (《藥品經營質量管理規範認證管理辦法》).

   Four of our subsidiaries are making preparation for obtaining GSP certificates. According to the progress of publication and implementation of detailed rules regarding new version of GSP certificates by relevant government authorities, we expect that a large scale examination and approval of GSP certificates will be carried out in relevant cities in June 2014. The Company will take its turn to actively apply for and obtain GSP certificates.

Management Discussion and Analysis

2. Failure to obtain or renew health food hygiene permits

As disclosed in the Prospectus, due to administrative issues at local authorities, we were not able to obtain or renew the health food hygiene permits for 138 of our pharmacies before the Listing Date, 134 of which are located in Heilongjiang Province. The health food hygiene permits are required for sellers of health food and enterprises engaged in food circulation under the Food Safety Law of the PRC (《中華人民共和國食品安全法》).

Nine of our pharmacies fail to obtain or renew health food hygiene permits due to administrative issues at the relevant local authorities, which are competent to register and issue new permits and have not published detailed implementation rules for application and renewal of such permits. These pharmacies have been permitted to continue their operation until their renewal or application of health food hygiene permits are approved.

Future Plan

Looking forward, the Group will continue to focus on our business expansion in North China and explore expansion opportunities in the Greater China Region. We will further expand our geographical coverage and improve revenue and profitability through business acquisitions. By further deepening the brand of "Jintian Aixin (金天愛心)" and expanding the depth and breadth of brands, we will establish the Company's reputation and product awareness. Through continuous diversification of value-added services provided to our members, the Company will expand its member base and keep enhancing the service level. According to market trends and customer preferences, we will also adjust and diversify our retail and distribution product mix and introduce suitable new brands and products under our Direct-supply Model. The launch of online pharmacy and layout of offline pharmacies will be accelerated. The Company will strategically adjust the structure of overseas businesses and make the best of overseas platform to introduce appropriate pharmaceutical products, healthcare products and medical devices demanded by domestic market.

We believe that, as a leading pharmaceutical retailer and distributor in Northeast China, we are well positioned to benefit from the growth potential in the PRC in general and from the on-going market consolidation in the PRC pharmaceutical and healthcare industry. The Company has the ability to continue to lead a deeper and broader integration of pharmaceutical value chain in the PRC.

Report of the Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

Global Offering

The Company was incorporated in the Cayman Islands on 12 March 2012 as an exempted company with limited liability under the Companies Law of the Cayman Islands (the "Companies Law"). The Company's shares (the "Shares") were listed on the Stock Exchange on 12 December 2013 (the "Listing" or the "Listing Date").

Principal Activities

The principal activity of the Company is investment holding and the Group is principally engaged in the distribution and retail of drugs and other pharmaceutical products in the northeastern region of the People's Republic of China (the "PRC"). Analysis of the principal activities of the Group during the year ended 31 December 2013 is set out in the note 8 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of comprehensive income on page 73 of this annual report.

Final Dividends

The Board proposed no dividend for the year ended 31 December 2013 (2012: nil).

Four-year Financial Summary

A summary of the Group's operating results, assets and liabilities for the past four financial years is set out on page 148 of this annual report. This summary does not form part of the audited consolidated financial statements.

Report of the Directors

Use of Net Proceeds From Listing

Upon listing on the Stock Exchange on 12 December 2013, the Company issued 400,000,000 new shares at the offer price of HK$2.91 per share, with the net proceeds amounting to approximately RMB868.1 million (equivalent to approximately HK$1,101.6 million) after deducting the broker commissions and the other fees and expenses payable by the Company for the listing. As of 31 December 2013, the net proceeds from the initial public offering (the "IPO") were used for purposes which were consistent with those set out in the section headed "Future Plan and Use of Proceeds" in the prospectus of the Company dated 2 December 2013 (the "Prospectus"). As of 31 December 2013, the net proceeds were used for the following purposes:

	Net proceeds from the IPO *RMB million*		
Use of proceeds	**Proceeds available for use**	**Proceeds used**	**Proceeds unused**
For acquisitive expansion	347.2	–	347.2
For organic growth	260.4	–	260.4
For brand promotion	173.6	–	173.6
For working capital	86.9	2.8	84.1
Total	868.1	2.8	865.3

As at 31 December 2013, the unused net proceeds were placed with banks in Hong Kong as short-term deposits.

Major Customers and Suppliers

During the Reporting Period, the purchase from the Group's five largest suppliers contributed 15.1% of the total costs and the Group's five largest customers contributed 1.0% of the total revenue.

Save for the following, none of our Directors or any of their respective associates or, so far as our Directors were aware, any shareholder who owned 5% or more of our issued share capital as at 31 December 2013, had any interest in any of our five largest suppliers in 2012 and 2013:

– Heilongjiang Baitai Pharmaceutical Company Limited ("Heilongjiang Baitai") was one of our five largest suppliers in 2012 and 2013. On 28 April 2012, Ms. Liu Shuxia (劉樹霞), Mr. Jin's cousin-in-law, acquired 100% of the equity interest in Heilongjiang Baitai. The Group's total purchases from Heilongjiang Baitai amounted to RMB54.2 million and RMB59.7 million in 2012 and 2013, respectively. During the same periods, purchases from Heilongjiang Baitai accounted for 2.9% and 2.5% of our total purchases, respectively. Heilongjiang Baitai was the Group's second largest supplier and third largest supplier for the years ended 31 December 2012 and 2013; and

Report of the Directors

– Chengde Yushi Jindan Pharmaceutical Company Limited ("Chengde Yushi"), one of the Group's five largest suppliers during the year ended 31 December 2012 and 2013, was 95% owned by Ms. Chen and 5% owned by Mr. Geng Changsheng (耿長勝), who is Mr. Jin's cousin. On 15 March 2013, Ms. Chen transferred her 95% equity interest in Chengde Yushi to Mr. Geng Liyuan (耿立元), who is Mr. Jin's uncle, also Mr. Geng Changsheng's father. The Group's total purchases from Chengde Yushi amounted to RMB46.7 million and RMB109.8 million in 2012 and 2013, respectively. During the same periods, purchases from Chengde Yushi accounted for 2.5% and 4.7% of the Group's total purchases, respectively. Chengde Yushi was our third largest supplier and first largest supplier in 2012 and 2013.

The Group's mainly procured our Licensed Products from Heilongjiang Baitai and Chengde Yushi. Purchases from associates of the Controlling Shareholders, which are Heilongjiang Baitai and Chengde Yushi, amounted to an aggregate of RMB100.9 million and RMB169.5 million in 2012 and 2013, respectively. During the same periods, purchases from Heilongjiang Baitai and Chengde Yushi in aggregate accounted for 5.3% and 7.2% of the Group's total purchases, respectively.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2013 are set out in note 6 to the consolidated financial statements.

Share Capital

Details of movements in the share capital of the Company during the year ended 31 December 2013 are set out in note 17 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2013 are set out on page 74 in the consolidated statement of changes in equity.

Distributable Reserves

As at 31 December 2013, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law, amounted to approximately RMB782.8 million (as at 31 December 2012: RMB528.1 million).

Bank Loans and Other Borrowings

There are no bank loans and other borrowings for the Company and the Group as at 31 December 2013.

Report of the Directors

Directors

The Directors during the year ended 31 December 2013 and up to the date of this report were:

Executive Directors:

Mr. Jin Dongtao *(Chairman)* (appointed on 12 March 2012)
Mr. Jin Dongkun *(Vice Chairman)* (appointed on 12 March 2012)
Ms. Chen Xiaoyan *(President)* (appointed on 12 March 2012)
Mr. Chu Chuanfu *(Chief Executive Officer)* (appointed on 12 March 2012)
Ms. Wu Qiong *(Chief Financial Officer)* (appointed on 12 March 2012)

Independent non-executive Directors:

Mr. Cheng Sheung Hing (appointed on 18 November 2013)
Ms. Chiang Su Hui Susie (appointed on 18 November 2013)
Mr. Chen Xiao (appointed on 18 November 2013)

Mr. Jin Dongtao (the "Chairman"), Mr. Jin Dongkun, Ms. Chen Xiaoyan, Mr. Chu Chuanfu, Ms. Wu Qiong were appointed by the Board as Directors with effect from 12 March 2012. Mr Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Mr. Chen Xiao were appointed by the Board as independent non-executive Directors with effect from 18 November 2013. In accordance with article 16.2 of the articles of association of the Company, Mr. Jin Dongtao, Mr. Jin Dongkun, Ms. Chen Xiaoyan, Mr. Chu Chuanfu, Ms. Wu Qiong, Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Mr. Chen Xiao shall hold office until the forthcoming annual general meeting of the Company. Ms. Chen Xiaoyan will not offer herself for election and will retire upon the conclusion of the above meeting, while the other retiring Directors, being eligible, have offered themselves for election as Directors at the above meeting.

Details of the Directors to be re-elected at the forthcoming annual general meeting of the Company are set out in the circular to the shareholders.

Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 56 to 67 of this annual report.

Confirmation of Independence of Independent Non-Executive Directors

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") from each of the independent non-executive Directors and the Company considers such Directors to be independent since the Listing Date up to 31 December 2013.

Report of the Directors

Directors' Service Contracts and Letter of Appointments

Each of the executive Directors has signed an appointment letter with the Company for a term of three years commencing on 18 November 2013, which may be renewable subject to both parties' agreement.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing on 18 November 2013, which may be renewable subject to both parties' agreement.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Controlling Shareholders' Interests in Contracts

Save as disclosed in this annual report and the Prospectus, there was no contract of significance to which the Company or its holding company or any of its subsidiaries was a party and in which any controlling shareholder had a material interest subsisted at the end of the year or at any time during the year.

Contracts with Controlling Shareholders

During the year ended 31 December 2013, none of the Company or any of its subsidiaries have entered into any material contract with the Controlling Shareholders.

Directors' Interests in Contracts of Significance

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year or at the end of 2013.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2013.

Emolument Policy

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

Report of the Directors

Remuneration of Directors and Five Individuals with Highest Emoluments

Details of the emoluments of the Directors and five highest paid individuals are set out in note 22 to the consolidated financial statements.

No director has waived or has agreed to waive any emolument during the year ended 31 December 2013.

Changes to Information in Respect Of Directors

During the year ended 31 December 2013, there was no changes to information which are required to be disclosed and has been disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules.

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

As at 31 December 2013, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers("Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director	**Nature of Interest**	**Number and class of Shares**	**Approximate percentage of shareholding**
Jin Dongtao	Founder of a discretionary trust *(Note 1)*	902,796,135 (Long Position)	45.14%
Chen Xiaoyan	Beneficiary of a trust *(Note 1)*	902,796,135 (Long Position)	45.14%
Jin Dongkun	Interest in a controlled corporation *(Note 2)*	40,943,135 (Long Position)	2.05%

Report of the Directors

Notes:

1) Mr. Jin Dongtao is the settlor, protector and a beneficiary of a discretionary trust pursuant to a trust deed dated 6 November 2013 with Credit Suisse Trust Limited acting as trustee (the "Family Trust"), which holds the entire issued share capital of Global Health Century International Group Limited ("Global Health Century") through 1969 JT Limited. Ms. Chen Xiaoyan, who is Mr. Jin Dongtao's spouse, is also a beneficiary of the Family Trust. Global Health Century holds the entire issued share capital of Asia Health Century International Inc., which holds 902,796,135 Shares in the Company.

2) Mr. Jin Dongkun hold 75% equity interest in Pacific Health Century International Group Limited, which holds 40,943,135 Shares in the Company.

Save as disclosed above, as at 31 December 2013, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

The Company's existing Share Option Scheme was approved for adoption pursuant to a written resolution of the then sole shareholder passed on 18 November 2013 for the purpose to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to contribute for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company, as well as for such other purposes as the Board may approve from time to time.

Subject to the terms of the Share Option Scheme, the board may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares: the Directors (including executive Directors and independent non-executive Directors), the directors of our subsidiaries and the employees of the Group who have contributed or will contribute to the Group.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on the Listing Date unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating 10% limit.

Report of the Directors

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "Share Option Scheme" in section headed "Statutory and General Information" in Appendix V to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 18 November 2013 and remains in force until 17 November 2023. The Company may, by ordinary resolution in general meeting or, such date as the Board determined, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

(1) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option ("Date of Grant") which must be a trading day;

(2) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the Date of Grant; and

(3) the nominal value of the shares on the Date of Grant.

Upon acceptance of the options, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the date of grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

The total number of new shares of the Company that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options schemes of the Company shall not exceed 200,000,000 shares, which represents 10% of the shares in issue of the Company as at the date of this report.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the Listing Rules.

Report of the Directors

Any grant of an option to any Director, chief executive or substantial shareholder of our Company, or any of their respective associates, shall be subject to the prior approval of the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of the option in question).

During the year, no options were granted under the Share Option Scheme.

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2013 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

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

As at 31 December 2013, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	**Capacity/Nature of interest**	**Number of Shares**	**Approximate percentage of shareholding**
Asia Health Century International Inc.	Beneficial owner *(Notes 1 and 2)*	902,796,135 (Long Position)	45.14%
Global Health Century International Group Limited	Interest in a controlled corporation *(Notes 1 and 2)*	902,796,135 (Long Position)	45.14%
1969 JT Limited	Interest in a controlled corporation *(Notes 1 and 2)*	902,796,135 (Long Position)	45.14%
Tenby Nominees Limited	Nominee *(Notes 1 and 2)*	902,796,135 (Long Position)	45.14%
Brock Nominees Limited	Nominee *(Notes 1 and 2)*	902,796,135 (Long Position)	45.14%
Credit Suisse Trust Limited	Trustee *(Notes 1 and 2)*	902,796,135 (Long Position)	45.14%

Report of the Directors

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
AMG Holdings Limited	Beneficial owner	322,664,903 (Long Position)	16.13%
	Beneficial owner	48,910,412 (Short Position)	2.45%
Morgan Stanley	Interest in a controlled corporation	180,182,000 (Long position)	9.00%
	Interest in a controlled corporation	96,334,000 (Short Position)	4.81%

Notes:

1) Mr. Jin Dongtao is the settlor, protector and a beneficiary of the Family Trust, which holds the entire issued share capital of Global Health Century through 1969 JT Limited. Ms. Chen Xiaoyan, who is Mr. Jin Dongtao's spouse, is also a beneficiary of the Family Trust. Global Health Century holds the entire issued share capital of Asia Health Century International Inc., which holds 902,796,135 Shares in the Company.

2) These 902,796,135 Shares belong to the same group of shares.

Save as disclosed above, as at 31 December 2013, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Purchase, Sale or Redemption of Listed Securities

During the period from the Listing Date to 31 December 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing shareholders.

Report of the Directors

Non-competition Undertaking

Each of Mr. Jin Dongtao, Ms. Chen Xiaoyan, Mr. Jin Dongkun, Ms. Hao Ruihua, Mr. Jin Guisheng, Asia Health Century International Inc., Global Health Century International Group Limited, Pacific Health Century International Group Limited and Atlantic Health Century International Group Limited (the "Controlling Shareholders") has executed a deed of non-competition through which each of them has undertaken to:

- not, and procure that their respective subsidiaries or parties controlled by them either solely or jointly with another Controlling Shareholder or any other party ("Affiliates") will not, either on their own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly, be interested or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise) in any business which directly or indirectly competes or may compete with the core businesses including the pharmaceutical retail and distribution business in the PRC and Hong Kong;

- notify the Company in writing of any business opportunity which directly or indirectly competes or may compete with core businesses including the pharmaceutical retail and distribution business in the PRC and Hong Kong (which shall include all relevant information and documents possessed by any of them) ("New Business Opportunity"), if any of them becomes aware of such business opportunity; and

- use its best endeavours to procure that the New Business Opportunity is first offered to the Company on terms and conditions that are fair and reasonable.

Pursuant to the Non-competition Deed, the independent non-executive Directors are responsible for reviewing and considering whether exercising such option and pre-emptive right, as well as entitled to conduct annual review of implementation of the Non-competition Deed on behalf of the Company. The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this annual report during the period from the Listing Date to 31 December 2013. During the year, the independent non-executive Directors have also reviewed the implementation of the Non-competition Deed, and confirmed that the Controlling Shareholders have fully abided by the Non-competition Deed without any breach of the Non-competition Deed.

Directors' Interest in Competing Business

Save as disclosed in this report, as at 31 December 2013, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

Report of the Directors

Continuing Connected Transactions

Non-Exempt Continuing Connected Transactions

1. *Contractual Arrangements*

Subsequent to the merger by absorption undertaken by the Group as part of the reorganisation, we have entered into the contractual arrangements which currently comprise four agreements, namely (i) Exclusive Consultancy Services Agreement, (ii) share pledge, (iii) power of attorney, and (iv) Exclusive Option Agreement.

Exclusive Consultancy Services Agreement

On 1 July 2013, Jiamusi Jintian Century Trade Company Limited (佳木斯金天世紀商貿有限公司) ("Jintian Century"), a company incorporated in the PRC on 17 April 2013, the equity interest in which is held by Mr. Jin Dongtao[(1)] as to 89%, Ms. Hao Ruihua as to 3%, Mr. Jin Guisheng as to 3%, Mr Jin Dongkun as to 3% and Ms. Chen Xiaoyan as to 2%, Hong Kong Health Century International Group Limited ("Hong Kong Health Century"), a company incorporated in Hong Kong on 15 September 2010 and our wholly-owned subsidiary and Heilongjiang Province Jintian Aixin Medicine Distribution Co., Ltd. (黑龍江省金天愛心醫藥經銷有限公司) ("Jintian Aixin Co."), a company incorporated in the PRC on 12 February 2004 and our non wholly-owned subsidiary entered into the Exclusive Consultancy Services Agreement (as further amended and supplemented on 26 November 2013), which provides, among other things, that:

(a) Jintian Century acknowledges that it holds 4.99% equity interest in Jintian Aixin Co. for and on behalf of Hong Kong Health Century;

(b) Jintian Century shall exercise its rights as holder of the 4.99% equity interest in Jintian Aixin Co. in accordance with instructions given by Hong Kong Health Century;

(c) Jintian Century irrevocably grants to Hong Kong Health Century an option to acquire its equity interest in Jintian Aixin Co. Unless with the written consent of Hong Kong Health Century, Jintian Century shall not transfer its equity interest in Jintian Aixin Co. to any party; and

(d) Hong Kong Health Century shall have the exclusive right to provide consultancy services to Jintian Century for a service fee equal to all dividends and other economic benefits flowing from Jintian Century's 4.99% equity interest in Jintian Aixin Co. (except for those dividends declared from the net profits of Jintian Aixin Co.'s PRC subsidiaries for the period from 1 January to 31 December 2010), which shall be paid to Hong Kong Health Century within 60 days after such dividends or economic benefits are received by Jintian Century.

Note:

(1) The following are Mr. Jin Dongtao's family members: (i) Ms. Chen Xiaoyan – spouse, (ii) Ms. Hao Ruihua – mother, (iii) Mr. Jin Guisheng – father and (iv) Mr. Jin Dongkun – brother.

Report of the Directors

The Exclusive Consultancy Services Agreement took retrospective effect from 27 June 2013, and shall only be terminated upon Jintian Aixin Co. becoming a wholly-owned subsidiary of Hong Kong Health Century.

Share Pledge

On 1 July 2013, the parties to the Exclusive Consultancy Services Agreement further entered into the share pledge (as amended and supplemented on 26 November 2013), pursuant to which Jintian Century's 4.99% equity interest in Jintian Aixin Co. is pledged to Hong Kong Health Century to secure performance of the obligation of Jintian Century under the Exclusive Consultancy Services Agreement, which our Directors believe is sufficient to protect the interests of the Company with regard to Jintian Aixin Co..

Power of Attorney

On 26 November 2013, Jintian Century executed the power of attorney, pursuant to which Jintian Century agreed to authorise representatives appointed by Hong Kong Health Century to exercise all of Jintian Century's rights and powers as a shareholder of Jintian Aixin Co. These rights include the rights to (i) attend shareholders' meetings, (ii) exercise voting rights in shareholders' meetings, including the rights to appoint directors, supervisors and senior management, (iii) sign minutes of the meetings, (iv) decide on any acquisition or disposal of the equity interest in Jintian Aixin Co. or the winding-up or dissolution of Jintian Aixin Co., (v) file documents with relevant governmental authorities or regulatory bodies, (vi) instruct directors and senior management of Jintian Aixin Co. to act in accordance with all instructions of Hong Kong Health Century or its designated person, and (vii) exercise such other shareholders' rights as stipulated under applicable PRC laws, rules and regulations and the articles of association of Jintian Aixin Co..

The power of attorney shall remain in full force and shall only be terminated upon Jintian Aixin Co. becoming a wholly-owned subsidiary of Hong Kong Health Century.

Exclusive Option Agreement

On 26 November 2013, Jintian Century, Hong Kong Health Century and Jintian Aixin Co. entered into the Exclusive Option Agreement, pursuant to which Jintian Century granted to Hong Kong Health Century or one or more persons designated by Hong Kong Health Century (which must be a wholly-owned subsidiary of the Company) irrevocable options to purchase, to the extent permitted by PRC laws and regulations and subject to compliance with the Listing Rules, its equity interest in Jintian Aixin Co., either entirely or partially, at the net asset value of such equity interest at the time of acquiring such interest. Hong Kong Health Century or its designated person may exercise such options at any time until Jintian Aixin Co. becomes a wholly-owned subsidiary of Hong Kong Health Century, subject to applicable PRC laws and regulations and compliance with the Listing Rules.

Report of the Directors

During the year ended 31 December 2013, the service fees paid by Jintian Century to Hong Kong Health Century were nil as no dividends or other economic benefits were received by Jintian Century from Jintian Aixin Co.

Pursuant to Rule 14A.42(3) of the Listing Rules for, and the Stock Exchange has granted, a waiver from (i) strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements, (ii) setting a maximum aggregate annual value (i.e. an annual cap) for the amounts payable by Jintian Century to Hong Kong Health Century under the Exclusive Consultancy Services Agreement, and (iii) having to restrict the term of the Contractual Arrangements to no more than three years, for so long as the Shares are listed on the Stock Exchange subject to numerous conditions as set out in the section headed "Connected Transactions" of the Prospectus.

Ongoing reporting and approvals

- the Contractual Arrangements in place during the Reporting Period has been disclosed in our annual report and accounts in accordance with relevant provisions of the Listing Rules.

- the independent non-executive Directors have reviewed the Contractual Arrangements annually and confirm in our annual report and accounts for the Reporting Period that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; and (ii) no dividends or other distributions have been made by Jintian Aixin Co. to Jintian Century which are not otherwise subsequently assigned or transferred to the Group.

- the Company has engaged PricewaterhouseCoopers as its auditor to carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and confirmed that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Jintian Aixin Co. to Jintian Century which are not otherwise subsequently assigned or transferred to the Group.

- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", Jintian Aixin Co. will be treated as our wholly-owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders of Jintian Aixin Co. and their respective associates have been treated as connected persons of our Company (excluding for this purpose, Jintian Aixin Co.), and transactions between these connected persons and our Group (including for this purpose, Jintian Aixin Co.), other than those under the Contractual Arrangements, are subject to requirements under Chapter 14A of the Listing Rules.

Report of the Directors

- Jintian Century has provided the Group's management and the Company's auditor full access to its relevant records for the purpose of the Company's auditor's review of the connected transactions.

2. *National Sales and Use of Trademark Agreement with Chengde Yushi*

Pursuant to a national sales and use of trademark agreement dated 1 January 2012, a supplemental agreement dated 10 January 2012, a supplemental agreement dated 30 June 2013 and a supplemental agreement dated 25 November 2013 (together the "Chengde Yushi National Sales and Trademark Agreement") entered into between Jintian Aixin Co. and Chengde Yushi, Chengde Yushi granted Jintian Aixin Co.:

(i) a non-exclusive right for the period from 1 January 2012 to 29 June 2013, and an exclusive right for the period from 30 June 2013 to 30 June 2016, to distribute its pharmaceutical products as specified in the Chengde Yushi National Sales and Trademark Agreement throughout China; and

(ii) a non-exclusive right for the period from 1 January 2012 to 29 June 2013, and for a total consideration of RMB7.8 million, an exclusive right for the period from 30 June 2013 to 30 June 2016, to use its "Yushi" (御室) trademark on its pharmaceutical products and pharmaceutical products produced by third party manufacturers which are distributed by us throughout China.

The total consideration of RMB7.8 million for licensing of the "Yushi" (御室) trademark will be paid in three equal instalments. The first instalment of RMB2.6 million was paid in November 2013. The second instalment of RMB2.6 million and third instalment of RMB2.6 million will be paid in November 2014 and November 2015, respectively.

Chengde Yushi is owned as to 95% by Mr. Geng Liyuan (耿立元), uncle of Mr. Jin, our Controlling Shareholder, Chairman and executive Director and as to 5% by Mr. Geng Changsheng (耿長勝), cousin of Mr. Jin. As such, Chengde Yushi is a connected person of the Company.

The annual caps in respect of the aggregate value of the purchases of pharmaceutical products from Chengde Yushi by the Group for the three years ending 31 December 2013, 2014 and 2015 were RMB110.0 million, RMB150.0 million and RMB190.0 million respectively. And the annual caps in respect of the use of the "Yushi" trademark by the Group for the three years ending 31 December 2013, 2014 and 2015 were RMB2.6 million, RMB2.6 million and RMB2.6 million respectively.

During the year ended 31 December 2013, the aggregate value of purchase of pharmaceutical products from Chengde Yushi by the Group was RMB109.8 million and the payment for use the "Yushi" trademark was RMB2.6 million.

Report of the Directors

3. *National Sales and Use of Trademark Agreement with Heilongjiang Baitai*

Pursuant to a national sales and use of trademark agreement dated 1 January 2012, a supplemental agreement dated 10 January 2012, a supplemental agreement dated 30 June 2013 and a supplemental agreement dated 25 November 2013 (together the "Heilongjiang Baitai National Sales and Trademark Agreement") entered into between Jintian Aixin Co. and Heilongjiang Baitai, Heilongjiang Baitai granted Jintian Aixin Co.:

(i) a non-exclusive right for the period from 1 January 2012 to 29 June 2013, and an exclusive right for the period from 30 June 2013 to 30 June 2016, to distribute its pharmaceutical products as specified in the Heilongjiang Baitai National Sales and Trademark Agreement throughout China; and

(ii) a non-exclusive right for the period from 1 January 2012 to 29 June 2013, and for a total consideration of RMB8.75 million, an exclusive right for the period from 30 June 2013 to 30 June 2016, to use its "Kangyisheng" (康醫生) trademark on its pharmaceutical products and pharmaceutical products produced by third party manufacturers which are distributed by us throughout China.

The total consideration of RMB8.75 million for licensing of the "Kangyisheng" (康醫生) trademark will be paid in three approximately equal instalments. The first instalment of RMB2.91 million was paid in November 2013. The second instalment of RMB2.92 million and third instalment of RMB2.92 million will be paid in November 2014 and November 2015, respectively.

Heilongjiang Baitai is wholly-owned by Ms. Liu Shuxia (劉樹霞), cousin-in-law of Mr. Jin, our Controlling Shareholder, Chairman and executive Director. As such, Heilongjiang Baitai is a connected person of the Company.

The annual caps in respect of the aggregate value of the purchases of pharmaceutical products from Heilongjiang Baitai by the Group for the three years ending 31 December 2013, 2014 and 2015 were RMB60.0 million, RMB84.0 million and RMB100.0 million. And the annual caps in respect of the use of the "Kanyisheng" trademark by the Group for the three years ending 31 December 2013, 2014 and 2015 were RMB2.91 million, RMB2.92 million and RMB2.92 million respectively.

During the year ended 31 December 2013, the aggregate value of purchase of pharmaceutical products from Heilongjiang Baitai by the Group was RMB59.7 million and the payment for use the "Kanyisheng" trademark was RMB2.9 million.

Report of the Directors

4. *National Sales Agreements with Tonghua Mintai Pharmaceutical Co., Ltd. ("Mintai") and Anhui Jifeng Pharmaceutical Co., Ltd. ("Jifeng")*

Pursuant to a national sales agreement dated 21 February 2013 (as amended and supplemented on 25 November 2013) (the "Mintai National Sales Agreement") entered into between Jintian Aixin Co. and Mintai, Mintai authorised Jintian Aixin Co. to distribute, on an exclusive basis, some of its pharmaceutical products as specified in the Mintai National Sales Agreement, throughout China from 25 February 2013 and 24 February 2016.

Pursuant to a national sales agreement dated 1 June 2012 (as amended and supplemented on 25 November 2013) (the "Jifeng National Sales Agreement") entered into between Jintian Aixin Co. and Jifeng, Jifeng authorised Jintian Aixin Co. to distribute, on an exclusive basis, its pharmaceutical products as specified in the Jifeng National Sales Agreement, throughout China between 1 June 2012 and 31 May 2015.

Mintai is jointly-owned as to 49% by Ms. Li Shuyu (李樹郁) and her husband, Mr. Xin Youjiang (信有江), and as to 51% by an Independent Third Party. Jifeng is owned as to 40% by Mr. Xin Youjiang (信有江) and as to 60% by an independent third party (as defined in the Listing rules). Ms. Li Shuyu (李樹郁) owns 36% equity interest in our subsidiary, Shenyang Wei Kang Drug Store Co., Ltd.. As such, each of Mintai and Jifeng is a connected person of the Company.

The annual caps in respect of the aggregate value of the purchases of pharmaceutical products from Mintai and Jifeng by the Group for the three years ending 31 December 2013, 2014 and 2015 were RMB70.0 million, RMB88.0 million and RMB105.0 million respectively.

During the year ended 31 December 2013, the aggregate value of purchase of pharmaceutical products from Mintai and Jifeng by the Group was RMB67.0 million.

Report of the Directors

Confirmations from the independent non-executive Directors and auditors of the Company

Pursuant to Rule 14A.37 of the Listing Rules, the independent non-executive Directors have reviewed the continuing connected transactions for the year ended 31 December 2013 and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole.

The auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules.

A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Save as disclosed above, a summary of significant related party transactions, which do not constitute connected transactions, made during the year is disclosed in note 30 to the financial statements.

Charitable Donations

During the year ended 31 December 2013, the Group made no charitable and other donations.

Post Balance Sheet Events

The material post balance sheet events are disclosed in note 31 to the audited consolidated financial statements in this annual report.

Report of the Directors

Audit Committee

The Audit Committee of the Company is comprised of three directors, namely Mr. Chen Xiao (chairman), Mr. Cheng Sheung Hing and Ms. Chiang Su Hui Susie. The main duties of the Audit Committee is to examine, review and monitor the financial data and financial reporting procedure of the Company. The Audit Committee had reviewed the audited annual results of the Group for the year ended 31 December 2013.

Code of Conduct Regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during the period from the Listing Date to 31 December 2013.

Corporate Governance

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange since the Company's shares were listed on the Main Board of the Stock Exchange on 12 December 2013 (the "Listing Date") up to the year ended 31 December 2013. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 45 to 55 of this annual report.

Sufficiency of Public Float

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public at all times as of the date of this report.

Report of the Directors

Auditor

PricewaterhouseCoopers who were appointed as auditors of the Company since the Listing has acted as auditor of the Company for the year ended 31 December 2013.

PricewaterhouseCoopers shall retire in the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Mr. Jin Dongtao
Chairman

Shenyang, Liaoning
20 March 2014

Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report of the Company for the year ended 31 December 2013.

Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules on the Listing Date up to 31 December 2013. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

The Board

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Company has arranged appropriate liability insurance to indemnify the Group's Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

Board Composition

The Board currently comprises five executive Directors, namely Mr. Jin Dongtao, Mr. Jin Dongkun, Ms. Chen Xiaoyan, Mr. Chu Chuanfu and Ms. Wu Qiong, and three independent non-executive Directors, namely Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Mr. Chen Xiao. The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

Since the Listing Date and up to the date of this annual report, the Board at all times met the requirements of the Rules 3.10(1), 3.10A and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise and the number of independent non-executive Directors representing at least one-third of the Board.

Corporate Governance Report

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

Save as disclosed in the section headed "Directors and Senior Management" of this annual report, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship), with any other Director.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the year of 2013, all Directors participated in continuous professional development to develop and refresh their knowledge and skills. The Company's external lawyers had facilitated directors' training by the provision of presentations, briefings and materials for the Directors primarily relating to the roles, functions and duties of a listed company director. Mr. Jin Dongtao, Mr. Jin Dongkun, Ms. Chen Xiaoyan, Mr. Chu Chuanfu, Ms. Wu Qiong, Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Mr. Chen Xiao all received this training. Mr. Ge Junming, the joint company secretary, from time to time updates and provides written training materials relating to the roles, functions and duties of a Director and all the aforesaid Directors study such materials.

Corporate Governance Report

Chairman and Chief Executive Officer

The Chairman of the Board and the Chief Executive Officer are currently two separate positions held by Mr. Jin Dongtao and Mr. Chu Chuanfu respectively with clear distinction in responsibilities. The Chairman of the Board is responsible for setting the strategic vision, direction and goals of the Group. The Chief Executive Officer is responsible for the operations of the Group.

Appointment and Re-election of Directors

Each of the executive Directors has signed an appointment letter with the Company for a term of three years commencing on 18 November 2013, which may be renewable subject to both parties' agreement.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing on 18 November 2013, which may be renewable subject to both parties' agreement.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Company's articles of association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for election by shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Company's articles of association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

Board Meetings

The Company adopts the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other board and committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the joint company secretaries with copies circulated to all Directors for information and records.

Corporate Governance Report

Minutes of the Board meetings and committee meetings are recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are open for inspection by Directors.

Since the Listing Date and up to the date of this annual report, 1 board meeting was held and the attendance of the individual Directors at this meeting is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Jin Dongtao	1/1
Mr. Jin Dongkun	1/1
Ms. Chen Xiaoyan	1/1
Mr. Chu Chuanfu	1/1
Ms. Wu Qiong	1/1
Mr. Cheng Sheung Hing	1/1
Ms. Chiang Su Hui Susie	1/1
Mr. Chen Xiao	1/1

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made of all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code since the Listing Date and up to 31 December 2013.

Since the Listing Date and up to 31 December 2013, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

Corporate Governance Report

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and they are responsible for the corporate governance duties. The Audit Committee will develop and review the policies and procedures on corporate governance and make recommendations to the Board. The aforesaid duties include:

(a) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

(d) to develop and review the Company's policies and practices on corporate governance and making recommendations to the Board and report to the Board on matters;

(e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report; and

(f) to review and monitor the Company's compliance with the Company's whistleblowing policy.

Since the Listing Date and up to the date of this annual report, the Company has updated the compliance manuals on notifiable transactions and inside information in accordance with the Listing Rules as guideline for its employees to report unpublished inside information to the Company to ensure consistent and timely disclosure and fulfillment of the Company's continuous disclosure obligations.

Corporate Governance Report

Board Committees

Nomination Committee

The Nomination Committee currently comprises three members, namely Mr. Jin Dongtao (chairman), Mr. Cheng Sheung Hing and Ms. Chiang Su Hui Susie, the majority of them are independent non-executive Directors.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition (including the skills, knowledge and experience) required of the Board and make recommendations regarding any proposed changes

- To identify suitable candidates for appointment as directors

- To make recommendations to the Board on appointment or re-appointment of and succession planning for directors

- To assess the independence of independent non-executive directors

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. Their written terms of reference are available on the websites of the Stock Exchange and the Company.

Since the Listing Date and up to the date of this annual report, 1 meeting of the Nomination Committee was held on and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Jin Dongtao	1/1
Mr. Cheng Sheung Hing	1/1
Ms. Chiang Su Hui Susie	1/1

The Nomination Committee assessed the independence of independent non-executive Directors, considered the re-appointment of the retiring Directors and reviewed the time commitment required from the independent non-executive Directors. The Nomination Committee has reviewed the board diversity policy to ensure its effectiveness and of the view that the board diversity policy is appropriate.

Corporate Governance Report

Board Diversity Policy

Pursuant to the code provision A.5.6 of the CG Code, listed issuers are required to adopt a board diversity policy. The Board has adopted the board diversity policy and summary of the board diversity policy is set out below:

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Cheng Sheung Hing (chairman), Ms. Chen Xiaoyan and Ms. Chiang Su Hui Susie, the majority of them are independent non-executive Directors.

The primary duties of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of individual executive Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for formulating such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. It also makes recommendation to the Board on the remuneration of non-executive Directors. Their written terms of reference are available on the websites of the Stock Exchange and the Company.

Since the Listing Date and up to the date of this annual report, 1 meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	**Attended/Eligible to attend**
Mr. Cheng Sheung Hing	1/1
Ms. Chen Xiaoyan	1/1
Ms. Chiang Su Hui Susie	1/1

Corporate Governance Report

The Remuneration Committee discussed and reviewed the remuneration policy for Directors and senior management of the Company, and make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including adjustment on the remuneration of some senior management for the year 2014. The Board has adopted the recommendation from the Remuneration Committee and resolved to approve the aforesaid adjustment.

The remuneration of the 3 members of the senior management of the Company, whose biographies are set out on page 65 to 67 of this annual report, fall within the band from nil to RMB0.5 million for the year ended 31 December 2013.

Audit Committee

The Audit Committee comprises three members, namely Mr. Chen Xiao (chairman), Mr. Cheng Sheung Hing and Ms. Chiang Su Hui Susie, all of them are independent non-executive Directors. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors before submission to the Board

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function

- To review the Group's financial controls, internal control and risk management systems.

Since the Listing Date and up to the date of this annual report, 1 meeting of the Audit Committee was held and the attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Chen Xiao	1/1
Mr. Cheng Sheung Hing	1/1
Ms. Chiang Su Hui Susie	1/1

Corporate Governance Report

The Audit Committee reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function), risk management systems and processes and the re-appointment of the external auditor. The Board had accepted the recommendation given by the Audit Committee on the selection and re-appointment of external auditor.

They also reviewed the final results of the Company and its subsidiaries for the fiscal year as well as the audit report prepared by the external auditor relating to accounting issues and major findings in course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters. Their written terms of reference are available on the websites of the Company and the Stock Exchange.

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2013 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 68 to 69 of this annual report.

Internal Control

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The Group's internal audit department plays a major role in monitoring the internal governance of the Company. The major tasks of the internal audit department are reviewing the financial condition and internal control of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis.

The Board has conducted a review of the effectiveness of the internal control system of the Company and considered the internal control system to be effective and adequate.

Corporate Governance Report

Auditor's Remuneration

During the year, the Company engaged PricewaterhouseCoopers as the external auditors. Apart from providing audit services, PricewaterhouseCoopers also provided non-audit services in connection with the Group's Listing. During the year ended 31 December 2013, the professional fee paid or payable to the external auditors for services rendered as set out below:

	Fee paid/payable *(RMB'000)*
Audit service	3,000
Professional fee incurred in connection with the Company's listing	8,300
Total	11,300

Company Secretary

Mr. Ge Junming, the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Yung Mei Yee, senior manager of KCS Hong Kong Limited (a company secretarial service provider), as the other joint company secretary to assist Mr. Ge Junming to discharge his duties as joint company secretary of the Company. The primary corporate contact person at the Company is Mr. Ge Junming, the joint company secretary of the Company.

Since the Listing Date and up to the date of this annual report, Mr. Ge Junming and Ms. Yung Mei Yee have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company (the "AGM") provides opportunity for shareholders to communicate directly with the Directors. The Chairman of the Company, the chairmen of the Board Committees of the Company will attend the AGMs to answer shareholders' questions. The external auditor of the Company will also attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

Corporate Governance Report

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its shareholders and maintains a website at www.jtyyjt.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

Shareholders' Rights

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting.

Convening of extraordinary general meeting and putting forward proposals

Under the articles of association of the Company, any two or more shareholders holding at the date of deposit of the requisition not less than one-tenth (1/10) of the paid up capital of the Company which carries the right of voting at general meeting, and any one shareholder which is a recognized clearing house (or its nominee(s)) holding at the date of deposit of the requisition not less than one-tenth (1/10) of the paid up capital of the Company which carries the right of voting at general meeting, can require an extraordinary general meeting ("EGM") to be called and put forward proposals at the meeting. The procedures for shareholders to convene and put forward proposals at an EGM are stated as follows:

(1) The requisitionist(s) should sign a written request stating the objects of the meeting to be convened, and deposit the same at the principal place of business of the Company in Hong Kong situated at 8/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong for the attention of the joint company secretary.

(2) Where, within 21 days from the date of deposit of the requisition, the Directors do not proceed to convene an EGM, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as that in which meetings may be convened by the Board, provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the principal place of business for the Company in Hong Kong at 8th Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong or to email address: ir@jtyyjt.com.

Change in Constitutional Documents

The memorandum and articles of association of the Company has been amended and restated on 18 November 2013 and with effect from the Listing Date.

Directors and Senior Management

Directors

Executive Directors

Mr. JIN Dongtao (金東濤), aged 45, was appointed as the Chairman of the Board and an executive Director of our Company on 12 March 2012. Mr. Jin is one of the co-founders of our Group and has been chairman of our Group since its inception in June 1998. He has substantial experience in the pharmaceutical retail and distribution sector and is responsible for setting the strategic vision, direction and goals of our Group.

Mr. Jin has over 20 years of experience in the pharmaceutical distribution industry and in marketing.

Other experience:

- August 1991 – June 1995: business manager of Jiamusi City Morning Star Pharmaceutical Company (佳木斯市晨星製藥廠)
- July 1995 – May 1998: general manager of Jiamusi City Morning Star Pharmaceutical Store (佳木斯市晨星醫藥商店)
- 2010 – present: chairman of the Heilongjiang Alliance of Pharmaceutical Retailers (黑龍江藥店聯盟理事長)
- 2012 – present: vice chairman of the China Medical Pharmaceutical Material Association (中國醫藥物資協會)

Education:

- July 1991: graduated from Jiamusi United Workers University (佳木斯聯合職工大學)
- December 2010: obtained a Master's degree in Business Administration in a programme run by United Business Institutes

Mr. Jin received the National Enterprise Management Specialist Award by the China National Management Specialist Centre (中華人民共和國人事部全國人才流動中心) in 2006. He is qualified as a practising pharmacist in China. Mr. Jin has not held any directorships in any publicly listed company over the past three years.

Directors and Senior Management

Mr. JIN Dongkun (金東昆), aged 40, was appointed as the vice chairman and an executive Director of our Company on 12 March 2012. He is one of the co-founders of our Group and has served as business manager, general manager and vice president of our Group since June 1998. He is responsible for overseeing our Group's external affairs and relationships.

Mr. Jin Dongkun has over 15 years of experience in the pharmaceutical distribution industry and in marketing.

Other experience:

- August 1995 – June 1998: business manager of Jiamusi City Morning Star Pharmaceutical Store (佳木斯市晨星醫藥商店)
- 2010 – present: vice chairman of the Heilongjiang Alliance of Pharmaceutical Retailers (黑龍江省藥店聯盟副理事長)

Education:

- December 1994: graduated from Harbin Engineering University (哈爾濱工程大學) with a major in Electric Technology
- July 2013: obtained a Master's degree in Business Management in a programme run by the Scandinavian Art and Business Institute.

He is qualified as a practising pharmacist in China. Mr. Jin Dongkun has not held any directorships in any publicly listed company over the past three years.

Mr. Jin Dongkun is Mr. Jin Dongtao's brother.

Directors and Senior Management

Ms. CHEN Xiaoyan (陳笑妍), aged 35, was appointed as the President in January 2011 and was appointed as an executive Director of our Company on 12 March 2012. She is responsible for overseeing purchasing, internal audit, internal control and training of our Group. Ms. Chen has experience in product procurement and financial management.

Ms. Chen has over 15 years of experience with our Group. She initially joined as procurement manager in 1999 and was promoted to deputy general manager in 2003. She then worked as general manager of the Group from 2007 to 2012.

Education:

- July 1999: graduated from Jiamusi City University (佳木斯市職工大學) with a major in Pharmacy

- January 2013 – present: enrolled in a Master's degree programme in Business Management run by Scandinavian Art and Business Institute

She is a qualified pharmacist in China. Ms. Chen has not held any directorships in any publicly listed company over the past three years.

Ms. Chen is Mr. Jin Dongtao's spouse.

Directors and Senior Management

Mr. CHU Chuanfu (初川富), aged 43, was appointed as the Chief Executive Officer in January 2011 and was appointed as an executive Director of our Company on 12 March 2012. He is responsible for the operations of our Group. He has experience in the expansion and management of chain stores and the promotion of pharmaceutical products.

Mr. Chu has over 14 years of experience with our Group. He previously worked as assistant to the general manager of the Group from 1999 to 2001 and deputy chief general manager of the Group from 2001 to 2011.

Other experience:

- 2008 – present: vice president of the Municipal Association for Private Enterprises (市民營企業協會) in Jiamusi

- 2010 – present: honorable chairman of the Municipal Pharmaceutical Association (市藥學會) in Jiamusi

Education:

- July 1993: graduated from Harbin University of Civil Engineering and Architecture (哈爾濱建築工程學院) (now School of Architecture of Harbin Institute of Technology) with a major in coal chemical engineering

- January 2013 – present: enrolled in a Master's degree programme run by the Scandinavian Art and Business Institute

He is qualified as a nutritionist in China. Mr. Chu has not held any directorships in any publicly listed company over the past three years.

Directors and Senior Management

Ms. WU Qiong (吳瓊), aged 40, was appointed as an executive Director of our Company on 12 March 2012. She joined our Group as the chief financial officer in June 2010 and is responsible for financial management and financial control. She has extensive experience in financial management, with particular expertise in financial control and management, internal control and internal audit.

Other experience:

- July 1996 – March 2003: quality manager and head of quality management of Beijing Dong Sheng Electric Welding Machine Works (北京市東升電焊機廠)
- March 2003 – July 2005: project manager of Beijing Zheng Da CPA (北京正大會計師事務所)
- August 2005 – June 2006: project manager of Beijing Zhonglian CPA (北京中聯會計師事務所)
- July 2006 – December 2007: senior project manager of Zhong He Zheng Xin CPA (中和正信會計師事務所)
- January 2008 – June 2010: deputy general manager of Shanghai Rong Sen Corporate Management Consulting Co., Ltd (上海榕森企業管理諮詢有限公司)

Education:

- July 1996: graduated from Northern Jiaotong University (北方交通大學), now Beijing Jiaotong University (北京交通大學), with a major in Electrical Traction and Transmission Control (電力牽引與傳動控制)
- September 2000 – December 2002: attended a Master's degree programme in Corporate and Financial Management (企業管理專業財務管理方向) run by the School of Business at the University of International Business and Economics, Beijing

Ms. Wu is a China certified public accountant and mechanical and electrical engineer. She has obtained securities practice qualification certificates from the Securities Association of China. Ms. Wu has not held any directorships in any publicly listed company over the past three years.

Directors and Senior Management

Independent non-executive Directors

Mr. CHENG Sheung Hing (鄭雙慶), aged 66, was appointed as an independent non-executive Director of the Company on 18 November 2013. Mr. Cheng is a senior economist of PBOC with over 45 years of experience in foreign exchange management and management of pharmaceutical companies and listed companies.

Other experience:

- 1982 – 1985: in charge of the foreign affairs and organisation department of Beijing Pharmaceutical Co., Ltd. (北京市醫藥總公司) and stores for new drugs and specific drugs

- 1986 – 1995: deputy administrative officer of Non-trade Department and Inspection Department of the State Administration of Foreign Exchange (國家外匯管理局)

Directorships:

- 1995 – 2002: assistant to the general manager and assistant to board chairman of Wing On Travel (Holdings) Limited (永安旅遊(控股)有限公司), a company listed on the main board of the Stock Exchange (stock code: 01189)

- 2003 – 2005: assistant to board chairman of XPRESS Group Limited (特速集團), a company listed on the main board of the Stock Exchange (stock code: 00185)

- 2005 – present: independent director of China Outdoor Media Group Limited (中國戶外媒體集團), a company listed on the main board of the Stock Exchange (stock code: 00254)

Save as disclosed above, Mr. Cheng has not held any directorships in any publicly listed company over the past three years.

Education:

- 1982: graduated from the School of Trade and Economy of Beijing Economics College (now Capital University of Economics and Business) with a major in Trading Economics

Directors and Senior Management

Ms. CHIANG Su Hui Susie (江素惠), aged 67, was appointed as an independent non-executive Director of the Company on 18 November 2013. Ms. Chiang has over 22 years of experience in governmental affairs, treasury and cross-straits relations.

Other experience:

- December 1991 – March 1994: the representative of Government Information Office of the Executive Yuan of Taiwan (台灣行政院新聞局駐港代表)

- March 1994 – December 2004: in charge of the Taiwanese Kwang-hwa Information and Culture Centre (台灣光華新聞文化中心)

- April 2002: established the C S Forum (香江論壇) and the C S Corp. Consultancy Limited (香江顧問有限公司) in Hong Kong with the goal of promoting cross-straits economic and trade communications

Current positions:

- member of the Hong Kong-Taiwan Cultural Co-operation Committee of the Hong Kong Special Administrative Region (香港特區政府港台文化合作委員會)

- chairwoman of the C S Culture Foundation (香江文化交流基金會)

- chairwoman of the C S Corp. Consultancy Limited (香江顧問有限公司)

- chairwoman of the C S Finance & Investment Company Limited (香江金融財務集團有限公司)

- honourary chairwoman of the Taiwan Business Association (Hong Kong) Limited (香港台灣工商協會)

- consultant to the International Affairs Committee of Taichung City Government (台中市政府國際事務委員會)

- visiting professor at the Taiwan Research Academy of Beijing Union University (北京聯合大學台灣研究院)

Education:

- July 1969: graduated from the Taiwan National Chung Hsing University (台灣國立中興大學) with a major in laws

Ms. Chiang has not held any directorships in any publicly listed company over the past three years.

Directors and Senior Management

Dr. CHEN Xiao (陳曉), aged 50, was appointed as an independent non-executive Director of the Company on 18 November 2013. Dr. Chen is a professor in the Department of Accounting at the School of Economics and Management of Tsinghua University (清華大學). For the past 16 years, he has been teaching and conducting academic research in the fields of accounting and taxation at Tsinghua University. Dr. Chen has extensive experience in accounting and has published a number of articles in both domestic and international academic accounting journals on topics such as financial accounting, corporate governance and taxation.

Other experience:

- May 2000 – May 2013: department chair of the Department of Accounting at the School of Economics and Management of Tsinghua University (清華大學)

Current position:

- board member on the Accounting Society of China and International Tax Society of China

Directorships:

- 2006 – 2012: independent director of Hanwang Technology Co. Ltd. (漢王科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002362)

- 2003 – 2009: independent director of Invengo Information Technology Co. Ltd. (遠望谷信息技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002161)

- 2006 – 2009: independent director of Chenzhou Mining Group Co. Ltd. (辰州礦業有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002155)

- 2003 – 2009: independent director of Norinco International Co. Ltd. (北方國際合作股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000065)

- 2002 – 2005: independent director of Henan Huanghe Whirlwind Co. Ltd. (河南黃河旋風股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600172)

- 2007 – present: independent director and chairman of the audit committee of Noah Education Holdings Ltd., a company listed on the New York Stock Exchange (stock code: NED)

- June 2011 – present: independent director and chairman of the audit committee of China First Chemical Holdings Ltd (一化控股(中國)有限公司), a company listed, on the main board of the Stock Exchange (stock code: 02121)

- 2012 – present: independent director of Changyou.com Ltd., a company listed on NASDAQ (stock code: CYOU)

Directors and Senior Management

Save as disclosed above, Dr. Chen has not held any directorships in any publicly listed company over the past three years.

Education:

- 1983: graduated from Wuhan Institute of Technology (武漢工程大學) with a major in chemical engineering

- 1989: obtained a Master's degree in management from University of Science and Technology of China (中國科學技術大學)

- 1996: obtained a Doctorate degree in Economics from Tulane University in the United States

Directors and Senior Management

Senior Management

Mr. ZHAO Zehua (趙澤華), aged 45, was appointed as the general manager of finance of our Group in October 2011. He joined our Group in January 2005 as financial controller and was promoted to his current position in October 2011. He is responsible for financial control and management. He has over 25 years of experience in financial management, with particular expertise in financial accounting, treasury and internal control.

Other experience:

- August 1989 – May 2001: head of finance at Hebei Chengde Tianyuan Pharmaceutical Co., Ltd. (河北省承德天原藥業有限公司)

- June 2001 – December 2004: Manager of finance and deputy general manager of Hebei Chengde Tianyuan Pharmaceutical Co., Ltd (河北省承德天原藥業有限公司)

- January 2003 – December 2004: Manager of finance and deputy general manager of Chengde Pharmaceutical Group Liuhe Pharmaceutical Co., Ltd (承德藥業集團六合有限責任公司)

Education:

- July 1992: graduated from Hebei Radio and Television University (河北廣播電視大學) with a major in Finance and Accounting

Mr. Zhao is a qualified accountant in China. He has not held any directorships in any publicly listed company over the past three years.

Directors and Senior Management

Mr. YANG Jiacheng (楊家誠), aged 43, was appointed as the general manager of brand operations of our Group in January 2013. He joined our Group in January 2013 and is responsible for overseeing our brand operations. He is a qualified senior lecturer (associate professor) in China.

Other experience:

- August 2006 – December 2011: marketing director and general manager of company strategy and public strategy; special assistant to the chief executive officer at American Oriental Bioengineering Inc. (美國東方生物技術有限公司)

- December 2011 – December 2012: chief operating officer of Renji Shanghai Hospital Group

Current positions:

- standing director of the Chinese Medical Association Health Industry Committee (中國醫師協會健康產業委員會)

- chartered (特約) researcher at the China International Medical Exchange Foundation (中華國際醫學交流基金會)

Education:

- 1998 – obtained a Master's degree in Political Economics Studies from Northeast Normal University (東北師範大學)

- 2010 – graduated from a doctoral programme in management from Beijing Normal University (北京師範大學)

Mr. Yang has not held any directorships in any publicly listed company over the past three years.

Directors and Senior Management

Mr. GE Junming (葛俊明), aged 45, was appointed as our company secretary on 18 November 2013 and is currently one of our joint company secretaries. He joined our Group in 1998. Mr. Ge has worked in various other capacities in our Group, including as an accountant, head of the planning department, chief secretary to the Chairman, head of the legal department, general secretary and director in various members in our Group.

Other experience:

- August 1988 – May 1994: a materials accountant, costs accountant and head accountant of Jiamusi CNC Machine Tools Factory (佳木斯數控機床廠)

- June 1994 – August 1995: head accountant of Jiamusi Import and Export Wood Products Company (佳木斯進出口木製品公司)

- September 1995 – August 1996: chief of finance at Jiamusi Forging Equipment Factory (佳木斯鍛壓設備廠)

- September 1996 – April 1998: financial inspector at Jiamusi Marketing Limited Company of the Sanzu Group (三株集團佳木斯營銷有限公司)

Education:

- July 1988: obtained a Secondary Professional Degree (中等專業) in Financial Accounting from Heilongjiang School of Machinery Manufacturing (黑龍江機械製造學校)

- July 1993: graduated from the School of Economics at Peking University (北京大學經濟學院) with a major in Financial Accounting, by way of distance learning

He is also a qualified senior accountant, senior planner, pharmacist and nutritionist in China.

Mr. GE received the National Enterprise Management Specialist Award by the China National Management Specialist Centre (中華人民共和國人事部全國人才流動中心) in 2005. Mr. Ge has not held any directorships in any listed company over the past three years.

Independent Auditor's Report

pwc

羅兵咸永道

To the shareholders of Jintian Pharmaceutical Group Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Jintian Pharmaceutical Group Limited ("the Company") and its subsidiaries (together, the "Group") set out on pages 70 to 147, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Independent Auditor's Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2014

Consolidated Balance Sheet

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**75,904**	46,901
Intangible assets	7	**443,734**	354,606
Investments in joint ventures	9	**5,249**	3,719
Prepayment for intangible assets		**2,103**	2,103
Deferred income tax assets	10	**10,797**	9,297
		537,787	416,626
Current assets			
Trade and other receivables	12, 30(b)	**361,805**	273,730
Inventories	13	**271,748**	249,442
Financial assets at fair value through profit or loss	14	**–**	96,958
Restricted cash	15	**8,643**	22,474
Cash	16	**1,564,248**	455,916
		2,206,444	1,098,520
Total assets		**2,744,231**	1,515,146
EQUITY			
Equity attributable to owners of the Company			
Share capital	17	**12,259**	–
Reserves	18	**1,559,795**	20,636
– Proposed final dividend		**–**	–
– Others		**1,559,795**	20,636
Retained earnings		**782,838**	528,145
		2,354,892	548,781
Non-controlling interests		**100,884**	79,377
Total equity		**2,455,776**	628,158

Consolidated Balance Sheet

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	10	**23,011**	24,869
Current liabilities			
Trade and other payables	19, 30(b)	**216,881**	831,997
Current income tax liabilities		**48,563**	30,122
		265,444	862,119
Total liabilities		**288,455**	886,988
Total equity and liabilities		**2,744,231**	1,515,146
Net current assets		**1,941,000**	236,401
Total assets less current liabilities		**2,478,787**	653,027

The notes on pages 76 to 147 are an integral part of these consolidated financial statements.

The financial statements on page 70 to page 147 were approved by the Board of Directors on 20 March 2014 and were signed on its behalf.

Jin Dongtao
Director

Wu Qiong
Director

Company Balance Sheet

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	8	3,533	3,533
		3,533	3,533
Current assets			
Other receivables	12	74,942	–
Cash	16	848,918	–
		923,860	–
Total assets		927,393	3,533
EQUITY			
Equity attributable to owners of the Company			
Share capital	17	12,259	–
Reserves	18	889,581	4,478
– Proposed final dividend		–	–
– Others		889,581	4,478
Accumulated losses		(26,268)	(4,236)
		875,572	242
Total equity		875,572	242
LIABILITIES			
Non-current liabilities		–	–
Current liabilities			
Other payables	19	51,821	3,291
		51,821	3,291
Total liabilities		51,821	3,291
Total equity and liabilities		927,393	3,533
Net current assets/(liabilities)		872,039	(3,291)
Total assets less current liabilities		875,572	242

The notes on pages 76 to 147 are an integral part of these consolidated financial statements.

The financial statements on pages 70 to page 147 were approved by the Board of Directors on 20 March 2014 and were signed on its behalf.

Jin Dongtao
Director

Wu Qiong
Director

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Revenue	5	**3,323,499**	2,326,292
Cost of sales	21	**(2,387,081)**	(1,780,523)
Gross profit		**936,418**	545,769
Selling and marketing expenses	21	**(332,678)**	(188,887)
Administrative expenses	21	**(83,040)**	(41,974)
Other income		**294**	1,122
Other losses – net	20	**(1,511)**	(14,275)
Operating profit		**519,483**	301,755
Finance income	23	**2,359**	3,176
Finance costs	23	**(3,526)**	(188)
Finance (cost)/income – net	23	**(1,167)**	2,988
Share of profit of joint ventures	9	**1,530**	1,137
Profit before income tax		**519,846**	305,880
Income tax expense	24	**(134,786)**	(78,517)
Profit and total comprehensive income for the year		**385,060**	227,363
Profit and total comprehensive income attributable to:			
– Owners of the Company		**355,103**	213,760
– Non-controlling interests		**29,957**	13,603
		385,060	227,363
Earnings per share attributable to owners of the Company (RMB Yuan)			
– Basic	25	**0.22**	0.13
– Diluted	25	**0.22**	0.13
Proposed final dividends	26	**–**	–

The notes on pages 76 to 147 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company								
	Note	Share capital RMB'000 (Note 17)	Share premium RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	Share-based compensation Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2012		–	–	18,809	12,208	8,853	322,587	362,457	38,787	401,244
Profit for the year		–	–	–	–	–	213,760	213,760	13,603	227,363
Acquisition of subsidiaries	29	–	–	–	–	–	–	–	53,373	53,373
Purchase of non-controlling interests	18(a)(iii)	–	–	(23,381)	–	–	–	(23,381)	(26,386)	(49,767)
Capital contribution from the Controlling Shareholder	18(a)(i)	–	–	1	–	–	–	1	–	1
Deemed contribution from the Controlling Shareholder	30(a)(ii)	–	–	945	–	–	–	945	–	945
Deemed distribution to the Controlling Shareholder	18(a)(ii)	–	–	(5,001)	–	–	–	(5,001)	–	(5,001)
Profit appropriation to statutory reserves	18(b)	–	–	–	8,202	–	(8,202)	–	–	–
Balance at 31 December 2012		–	–	(8,627)	20,410	8,853	528,145	548,781	79,377	628,158
Balance at 1 January 2013		–	–	(8,627)	20,410	8,853	528,145	548,781	79,377	628,158
Profit for the year		–	–	–	–	–	355,103	355,103	29,957	385,060
Purchase of non-controlling interests	18(a)(iv)	–	–	(11,248)	–	–	–	(11,248)	(8,450)	(19,698)
Gross proceeds from placing and public offering of shares	17(c)(d)	12,259	905,205	–	–	–	–	917,464	–	917,464
Share issuance costs	18(c)	–	(31,038)	–	–	–	–	(31,038)	–	(31,038)
Issue of ordinary share for extinguishment of loan by the Parent Company	18(a)(v)	–	650,658	–	–	–	–	650,658	–	650,658
Contribution from the Parent Company	18(a)(vi)	–	–	10,936	–	–	–	10,936	–	10,936
Dividends distribution	26	–	–	–	–	–	(85,764)	(85,764)	–	(85,764)
Profit appropriation to statutory reserves	18(b)	–	–	–	14,646	–	(14,646)	–	–	–
Balance at 31 December 2013		12,259	1,524,825	(8,939)	35,056	8,853	782,838	2,354,892	100,884	2,455,776

The notes on pages 76 to 147 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Cash flows from operating activities:			
Cash generated from operations	27	**506,919**	243,194
Bank charges paid	23	**(268)**	(188)
Income tax paid		**(119,703)**	(81,378)
Net cash generated from operating activities		**386,948**	161,628
Cash flows from investing activities:			
Net cash received/(paid) for financial assets at fair value through profit or loss		**95,798**	(111,016)
Change in restricted cash		**13,831**	(22,474)
Interest received	23	**2,359**	2,473
Proceeds from disposal of property, plant and equipment		**178**	12
Purchase of intangible assets		**–**	(4,191)
Purchase of property, plant and equipment		**(42,582)**	(14,537)
Acquisition of subsidiaries and business net of cash required	29	**(122,206)**	(173,688)
Net cash used in investing activities		**(52,622)**	(323,421)
Cash flows from financing activities:			
Proceeds from initial public offering ("IPO")		**856,163**	–
Capital contribution from the Controlling Shareholder		**–**	1
Deemed distribution to the Controlling Shareholder		**–**	(5,001)
Repayment of loan from a shareholder		**–**	(40,764)
Loan from a shareholder		**24,247**	–
Purchase of non-controlling interests	18(a)	**(19,698)**	(49,767)
Dividends paid		**(85,764)**	–
Net cash generated from/(used in) financing activities		**774,948**	(95,531)
Net increase/(decrease) in cash		**1,109,274**	(257,324)
Cash at beginning of the year		**455,916**	713,257
Exchange losses on cash		**(942)**	(17)
Cash at end of the year	16	**1,564,248**	455,916

The notes on pages 76 to 147 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

Jintian Pharmaceutical Group Limited ("the Company") and its subsidiaries (together the "Group") are principally engaged in the distribution and retail of drugs and other pharmaceutical products in the northern region of the People's Republic of China (the "PRC") (collectively the "Listing Business").

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

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation"), the Listing Business were carried out by Heilongjiang Jintian Group Jintian Ciji Pharmaceutical Co., Ltd., Heilongjiang Jintian Group Jintian Ciji Drug Store Co., Ltd., Heilongjiang Jintian Group Harbin Ciji Pharmaceutical Co., Ltd. and Heilongjiang Jintian Group Lao Bai Xing Drug Store Co., Ltd.(collectively the "Original Operating Companies"). The Original Operating Companies were collectively controlled by Mr. Jin Dongtao (the "Controlling Shareholder") through Heilongjiang Jintian Group Co., Ltd. ("Jintian Group") before the Reorganisation. The Group´s Reorganisation was completed on 11 November 2013 and thereafter, the Company became the holding Company of the Group. The parent company of the Group is Asia Health Century International Inc., (the "Parent Company"). The ultimate shareholder of the Group is Mr. Jin Dongtao.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 12 December 2013 (the Listing) (Note 17(d)).

These consolidated financial statements are presented in thousands of Renminbi ("*RMB'000*"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 20 March 2014.

2. Summary of significant 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 years presented, unless otherwise stated. The Group has adopted IFRSs that are effective for the accounting periods beginning on or before 1 January 2013.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standard adopted by the Group

The following standard has been adopted by the Group for the first time for the financial year beginning on 1 January 2013:

- Amendment to IAS 1, "Financial statement presentation" regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to Group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially classifiable to profit or loss subsequently (reclassification adjustments).

- Amendment to IFRS 7, "Financial instruments: Disclosures", on asset and liability offseting. The amendments require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

- IFRS 10, "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

(a) New and amended standard adopted by the Group *(continued)*

- IFRS 11, "Joint arrangements" focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

- IFRS 12, "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

- IFRS 13, "Fair value measurement", aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

- Amendments to IAS 36, "Impairment of assets", on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

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

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

(b) New standards and interpretations not yet adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

- IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Changes effective for the financial reporting periods beginning on or after 1 January 2015.

- IFRIC Int 21 "Levies", the interpretation clarifies the accounting for levies in the financial statements of the entity that is paying the levy. Changes effective for periods commencing after 1 January 2014.

- IAS 32 (Amendment) "Financial instruments: Presentation" on asset and liability offsetting, are to the application guidance in IAS 32, "Financial instruments: Presentation", and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. Changes effective for the financial reporting periods beginning on or after 1 January 2014.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

(b) New standards and interpretations not yet adopted by the Group *(continued)*

- IAS 36 (Amendments) "Recoverable amount disclosures for non-financial assets". The IASB made consequential amendments to the disclosure requirements of IAS 36 when it issued IFRS 13. One of the amendments was drafted more widely than intended. The unintended result requires to disclose the recoverable amount for each CGU with significant amount of goodwill or intangible assets with indefinite useful lives no matter whether there has been impairment. IASB has published limited amendments to remove such requirement for CGU without impairment and introduces additional disclosures about fair value measurements when there has been impairment or a reversal of impairment. The amendments are effective from annual periods beginning on or after 1 January 2014.

- IAS 39 (Amendments) "Novation of derivatives". IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when novation of the derivative contract which is designated as a hedging instrument to a central counterparty meets specified criteria. The amendments are effective from annual periods beginning on or after 1 January 2014.

- IFRS 10, IFRS 12 and IAS 27 (Amendments) "Investment entities". The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendments are effective from annual periods beginning on or after 1 January 2014.

- IFRS 7 and IFRS 9 (Amendments) "Mandatory effective date and transition disclosures" delay the effective date to annual periods beginning on or after 1 January 2015, and also modify the relief from restating prior periods. As part of this relief, additional disclosures on transition from IAS 39 to IFRS 9 are required. The amendments are effective from annual periods beginning on or after 1 January 2015.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

(b) New standards and interpretations not yet adopted by the Group *(continued)*

- Annual improvements 2012, these amendments include changes from the 2010-2012 cycle of the annual improvements project, that affect below standards. The amendment are effective from annual periods beginning on or after 1 July 2014.

  ✓ IFRS 2, "Share-based payment"
  ✓ IFRS 3, "Business combinations" and consequential amendments to IFRS 9, "Financial instruments", IAS 37, "Provisions, contingent liabilities and contingent assets", and IAS 39, "Financial instruments – Recognition and measurement"
  ✓ IFRS 8, "Operating segments"
  ✓ IAS 16, "Property, plant and equipment" and IAS 38, "Intangible assets"
  ✓ IAS 24, "Related Party Disclosures"

- Annual improvements 2013, these amendments include changes from the 2011-2013 cycle of the annual improvements project that affect below standards. The amendment are effective from annual periods beginning on or after 1 July 2014.

  ✓ IFRS 3, "Business combinations"
  ✓ IFRS 13, "Fair value measurement"
  ✓ IAS 40, "Investment property"

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

Except for the Reorganisation, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation (continued)

(a) Business combinations *(continued)*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.2 Subsidiaries *(continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group's consolidated financial statements is presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statement of comprehensive income within "Finance income or cost".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

(c) Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the dated of that balance sheet;

(ii) income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.6 Property, plant and equipment

Property, plant and equipment comprise mainly machinery, motor vehicles, furniture, office equipment and lease improvement are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The estimated useful lives of property, plant and equipment are as follows:

– Building	20 years
– Motor vehicles	4-8 years
– Furniture and office equipment	3-5 years
– Lease improvement	shorter of lease period and estimated useful life

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amounts (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and businesses, joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.7 Intangible assets *(continued)*

(a) Goodwill (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Trademarks and brand loyalty

Separately acquired trademarks and brand loyalty are shown at historical cost. Trademarks and brand loyalty acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and brand loyalty have a finite useful life and are carried at cost less accumulated amortization. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and brand loyalty over their estimated useful lives of 8 to 20 years.

(c) Contractual supplier relationships

Contractual supplier relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual supplier relationships have a finite useful life and are carried at cost less accumulated amortization. Amortisation is calculated using the straight-line method from 5 years over the expected life of supplier relationship.

(d) Computer software licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire the specific software. These costs are amortised over their estimated useful lives of 5 to 7 years.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "cash and cash equivalents" and "restricted cash" in the consolidated balance sheets (Notes 2.13 and 2.14).

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.9 Financial assets *(continued)*

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other (losses)/gains – net' in the period in which they arise.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.11 Impairment of financial assets *(continued)*

(a) Assets carried at amortised cost (continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.17 Current and deferred income tax *(continued)*

(b) Deferred income tax (continued)

Outside basis differences

Deferred income tax liability is provided on taxable temporary differences arising from investments in subsidiaries and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee benefits

(i) Pension obligations

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulae. Certain government agencies are responsible for the pension liability to these retired employees. The Group contribute on a monthly basis to these pension plans. Under these plans, the Group have no legal or constructive obligations for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(ii) Housing benefits

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the State-sponsored housing fund of the specified salary amount of its full-time Chinese employees. At the same time, the employees are required to make a contribution equal to the Group's contributions out of their salaries. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.19 Provisions and contingent liabilities

2.19.1 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19.2 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.20 Revenue recognition *(continued)*

(a) Sales of goods – distribution

The Group sells a range of drugs and other pharmaceutical products in the distribution market. Sales of goods are recognised when a Group entity has delivered products to the distributor, the distributor has accepted the products, and the significant risks and rewards of ownership of the goods are transferred to distributors.

(b) Sales of goods – retail

The Group operates a chain of retail pharmacies for selling drugs and other pharmaceutical products. Sales of goods are recognised when a Group entity delivered products to customers, who have accepted the products and collectability of the related receivables is reasonably assured. Retail sales are usually in cash or by credit card.

2.21 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continue unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's directors, where appropriate.

Notes to the Consolidated Financial Statements

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks.

(a) Foreign exchange risk

The Group mainly operates in the PRC with transactions denominated and settled in RMB. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. These include mainly the bank deposits (Note 16), financial assets at fair value through profit or loss (Note 14) and shareholder's loan (Note 19(c)) denominated in Hong Kong Dollars ("HKD") and US Dollars ("USD"). The Group currently does not hedge its foreign exchange exposure.

As at 31 December 2013 and 2012, if RMB had strengthened/weakened by 5% against the USD/HKD with all other variables held constant, profit before income tax for the years ended 31 December 2013 and 2012 would have been RMB19,678,000 lower/higher and RMB2,413,000 higher/lower, mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and bank deposits, financial assets at fair value through profit or loss and shareholder's loan.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

(b) Credit risk

The carrying amount of cash, restricted cash, and trade and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

As at 31 December 2013 and 2012, 89.2% and 71.4% of the Group's restricted cash, cash are held in state-owned financial institutions or joint-stock commercial bank, which management believes are of high credit quality. The rest are deposited in local banks with good reputation. Management does not expect any losses from non-performance by these counterparties.

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

The Group has no significant concentrations of credit risk. The carrying amounts of receivables included in the consolidated balance sheets are generated by distributions and represent the Group's maximum exposure to credit risk in relation to these financial assets. Ageing analysis of the Group's accounts receivable is disclosed in Note 12. The Group has policies in place to ensure that credit sales are only made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of its customers by taking into account various factors including their financial position, past experience and other factors. The utilisation of credit terms is regularly monitored and management does not expect any losses from non-performance by these counterparties.

Counterparty risk related to trade receivables is limited due to the large number of customers in the Group's customer portfolio and their diversification throughout various business sectors, as well as geographic locations. As at 31 December 2013, the exposure to the top 15 customers did not exceed 20%, of the gross trade and other receivables, with the exposure to the largest customer representing less than 8%.

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations.

Generally there is no specific credit period granted by the suppliers but the related trade payables are normally expected to be settled within three months after receipt of goods or services.

At 31 December 2013 and 2012 the Group held cash of RMB1,564,248,000 and RMB455,916,000 (Note 16), trade receivables of RMB194,363,000 and RMB179,442,000 (Note 12) and restricted cash of RMB8,643,000 and RMB22,474,000 (Note 15), that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

	Less than 1 year
	RMB'000
As at 31 December 2013	
Trade and other payables	216,881
As at 31 December 2012	
Trade and other payables	831,997

(d) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its restricted cash and bank deposits.

The interest rates and maturities of the Group's restricted cash and bank balances are disclosed in Notes 15 and 16 respectively.

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets.

As at 31 December 2013 and 2012, if the interest rates on bank deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, profit for the year would have been RMB7,861,000 and RMB2,385,000 higher/lower.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's strategy remains consistent throughout the year.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.2 Capital risk management *(continued)*

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as shareholder's loan as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt. The Group aims to maintain the gearing ratio at a level of not more than 50%.

The gearing ratios at 31 December 2013 and 2012 were as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Shareholder's loan *(Note 19(c))*	**–**	626,429
Less: cash and cash equivalents *(Note 16)*	**1,564,248**	455,916
Net (cash)/debt	**(1,564,248)**	170,513
Total equity	**2,455,776**	628,158
Total capital	**891,528**	798,671
Gearing ratio	**N/A**	21%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.3 Fair value estimation *(continued)*

The following table presents the Group's financial assets and liabilities that are measured at fair value at the balance sheet dates.

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
At 31 December 2013				
Assets				
Financial assets at fair value through profit or loss	–	–	–	–
Liabilities	–	–	–	–
At 31 December 2012				
Assets				
Financial assets at fair value through profit or loss	96,958	–	–	96,958
Liabilities	–	–	–	–

There were no transfers between level 1 and level 2 during the year.

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments inducted in level 1 is paper gold held for trading classified as financial assets at fair value through profit or loss.

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

The Group is mainly subject to income taxes in the numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognise liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 7). Where the expectation is different from the original estimate, such difference will impact carrying value of goodwill and impairment loss in the period in which such estimate is changed.

(c) Estimated useful life of trademarks and brand loyalty

The Group's management determined that the useful life of trademarks and brand loyalty are 8-20 years (Note 2.7). This estimate is based on the management's experiences in the industry. The Group will increase or decrease the amortisation charge where useful life is shorter or longer than previously estimated. The estimate of useful life of the trademarks and brand loyalty and the amortisation charge could change significantly as a result of changes in the pharmaceutical market, market trend and competition. Management will increase the amortisation charge where useful life is less than the previously estimated, or the trademark and brand loyalty asset will be written-off or written-down to the recoverable amount when there is an indication that the carrying amount is not recoverable.

4. Critical accounting estimates and assumptions *(continued)*

(d) Purchase price allocation for business combination

Accounting for business acquisitions require the Group to allocate the cost of the acquisition to the specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. In connection with the acquisition of the Group, the management undertakes a process to identify all assets and liabilities acquired, including any identified intangible assets where appropriate. The judgments made in identifying all acquired assets, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as assets useful lives, may materially impact the Group's financial position and results of operation. In determining the fair values of the identifiable assets acquired and liabilities assumed, a valuation was conducted by an independent valuer and estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management.

5. Revenue and segment information

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

The Group is principally engaged in the distributions and retails of drugs and other pharmaceutical products in the northern region of the PRC. Separate individual financial information for distributions and retails are presented to the Board of Directors who reviews the internal reports in order to assess performance and allocate resources. Due to the differences in economic characters, customers etc, for distributions, retails and others respectively, the distributions, retails and others are considered to be three reportable segments in accordance with IFRS 8 "Operating Segment". The "others" segment mainly comprises investment companies.

The Group's principal market is the northern region of the PRC. The Group has a large number of customers, which are widely dispersed within the northern region of the PRC, no single customer accounted for more than 10% of the Group's total revenues for the year ended 2013 and 2012. Accordingly, no geographical segment is presented.

Sales between segments are carried out at arm's length. The revenue from external customers and the cost, 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 EBITDA.

Notes to the Consolidated Financial Statements

5. Revenue and segment information *(continued)*

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2013 and as at 31 December 2013 is as follows:

	Year ended 31 December 2013			
	Distributions *RMB'000*	Retails *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue	1,930,841	1,549,789	–	3,480,630
Inter-segment revenue	(157,131)	–	–	(157,131)
Revenue from external customers	1,773,710	1,549,789	–	3,323,499
EBITDA	204,714	361,552	(19,316)	546,950
Depreciation and amortisation	4,007	23,460	–	27,467
Finance income	923	1,053	383	2,359
Finance costs	(986)	(138)	(2,402)	(3,526)
Income tax expense	51,253	83,780	(247)	134,786

	As at 31 December 2013			
	Distributions *RMB'000*	Retails *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total assets before eliminations	1,105,829	981,716	1,551,168	3,638,713
Inter-segment assets	(266,064)	(2,459)	(625,959)	(894,482)
Total assets	839,765	979,257	925,209	2,744,231
Additions of non-current assets	869	146,675	–	147,544
Total liabilities before eliminations	173,551	257,742	47,920	479,213
Inter-segment liabilities	(44,762)	(143,546)	(2,450)	(190,758)
Total liabilities	128,789	114,196	45,470	288,455

Notes to the Consolidated Financial Statements

5. Revenue and segment information *(continued)*

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2012 and as at 31 December 2012 is as follows:

	Year ended 31 December 2012			
	Distributions *RMB'000*	Retails *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue	1,452,524	912,203	–	2,364,727
Inter-segment revenue	(38,435)	–	–	(38,435)
Revenue from external customers	1,414,089	912,203	–	2,326,292
EBITDA	150,099	183,702	(18,185)	315,616
Depreciation and amortisation	4,137	9,724	–	13,861
Finance income	2,990	586	(400)	3,176
Finance costs	(129)	(48)	(11)	(188)
Income tax expense	37,635	40,635	247	78,517

	As at 31 December 2012			
	Distributions *RMB'000*	Retails *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total assets before eliminations	849,891	761,957	646,008	2,257,856
Inter-segment assets	(199,753)	(10,953)	(532,004)	(742,710)
Total assets	650,138	751,004	114,004	1,515,146
Additions of non-current assets	4,165	303,101	1,460	308,726
Total liabilities before eliminations	384,350	243,518	646,759	1,274,627
Inter-segment liabilities	(300,364)	(77,668)	(9,607)	(387,639)
Total liabilities	83,986	165,850	637,152	886,988

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

Notes to the Consolidated Financial Statements

6. Property, plant and equipment

	Building RMB'000	Motor vehicles RMB'000	Furniture and office equipments RMB'000	Lease improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2012						
Opening net book amount	–	5,603	9,233	3,969	–	18,805
Acquisition of subsidiaries and businesses *(Note 29)*	2,997	98	7,367	12,061	–	22,523
Additions	–	1,996	6,059	6,482	–	14,537
Disposals	–	(43)	(134)	–	–	(177)
Depreciation *(Note 21)*	(101)	(1,573)	(4,171)	(2,942)	–	(8,787)
Closing net book amount	2,896	6,081	18,354	19,570	–	46,901
At 31 December 2012						
Cost	3,200	9,381	38,775	27,591	–	78,947
Accumulated depreciation	(304)	(3,300)	(20,421)	(8,021)	–	(32,046)
Net book amount	2,896	6,081	18,354	19,570	–	46,901
Year ended 31 December 2013						
Opening net book amount	**2,896**	**6,081**	**18,354**	**19,570**	**–**	**46,901**
Acquisition of subsidiaries and businesses *(Note 29)*	**–**	**271**	**3,510**	**2,536**	**–**	**6,317**
Additions	**–**	**991**	**1,650**	**39,841**	**100**	**42,582**
Disposals	**–**	**(256)**	**(160)**	**–**	**–**	**(416)**
Depreciation *(Note 21)*	**(152)**	**(2,473)**	**(9,144)**	**(7,711)**	**–**	**(19,480)**
Closing net book amount	**2,744**	**4,614**	**14,210**	**54,236**	**100**	**75,904**
At 31 December 2013						
Cost	**3,200**	**10,332**	**37,366**	**69,968**	**100**	**120,966**
Accumulated depreciation	**(456)**	**(5,718)**	**(23,156)**	**(15,732)**	**–**	**(45,062)**
Net book amount	**2,744**	**4,614**	**14,210**	**54,236**	**100**	**75,904**

Notes to the Consolidated Financial Statements

6. Property, plant and equipment *(continued)*

(a) Depreciation expenses have been charged to consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Administrative expenses	**3,577**	1,863
Selling and marketing expenses	**15,903**	6,924
	19,480	8,787

(b) Lease rentals amounting to RMB67,653,000 and RMB38,516,000 for the years ended 31 December 2013 and 2012 related to the lease of property are included in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

7. Intangible assets

	Goodwill RMB'000	Trademarks and brand loyalty RMB'000	Contractual supplier relationships RMB'000	Computer software licences RMB'000	Total RMB'000
Year ended 31 December 2012					
Opening net book amount	71,516	11,176	8,562	–	91,254
Acquisition of subsidiaries and businesses *(Note 29)*	178,805	87,488	–	45	266,338
Additions	–	–	–	2,088	2,088
Amortisation charge *(Note 21)*	–	(3,060)	(1,955)	(59)	(5,074)
Closing net book amount	250,321	95,604	6,607	2,074	354,606
At 31 December 2012					
Cost	250,321	99,016	9,775	2,133	361,245
Accumulated amortisation	–	(3,412)	(3,168)	(59)	(6,639)
Net book amount	250,321	95,604	6,607	2,074	354,606
Year ended 31 December 2013					
Opening net book amount	**250,321**	**95,604**	**6,607**	**2,074**	**354,606**
Acquisition of subsidiaries and businesses *(Note 29)*	**97,115**	**–**	**–**	**–**	**97,115**
Amortisation charge *(Note 21)*	**–**	**(5,904)**	**(1,955)**	**(128)**	**(7,987)**
Closing net book amount	**347,436**	**89,700**	**4,652**	**1,946**	**443,734**
At 31 December 2013					
Cost	**347,436**	**99,016**	**9,775**	**2,133**	**458,360**
Accumulated amortisation	**–**	**(9,316)**	**(5,123)**	**(187)**	**(14,626)**
Net book amount	**347,436**	**89,700**	**4,652**	**1,946**	**443,734**

(a) Amortisations of the Group's intangible assets for the years ended 31 December 2013 and 2012 amounting to RMB7,987,000 and RMB5,074,000 have been charged to the consolidated statement of comprehensive income as administrative expenses.

Notes to the Consolidated Financial Statements

7. Intangible assets *(continued)*

(b) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) in the operating segments as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Distributions	**17,440**	17,440
Retails	**329,996**	232,881
	347,436	250,321

During the years ended 31 December 2013 and 2012, the Group acquired several subsidiaries and businesses, all of which are engaged in the distribution and retail of pharmaceutical products (Note 29) in the northern region of the PRC. The Group integrated these subsidiaries and businesses, unified suppliers and centralise the control of sales on the basis of distributions and retails, by which the input, the output and the resources allocated are managed accordingly. The goodwill as a result of those acquisitions is allocated to the CGUs that are expected to benefit from the synergies of the business combinations and is monitored thereon accordingly. The recoverable amount of all CGUs is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2013 are as follow:

	Distributions	**Retails**
Gross margin	23.2%	38.0%-40.0%
Growth rate	3.0%	3.0%
Discount rate	18.0%	16.7%

The key assumptions used for value-in-use calculations in 2012 are as follow:

	Distributions	**Retails**
Gross margin	18.5%	28.7%-37.0%
Growth rate	3.0%	3.0%
Discount rate	18.0%	16.7%

Notes to the Consolidated Financial Statements

7. Intangible assets *(continued)*

(b) Impairment tests for goodwill *(continued)*

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

The directors are of the view that there was no impairment of goodwill at 31 December 2013 and 2012.

As at 31 December 2013, in distributions and retails, the recoverable amount of the goodwill calculated based on the value in use significantly exceeded the carrying amount. The carrying amount would be sensitive only to significant changes in key assumptions which are not considered reasonably possible at this time. In distributions, a reduction in gross margin of 1%, a fall in growth rate of 1% or a rise in discount rate of 1% would reduce the recoverable amount approximately by RMB159,076,000, RMB109,301,000 and RMB107,417,000, to RMB1,488,906,000, RMB1,538,681,000, and RMB1,540,565,000; In retails, a reduction in gross margin of 1%, a fall in growth rate of 1% or a rise in discount rate of 1% would reduce the recoverable amount approximately by RMB180,168,000, RMB224,933,000 and RMB219,674,000, to RMB2,989,493,000, RMB2,944,728,000 and RMB2,949,987,000. Respectively, the recoverable amount is still significantly higher than carrying amount.

8. Investment in subsidiaries

The Company

(a) Investment in subsidiaries

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Unlisted shares, at cost	**3,533**	3,533

Notes to the Consolidated Financial Statements

8. Investment in subsidiaries *(continued)*

The Company *(continued)*

(a) Investment in subsidiaries (continued)

The following is a list of all subsidiaries at 31 December 2013:

Name of company	Country/place and date of incorporation	Principal activities	Issued and fully paid in capital/ registered capital	Effective Interest held (%)
Subsidiaries				
Directly owned:				
Hong Kong Health Century International Group Limited ("HKHCI")	Hong Kong/ 15 September 2010	Investments holding and retailing drugs and other pharmaceutical products	HKD1,000/ HKD10,000	100.00%
Indirectly owned:				
Health Century Business Co., Ltd. ("HCBC")	PRC/ 1 December 2010	Investments holding	USD12,000,000	100.00%
Health Century Jintian Aixin Pharmaceutical Group Limited	Hong Kong/ 24 April 2013	Investments holding and wholesaling drugs and other pharmaceutical products	HKD100,000	100.00%
Heilongjiang Jintian Group Jintian Ciji Pharmaceutical Co., Ltd. ("Jintian Ciji Pharmaceutical")[i]	PRC/ 15 July 1998	Wholesaling drugs and other pharmaceutical products	RMB15,000,000	100.00%
Heilongjiang Jintian Group Harbin Ciji Pharmaceutical Co., Ltd. ("Harbin Ciji Pharmaceutical")[i]	PRC/ 20 July 2001	Wholesaling drugs and other pharmaceutical products	RMB1,400,000	100.00%
Heilongjiang Jintian Group Jintian Ciji Drug Store Co., Ltd. ("Jintian Ciji Drug Store")[i]	PRC/ 14 April 2004	Retailing drugs and other pharmaceutical products	RMB5,000,000	100.00%
Heilongjiang Jintian Group Lao Bai Xing Drug Store Co., Ltd. ("Lao Bai Xing Drug Store")[i]	PRC/ 23 June 2005	Retailing drugs and other pharmaceutical products	RMB1,000,000	100.00%

Notes to the Consolidated Financial Statements

8. Investment in subsidiaries *(continued)*

The Company *(continued)*

(a) Investment in subsidiaries (continued)

Name of company	Country/place and date of incorporation	Principal activities	Issued and fully paid in capital/ registered capital	Effective Interest held (%)
Hebei Jintian Yan Xiao Pharmaceutical Co., Ltd. ("Yan Xiao")[e,i]	PRC/ 27 December 2005	Wholesaling drugs and other pharmaceutical products	RMB30,000,000	100.00%
Hegang Ji Shi Tang Drug Store Co., Ltd. ("Ji Shi Tang")[i]	PRC/ 30 September 2006	Retailing drugs and other pharmaceutical products	RMB650,000	51.00%
Jintian Aixin[a,i]	PRC/ 12 February 2004	Wholesaling drugs and other pharmaceutical products	USD74,310,000	100.00%
Heilongjiang Jintian Aixin Health Chain Pharmacy Co., Ltd. ("Aixin Health")[b,i]	PRC/ 4 January 2006	Retailing drugs and other pharmaceutical products	RMB500,000	100.00%
Suibin Le Ren Tang Drug Store[h,i]	PRC/ 13 March 2008	Retailing drugs and other pharmaceutical products	–	51.00%
Suibin Jintian Aixin Drug Store[g,h,i]	PRC/ 5 April 2008	Retailing drugs and other pharmaceutical products	–	51.00%
Suibin Lao Bai Xing Drug Store[h,i]	PRC/ 23 March 2009	Retailing drugs and other pharmaceutical products	–	51.00%
Suibin Bai Xing Drug Store[h,i]	PRC/ 11 May 2009	Retailing drugs and other pharmaceutical products	–	51.00%
Suibin Jintian Drug Store[h,i]	PRC/ 23 December 2009	Retailing drugs and other pharmaceutical products	–	51.00%
Shuangcheng Chang Shou Tang Lao Bai Xing Drug Store ("Shuang Cheng")[i]	PRC/ 10 June 2008	Retailing drugs and other pharmaceutical products	–	100.00%
Jilin Hao Yao Shi Pharmaceutical Co., Ltd. ("Hao Yao Shi")[i]	PRC/ 4 December 2007	Wholesaling drugs and other pharmaceutical products	RMB1,000,000	100.00%

Notes to the Consolidated Financial Statements

8. Investment in subsidiaries *(continued)*

The Company *(continued)*

(a) Investment in subsidiaries (continued)

Name of company	Country/place and date of incorporation	Principal activities	Issued and fully paid in capital/ registered capital	Effective Interest held (%)
Suihua New Century Drug Store Co., Ltd. ("Sui Hua")[i]	PRC/ 8 April 2003	Retailing drugs and other pharmaceutical products	RMB3,800,000	99.04%
Heilongjiang Jintian Group Aixin Culture Communication Development Co., Ltd.[i]	PRC/ 4 November 2011	Culture communication	RMB1,000,000	100.00%
Daqing Jintian Aixin Chain Pharmacy Co., Ltd. ("Da Qing")[c,i]	PRC/ 6 September 2007	Retailing drugs and other pharmaceutical products	RMB3,000,000	100.00%
Qitaihe Jintian Aixin Health Pharmaceutical Chain Co., Ltd. ("Qi Tai He")[f,i]	PRC/ 7 July 2005	Retailing drugs and other pharmaceutical products	RMB2,360,000	100.00%
Harbin Jintian Aixin Chain Pharmacy Co., Ltd. ("Harbin Jintian Aixin")[d,i]	PRC/ 18 April 2005	Retailing drugs and other pharmaceutical products	RMB5,000,000	100.00%
Shenyang Wei Kang Drug Store Co., Ltd. ("Wei Kang")[i]	PRC/ 24 October 2001	Retailing drugs and other pharmaceutical products	RMB30,000,000	64.00%
Luen Fat Dispensary Ltd. ("Luen")[i]	Hong Kong/ 18 August 2011	Retailing drugs and other pharmaceutical products	HKD100	100.00%
Liaoning Jintian Aixin Supermarket[i]	PRC/ 6 December 2012	Commercial retail	RMB3,000,000	100.00%
Health Century Jintian Aixin Medical Limited	Hong Kong/ 2 May 2013	Retailing drugs and other pharmaceutical products	HKD10,000	100.00%
Changchun Fuhe Jitai Drug Store Co., Ltd. ("Ji Tai")[i]	PRC/ 11 December 2012	Retailing drugs and other pharmaceutical products	RMB1,000,000	100.00%

Notes to the Consolidated Financial Statements

8. Investment in subsidiaries *(continued)*

The Company *(continued)*

(a) Investment in subsidiaries (continued)

a Heilongjiang Tong Sheng Pharmaceutical Co., Ltd. ("Tong Sheng") was renamed as Heilongjiang Jintian Aixin Pharmaceutical Co., Ltd. ("Jintian Aixin") in June 2012.

b Jiamusi Ren He Tang Drug Store Co., Ltd. ("Ren He Tang") was renamed as Heilongjiang Jintian Aixin Health Chain Pharmacy Co., Ltd. ("Aixin Health") in December 2012.

c Daqing Ci Ji Tang Drug Store Co., Ltd. ("Ci Ji Tang") was renamed as Daqing Jintian Aixin Chian Pharmacy Co., Ltd. ("Da Qing") in February 2013.

d Harbin Hong Qi Drug Store Co., Ltd. ("Hong Qi") was renamed as Harbin Jintian Aixin Chain Pharmacy Co., Ltd. ("Harbin Jintian Aixin") in April 2013.

e Hebei Yan Xiao Pharmaceutical Co., Ltd. ("Yan Xiao") was renamed as Hebei Jintian Yan Xiao Pharmaceutical Co., Ltd. ("Yan Xiao) in June 2013.

f Boli Bai Kang Drug Store Co.,Ltd. ("Bai Kang") was renamed as Qitaihe Jintian Aixin Health Pharmaceutical Chain Co., Ltd. ("Qi Tai He") in July 2013.

g Suibin Tian Cheng Drug Store was renamed as Suibin Jintian Aixin Drug Store in July 2013.

h These companies were collectively referred to as "Sui Bin".

i The English names of these companies represent management's best efforts at translating the Chinese names of these companies as no English names have been registered or available.

(b) Material non-controlling interests

The total non-controlling interest as at 31 December 2013 and 2012 are RMB100,884,000 and RMB79,377,000, of which RMB81,339,000 and RMB58,135,000 are attributed to Weikang (which was acquired by the Group on 31 August 2012). The non-controlling interest in respect of others is not material.

Set out below are the summarized financial information for Weikang that has non-controlling interest interests that are material to the Group.

Notes to the Consolidated Financial Statements

8. Investment in subsidiaries *(continued)*

The Company *(continued)*

(b) Material non-controlling interests (continued)

Summarised balance sheet

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Current		
Assets	**160,036**	150,022
Liabilities	**(32,128)**	(64,434)
Total current net assets	**127,908**	85,588
Non-current		
Assets	**247,060**	225,936
Liabilities	**(18,900)**	(19,913)
Total non-current net assets	**228,160**	206,023
Net assets	**356,068**	291,611

Summarised income statement

	For the year ended 31 December 2013	For the period from acquisition date to 31 December 2012
	RMB'000	*RMB'000*
Revenue	**421,639**	109,198
Profit before income tax	**86,020**	17,679
Income tax expense	**(21,564)**	(4,452)
Profit and total comprehensive income	**64,456**	13,227
Profit and total comprehensive income attributable to non-controlling interests	**23,204**	4,762

Notes to the Consolidated Financial Statements

8. Investment in subsidiaries *(continued)*

The Company *(continued)*

(b) Material non-controlling interests (continued)

Summarised cash flows

	For the year ended 31 December 2013 RMB'000	For the period from acquisition date to 31 December 2012 RMB'000
Cash flows from operating activities		
Cash flows from operating activities	88,007	(68,189)
Bank charges paid	(40)	(3)
Income tax paid	(20,449)	(4,796)
Net cash generated from/(used in) operating activities	67,518	(72,988)
Net cash used in investing activities	(18,907)	(24,201)
Net increase/(decrease) in cash	48,611	(97,189)
Cash at beginning of the year/period	32,800	129,989
Cash at end of the year/period	81,411	32,800

The information above is the amount before inter-company eliminations.

9. Investments in joint ventures

	As at 31 December	
	2013 RMB'000	2012 RMB'000
At beginning of year	3,719	2,582
Share of profits	1,530	1,137
At end of year	5,249	3,719

Notes to the Consolidated Financial Statements

9. Investments in joint ventures *(continued)*

As at 31 December 2013, the Group had equity interests in these joint ventures

Name of entity	Place of business /country of incorporation	Date of Acquisition	Nature of the relationship	% of ownership interest	Measurement method
Yichun Nancha Haolianghe Limin Drug Store[1]	PRC/11 March 1997	5 August 2011	Note 1	30.00%*	Equity
Fuyuan Drug Store[1]	PRC/4 March 2008	3 August 2011	Note 1	50.00%	Equity
Yichun Nancha Huakang Drug Store[1]	PRC/14 May 2008	6 August 2011	Note 1	50.00%	Equity
Yichun Nancha Jintian Drug Store[1]	PRC/11 April 2011	7 August 2011	Note 1	50.00%	Equity

1 The English names of these companies represent management's best efforts at translating the Chinese names of these companies as no English names have been registered or available.

* The Company holds less than 50% of the equity interests in these entities, while the director of the Company consider that these entities are jointly controlled entities of the Company because their strategic operating, investing and financing activities are jointly controlled by the Company and the jointly controlled entity partners.

Note 1 All the joint ventures are engaged in the retail of drugs and other pharmaceutical products in the PRC. They are strategic partnership for the Group to fortify the market share and regional development in the industry.

The joint ventures are drug stores and there are no quoted market prices available for its shares.

Notes to the Consolidated Financial Statements

9. Investments in joint ventures *(continued)*

The following amounts represent the Group's share of the assets (including goodwill) and liabilities, and results of the joint ventures:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Assets		
Non-current assets	**385**	383
Current assets	**5,104**	3,967
	5,489	4,350
Liabilities		
Current liabilities	**(240)**	(631)
Net assets	**5,249**	3,719

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Revenue	**4,770**	4,408
Expenses	**(3,240)**	(3,271)
Profit after income tax	**1,530**	1,137

There are no commitments and contingent liabilities relating to the Group's interests in the joint ventures, and no contingent liabilities of the ventures themselves.

Notes to the Consolidated Financial Statements

10. Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Deferred tax assets:		
– Deferred tax assets to be recovered within 12 months	**10,797**	9,297
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**(21,153)**	(23,011)
– Deferred tax liabilities to be recovered within 12 months	**(1,858)**	(1,858)
	(23,011)	(24,869)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	**Accrual for employee payroll**	**Accrual for sales commission**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2012	2,847	2,516	5,363
Credited to the consolidated statement of comprehensive income	2,756	1,178	3,934
At 31 December 2012	5,603	3,694	9,297
Credited/(charged) to the consolidated statement of comprehensive income	4,276	(2,776)	1,500
At 31 December 2013	9,879	918	10,797

Notes to the Consolidated Financial Statements

10. Deferred income tax *(continued)*

Deferred tax liabilities	**Deferred tax liabilities arising from business combination** *RMB'000*
At 1 January 2012	(4,565)
Acquisition of subsidiaries and businesses *(Note 29)*	(23,745)
Credited to the consolidated statement of comprehensive income	3,441
At 31 December 2012	(24,869)
Credited to the consolidated statement of comprehensive income	1,858
At 31 December 2013	(23,011)

As at 31 December 2013 and 2012, deferred income tax assets of RMB5,425,000 and RMB4,031,000 have not been recognised in respect of the tax losses amounting to RMB30,750,000 and RMB23,152,000 which can be carried forward against future taxable income.

Dividends derived from the Company's subsidiaries in the mainland China earned after 1 January 2008 are subject to withholding tax at the rate of 5%. During the year, the Group reassessed its needs to make distributions out of its subsidiaries in the mainland China.

As at 31 December 2013 and 2012, no provision for withholding tax has been made, as unremitted earnings of those subsidiaries in mainland China are not expected to be distributed in the foreseeable future. Unremitted earnings amounted to RMB836,382,000 and RMB557,181,000 as at 31 December 2013 and 2012, respectively.

Notes to the Consolidated Financial Statements

11. Financial instruments by category

The Group

	Loans and receivables *RMB'000*
At 31 December 2013	
Assets as per consolidated balance sheet	
Trade and other receivables excluding prepayments	268,465
Restricted Cash	8,643
Cash	1,564,248
Total	1,841,356

	Financial liabilities at amortised cost *RMB'000*
Liabilities as per consolidated balance sheet	
Trade and other payables	216,881

	Loans and receivables *RMB'000*	**Financial assets at fair value through the profit or loss** *RMB'000*	**Total** *RMB'000*
At 31 December 2012			
Assets as per consolidated balance sheet			
Trade and other receivables excluding prepayments	190,210	–	190,210
Financial assets at fair value through profit or loss	–	96,958	96,958
Restricted Cash	22,474	–	22,474
Cash	455,916	–	455,916
Total	668,600	96,958	765,558

	Financial liabilities at amortised cost *RMB'000*
Liabilities as per consolidated balance sheet	
Trade and other payables	831,997

Notes to the Consolidated Financial Statements

11. Financial instruments by category *(continued)*

The Company

	Loans and receivables *RMB'000*
At 31 December 2013	
Assets as per company balance sheet	
Trade and other receivables excluding prepayments	73,980
Cash	848,918
Total	922,898

	Financial liabilities at amortised cost *RMB'000*
Liabilities as per company balance sheet	
Trade and other payables	51,821

12. Trade and other receivables

The Group

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Trade receivables (a)	**194,363**	179,442
– Due from related parties *(Note 30)*	**527**	1,269
– Due from third parties	**193,836**	178,173
Prepayments	**93,340**	83,520
– Prepayments of rental expense	**31,831**	41,876
– Prepayments of goods due from related parties *(Note 30)*	**38,553**	17,469
– Prepayments of the fees for the use of trademarks from related parties *(Note 30)*	**3,240**	–
– Prepayments of goods and services due from third parties	**14,151**	20,348
– Value added tax input credits	**5,565**	3,827
Other receivables	**74,102**	10,768
– Deposits receivables	**6,862**	6,603
– Advance to employees	**2,172**	1,408
– Expense paid on behalf of a related party *(Note 30)*	**–**	423
– IPO proceeds hold by the sponsor	**61,301**	–
– Others	**3,767**	2,334
Total	**361,805**	273,730

The carrying amounts of receivables approximate their fair values.

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

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Up to 3 months	**183,627**	165,633
4 to 6 months	**2,795**	11,780
7 to 12 months	**7,941**	2,029
	194,363	179,442

Notes to the Consolidated Financial Statements

12. Trade and other receivables *(continued)*

As at 31 December 2013 and 2012, the trade receivables of RMB10,736,000 and RMB13,809,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Past due up to 3 months	**2,795**	11,780
Past due 4 to 6 months	**7,941**	2,029
	10,736	13,809

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
RMB	**296,621**	273,730
HKD	**65,184**	–
	361,805	273,730

For the years ended 31 December 2013 and 2012, no trade and other receivables were impaired and provided for. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

Notes to the Consolidated Financial Statements

12. Trade and other receivables *(continued)*

The Company

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Prepayments	**962**	–
Other receivables	**73,980**	–
– Due from subsidiaries	**12,226**	–
– IPO proceeds hold by the sponsor	**61,301**	–
– Others	**453**	–
Total	**74,942**	–

The carrying amounts of receivables approximate their fair values.

13. Inventories

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Goods	**271,748**	249,442

The cost of inventories recognised as expense and included in cost of sales for the years ended 31 December 2013 and 2012 amounted to RMB2,370,195,000 and RMB1,768,843,000 respectively (Note 21).

Notes to the Consolidated Financial Statements

14. Financial assets at fair value through profit or loss

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Paper gold held for trading	**–**	96,958

Changes in fair values of financial assets at fair value through profit or loss are recorded in "other losses – net" in the consolidated statement of comprehensive income (Note 20).

The paper gold held for trading is denominated in USD, The fair value of the paper gold held for trading is based on their current bid prices in an active market.

15. Restricted cash

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Restricted cash	**8,643**	22,474

As at 31 December 2013 and 2012, the entire balance of the restricted cash was secured for notes payable, the amount of trade finance facilities utilised by the Group for issuing notes payable to its suppliers amounting to RMB8,643,000 and RMB42,088,000 (Note 19 (b)).

All of the restricted cash was denominated in RMB.

The effective interest rates on restricted cash, with mature days within one year, were 2.90% and 3.50% per annum as at 31 December 2013 and 2012.

Notes to the Consolidated Financial Statements

16. Cash

The Group

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Cash on hand	**682**	1,393
Cash at bank	**1,563,566**	454,523
	1,564,248	455,916

Bank balances earn interest at floating rates based on daily bank deposit rates.

As at 31 December 2013 and 2012, the cash and bank denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
RMB	**1,193,497**	454,685
USD	**180**	1,004
HKD	**370,571**	227
	1,564,248	455,916

Notes to the Consolidated Financial Statements

16. Cash *(continued)*

The Company

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Cash at bank	**848,918**	–

Bank balances earn interest at floating rates based on daily bank deposit rates.

As at 31 December 2013 and 2012, the cash and bank denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
RMB	**480,000**	–
HKD	**368,918**	–
	848,918	–

17. Share capital

	Number of ordinary shares	Nominal value of ordinary shares *USD*
Authorised:		
Ordinary shares of USD 0.001 each		
At 12 March 2012 (date of incorporation) and 31 December 2012 *(a)*	50,000,000	50,000
Increase in authorized share capital *(a)*	9,950,000,000	9,950,000
At 31 December 2013 *(a)*	10,000,000,000	10,000,000

Notes to the Consolidated Financial Statements

17. Share capital *(continued)*

Issued and fully paid:

	Number of ordinary shares	Nominal value of ordinary shares *USD*	Equivalent nominal value of ordinary shares *RMB'000*
At 12 March 2012 (date of incorporation) and 31 December 2012 *(a)*	1,000	1	0.006
Issue of ordinary shares for extinguishment of loan by the Parent Company *(b)*	1	0.001	0.000006
Share issued under the capitalization *(c)*	1,599,998,999	1,599,999	9,204
New issue of shares *(d)*	400,000,000	400,000	3,055
At 31 December 2013	2,000,000,000	2,000,000	12,259

Note:

(a) The Company was incorporated on 12 March 2012 with an initial authorized share capital of USD50,000 divided into 50,000,000 ordinary shares with par value of USD0.001 each. By written resolutions of the sole shareholder of the Company dated 18 November 2013, the authorized share capital has been increased from USD50,000 to USD10,000,000 divided into 10,000,000,000 shares by the creation of an additional 9,950,000,000 shares. On the date of incorporation, 1,000 ordinary shares was issued to the Parent Company.

(b) On 11 November 2013, the Parent Company assigned shareholder's loan payable by HKHCI, a subsidiary of the Company, of approximately RMB650,658,000 to the Company, in settlement of which, the Company issued and allotted 1 ordinary share to the Parent Company.

(c) Pursuant to a shareholder's resolution dated 28 November 2013, conditional on the successful Listing of the Company on 12 December 2013, the Company capitalised an amount of USD1,599,999 (equivalent to RMB9,204,000) from the share premium account, in its share capital account in paying up in full at par 1,599,998,999 shares, which were allotted and issued to the then existing shareholders of the Company.

(d) On 12 December 2013, the Company issued 400,000,000 ordinary shares of USD0.001 each at HKD2.91 per share in connection with the Listing, and raised gross proceeds of approximately HKD1,164,000,000 (equivalent to RMB917,464,000), in which HKD3,876,000 (equivalent to RMB3,055,000) recognised as share capital and HKD1,148,446,000 (equivalent to RMB905,205,000) recognised as share premium.

Notes to the Consolidated Financial Statements

18. Reserves

The Group

	Note	Share premium RMB'000	Capital reserves (Note(a)) RMB'000	Statutory reserves (Note(b)) RMB'000	Share-based compensation reserves (Note(d)) RMB'000	Total RMB'000
Balance at 1 January 2012		–	18,809	12,208	8,853	39,870
Purchase of non-controlling interests	(a)(iii)	–	(23,381)	–	–	(23,381)
Capital contribution from the Controlling Shareholder	(a)(i)	–	1	–	–	1
Deemed contribution from the Controlling Shareholder	30(a)(ii)	–	945	–	–	945
Deemed distribution to the Controlling Shareholder	(a)(ii)	–	(5,001)	–	–	(5,001)
Profit appropriation to statutory reserves	(b)	–	–	8,202	–	8,202
Balance at 31 December 2012		–	(8,627)	20,410	8,853	20,636
Balance at 1 January 2013		–	(8,627)	20,410	8,853	20,636
Purchase of non-controlling interests	(a)(iv)	–	(11,248)	–	–	(11,248)
Issue of ordinary share for extinguishment of loan by the Parent Company	(a)(v)	650,658	–	–	–	650,658
Gross proceeds from placing and public offering of shares	17(d)	905,205	–	–	–	905,205
Share issuance costs	(c)	(31,038)	–	–	–	(31,038)
Contribution from the Parent Company	(a)(vi)	–	10,936	–	–	10,936
Profit appropriation to statutory reserves	(b)	–	–	14,646	–	14,646
Balance at 31 December 2013		1,524,825	(8,939)	35,056	8,853	1,559,795

Notes to the Consolidated Financial Statements

18. Reserves *(continued)*

The Group *(continued)*

Notes:

(a) Capital reserves

(i) On 12 March 2012, the Company was set up and controlled by the Parent Company, the paid in capital was HKD 1,000. Upon incorporation 1,000 shares were issued and allotted to the Parent Company. The excess of the cash received over the nominal value of the share issued was recorded in capital reserves under equity.

(ii) On 4 May 2012, the Company acquired the entire equity interests in HKHCI, HCBC and the entire economic benefits in the subsidiaries now comprising the Group through the Revised VIE Agreements from the Parent Company at a consideration of HKD1,000, which was reorganisation and treated as deemed distribution to the Controlling Shareholder.

The Group used a trademark of the Controlling Shareholder for the Listing Business during the Relevant Periods. On 15 April 2012, the Group paid RMB5,000,000 to transfer the legal title of the trademark, which was accounted for as deemed distribution to the Controlling Shareholder.

(iii) On 31 July 2012, one subsidiary of the Company acquired 49% interest of Yan Xiao from non-controlling shareholders for a purchase consideration of RMB49,767,000. The carrying amount of the non-controlling interests in Yan Xiao on the date of acquisition was RMB26,386,000. The Group recognised a decrease in non-controlling interests of RMB26,386,000 and a decrease in equity attributable to owners of the Company of RMB23,381,000. After the transaction with non-controlling shareholders, the Group obtained entire equity interest in Yan Xiao.

(iv) On 3 April 2013, a subsidiary of the Company acquired 49% interest of Haoyaoshi from non-controlling shareholders for a purchase consideration of RMB19,698,000. The carrying amount of the non-controlling interests in Haoyaoshi on the date of acquisition was RMB8,450,000. The Group recognised a decrease in non-controlling interests of RMB8,450,000 and a decrease in equity attributable to owners of the Company of RMB11,248,000. After the transaction with non-controlling shareholders, the Group obtained entire equity interest in Haoyaoshi.

(v) On 11 November 2013, the Parent Company assigned shareholder's loan payable by HKHCI, a subsidiary of the Company, of approximately RMB650,658,000 to the Company, in settlement of which, the Company issued and allotted 1 ordinary share to the Parent Company. The excess of the monetary value over the nominal value of the share issued amounting to RMB650,658,000 was accounted for as share premium.

(vi) In November 2013, the Parent Company, through entering into various assignment and transfer agreements, transferred non-trade balance in an aggregate amount of approximately RMB10,936,000 to the Company with nil consideration.

Notes to the Consolidated Financial Statements

18. Reserves *(continued)*

The Group *(continued)*

Notes: (continued)

(b) Statutory reserves

Under the relevant PRC laws and regulations, PRC companies are required to appropriate 10% of the respective net profit to statutory reserve until such reserve reached 50% of the Companies registered capital. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provide that such reserve is maintained at a minimum of 25% of the companies registered capital.

The statutory reserve maintained by "Harbin Ciji Pharmaceutical" has reached 50% of the registered capital as at 31 December 2007. "Jintian Ciji Drug Store" and "Lao Bai Xing Drug Store" have reached 50% of the registered capital as at 31 December 2008. "Jintian Ciji Pharmaceutical", "Aixin Health", "Ji Shi Tang" and "Hao Yao Shi" have reached 50% of the registered capital as at 31 December 2012. "Sui Hua" have reached 50% of the registered capital as at 31 December 2013. According to the relevant PRC laws and regulations, there is no statutory requirement for these three companies to appropriate statutory reserve any more.

(c) The share issuance costs amounting to RMB31,038,000 were charged to share premium, and the share issuance costs amounting to RMB18,281,000 were charged to consolidated statement of comprehensive income.

(d) Share-based compensation reserves

On 10 September 2009, 1% shares of the Group were granted to Mr. Chu Chuanfu, the Chief Executive Officer of the Group. The fair value of the shares were accounted for as share-based compensation reserve.

The Company

	Share premium *RMB'000*	**Capital reserves** *RMB'000*	**Total** *RMB'000*
Balance at 1 January 2012	–	–	–
Proceeds from share issued	–	3,533	3,533
Deemed contribution from the Controlling Shareholder	–	945	945
Balance at 31 December 2012	–	4,478	4,478
Balance at 1 January 2013	–	4,478	4,478
Gross proceeds from placing and public offering of shares	905,205	–	905,205
Share issuance costs	(31,038)	–	(31,038)
Contribution from the Parent Company	–	10,936	10,936
Balance at 31 December 2013	874,167	15,414	889,581

Notes to the Consolidated Financial Statements

19. Trade and other payables

The Group

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Trade payables (a)	**85,119**	99,204
– Due to related parties *(Note 30)*	**–**	17,962
– Due to third parties	**85,119**	81,242
Notes payable (b)	**8,643**	42,088
– Due to third parties	**8,643**	42,088
Other payables (c)	**123,119**	690,705
– Due to related parties *(Note 30)*	**–**	640,742
– Due to third parties	**123,119**	49,963
	216,881	831,997

(a) Details of ageing analysis of trade payables were as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Up to 3 months	**82,796**	91,430
4 to 6 months	**2,069**	4,376
7 to 12 months	**68**	3,085
1 year to 2 years	**166**	304
2 years to 3 years	**20**	9
	85,119	99,204

(b) As at 31 December 2013 and 2012, the entire balance of notes payable was secured by restricted cash of RMB8,643,000 and RMB22,474,000 (Note 15).

Notes to the Consolidated Financial Statements

19. Trade and other payables *(continued)*

The Group *(continued)*

(c) Details of other payables are as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Salary and welfare payable	**44,649**	24,561
Sales commissions and marketing expenses	**10,208**	14,778
Shareholder's loan *(Note 30(b))*	**–**	626,429
Due to related parties *(Note 30(b))*	**–**	14,313
Other taxes	**21,989**	5,400
Deposits payable	**–**	1,140
Consideration payable	**–**	1,041
Payable to non-controlling investors	**–**	636
Payable for professional fee incurred for IPO	**40,999**	–
Others	**5,274**	2,407
	123,119	690,705

As at 31 December 2013 and 2012, the Group's shareholder's loan amount to nil and RMB626,429,000 respectively, which were granted by the Parent Company. The shareholder's loan is unsecured, non-interest bearing and has no fixed term of repayment.

The carrying amounts of trade and other payables are denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
RMB	**176,438**	690,568
HKD	**28,009**	–
USD	**12,434**	141,429
	216,881	831,997

Notes to the Consolidated Financial Statements

19. Trade and other payables *(continued)*

The Company

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Other payables (a)		
– Due to a subsidiary	**5,132**	1,311
– Due to third parties	**46,689**	1,980
	51,821	3,291

(a) Details of other payables are as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Salary and welfare payable	**525**	–
Payable for professional fee incurred for IPO	**40,363**	–
Due to a subsidiary	**7,147**	–
Others	**3,786**	3,291
	51,821	3,291

20. Other losses – Net

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Loss on financial assets at fair value through profit or loss	**1,160**	14,058
Loss on disposals of property, plant and equipment	**238**	165
Others	**113**	52
	1,511	14,275

Notes to the Consolidated Financial Statements

21. Expense by nature

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Changes in inventories *(Note 13)*	**2,370,195**	1,768,843
Employee benefit expenses *(Note 22)*	**168,502**	93,167
Advertising and other marketing expenses	**48,156**	22,125
Transportation and related charges	**56,607**	40,392
Rental expenses *(Note 6)*	**67,653**	38,516
Tax expenses	**21,025**	14,763
Professional fee incurred for IPO	**18,281**	–
Office and communication expenses	**9,769**	8,191
Depreciation of property, plant and equipment *(Note 6)*	**19,480**	8,787
Amortisation of intangible assets *(Note 7)*	**7,987**	5,074
Travelling and meeting expenses	**1,377**	3,043
Professional fees	**1,962**	2,938
Auditors' remuneration	**3,000**	1,980
Electricity and other utility fees	**2,968**	1,249
License fee of trademarks	**3,250**	–
Other expenses	**2,587**	2,316
	2,802,799	2,011,384

22. Employee benefit expenses

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Wages and salaries	**119,992**	67,192
Contributions to pension plan (a)	**44,726**	23,561
Other benefits	**3,784**	2,414
	168,502	93,167

(a) The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial government under which the Group are required to make monthly defined contributions to this plan at a certain rate of employee's basic salary dependent upon the applicable local regulations.

Notes to the Consolidated Financial Statements

22. Employee benefit expenses *(continued)*

(b) Directors' emoluments

The aggregate amounts of the emoluments paid and payable to the directors of the Company by companies comprising the Group during the Relevant Periods are set out as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Salaries and wages	**1,200**	1,024
Bonuses	**–**	–
Fee	**526**	–
Contributions to pension plan	**45**	26
	1,771	1,050

The emoluments of the directors are set out as follows:

	Year ended 31 December 2013				
Name of directors	Salaries and wages *RMB'000*	Bonuses *RMB'000*	Fee *RMB'000*	Contributions to pension plan *RMB'000*	Total *RMB'000*
Mr. Jin Dongtao	480	–	92	11	583
Mr. Chu Chuanfu	180	–	92	10	282
Ms. Wu Qiong	180	–	92	4	276
Mr. Jin Dongkun	180	–	92	10	282
Ms. Chen Xiaoyan	180	–	92	10	282
Mr. Cheng Sheung Hing*	–	–	22	–	22
Ms. Chiang Su Hui Susie*	–	–	22	–	22
Mr. Chen Xiao*	–	–	22	–	22
	1,200	–	526	45	1,771

* represent the independent non-executive directors

Notes to the Consolidated Financial Statements

22. Employee benefit expenses *(continued)*

(b) Directors' emoluments *(continued)*

	Year ended 31 December 2012				
Name of directors	Salaries and wages	Bonuses	Fee	Contributions to pension plan	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Jin Dongtao	410	–	–	7	417
Mr. Chu Chuanfu	174	–	–	5	179
Ms. Wu Qiong	160	–	–	–	160
Mr. Jin Dongkun	140	–	–	7	147
Ms. Chen Xiaoyan	140	–	–	7	147
	1,024	–	–	26	1,050

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
In the capacity as:		
Directors	**1,705**	1,050

For the years ended 31 December 2013 and 2012, the five highest paid individuals include 5 directors, whose emoluments were reflected in the analysis presented above. The emolument paid to each of the highest paid individuals fell within between nil to HK$1,000,000.

During the years of 2013 and 2012, no director or the five highest paid individuals received any emolument from the Group as an inducement to joint, upon joining the Group, leave the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

23. Finance income and costs

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Finance income		
Exchange gains	**–**	703
Interest income on bank deposits	**2,359**	2,473
	2,359	3,176
Finance costs		
Exchange losses	**(3,258)**	–
Other charges	**(268)**	(188)
	(3,526)	(188)
Finance (cost)/income – net	**(1,167)**	2,988

24. Income tax expenses

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Current income tax	**138,144**	85,892
Deferred income tax credit *(Note 10)*	**(3,358)**	(7,375)
Total income tax expense	**134,786**	78,517

Notes to the Consolidated Financial Statements

24. Income tax expenses *(continued)*

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

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Profit before income tax	**519,846**	305,880
Tax calculated at a PRC statutory tax rate of 25%	**129,962**	76,470
Tax effects of		
– Expenses not deductible for tax purpose	**1,436**	1,345
– Income not subject to tax	**(1,092)**	(58)
– Tax losses for which no deferred income tax asset was recognised	**1,394**	2,927
– Effect of different applicable tax rates for certain subsidiaries	**3,469**	(1,883)
– Joint ventures results reported net of tax	**(383)**	(284)
Income tax expense	**134,786**	78,517

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2013. The subsidiaries of the Group in PRC are subject to corporate income tax at a rate of 25% on its taxable income or deemed profit method as determined in accordance with the relevant PRC income tax rules and regulations.

25. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue during the years ended 31 December 2013 and 2012, the 1,000 shares issued and allotted on 12 March 2012, the 1 share issued and allotted on 11 November 2013, and the 1,599,998,999 shares issued and allotted through capitalisation of the share premium account arose from the Listing of the Company on 12 December 2013 (Note 17) have been regarded as if all the 1,600,000,000 shares were in issue since 1 January 2012.

Notes to the Consolidated Financial Statements

25. Earnings per share *(continued)*

(a) Basic *(continued)*

	Year ended 31 December	
	2013	2012
Profit attributable to owners of the Company *(RMB'000)*	**355,103**	213,760
Weighted average number of ordinary shares in issue *(thousands)*	**1,620,822**	1,600,000
Basic earnings per share *(RMB Yuan)*	**0.22**	0.13

(b) Diluted

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

As there were no dilutive potential ordinary shares outstanding for the years ended 2013 and 2012, the diluted earnings per share for the years is equal to basic earnings per share.

26. Dividends

	Year ended 31 December	
	2013 *RMB'000*	2012 *RMB'000*
Interim dividend paid	**–**	–
Proposed final dividend (a)	**–**	–
Dividends paid (b)	**85,764**	–

(a) The Board did not propose final dividend for the years ended 31 December 2013 and 2012.

(b) In November 2013, the Group declared dividends to be distributed prior to Listing. Such dividends amounted to RMB85.8 million, representing 70% of the net profit from 1 January 2010 to 31 December 2010 of the Original Operating Companies, for which the recipients are the ultimate shareholders of the Original Operating Companies during the year 2010. The dividends were paid in full on 26 November 2013.

Notes to the Consolidated Financial Statements

27. Cash generated from operations

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Profit for the year	**385,060**	227,363
Adjustments for:		
– Income tax expense	**134,786**	78,517
– Depreciation of property,plant and equipment *(Note 6)*	**19,480**	8,787
– Amortisation of intangible assets *(Note 7)*	**7,987**	5,074
– Loss on disposal of property, plant and equipment *(Note 20)*	**238**	165
– Finance income – net *(Note 23)*	**(1,167)**	(2,988)
– Share of profits of joint ventures *(Note 9)*	**(1,530)**	(1,137)
– Loss on financial assets at fair value through profit or loss *(Note 20)*	**1,160**	14,058
Changes in working capital:		
– Increase in inventories	**(4,910)**	(10,170)
– (Increase)/decrease in trade and other receivables	**(25,674)**	44,137
– Decrease in trade and other payables	**(8,511)**	(120,612)
Cash generated from operations	**506,919**	243,194

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Net book amount *(Note 6)*	**416**	177
Loss on disposals of property, plant and equipment *(Note 20)*	**(238)**	(165)
Proceeds from disposal of property, plant and equipment	**178**	12

Notes to the Consolidated Financial Statements

28. Commitments

(a) Operating lease commitments

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

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

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
No later than 1 year	**52,036**	44,022
Later than 1 year and no later than 5 years	**60,472**	89,303
More than 5 years	**108**	208
	112,616	133,533

29. Business combinations

During the years ended 31 December 2013 and 31 December 2012, certain equity interests in subsidiaries and businesses now comprising the Group were acquired from third parties for the purpose of expanding into new markets. Acquisitions of equity interests in these subsidiaries and businesses were accounted for using the acquisition method of accounting effective from the dates when the subsidiaries and businesses were controlled by the Group. Details are as follows:

(a) For the year ended 31 December 2013, the Group acquired equity interests in the following subsidiary and businesses:

Company name/business	**Acquisition date**	**Percentage of equity interests acquired**	**Cash consideration** *RMB'000*
Ji Tai	30 June 2013	100.00%	18,478
Retailing business of Pharmaceutical products ("Retailing businesses")	During the period from May to June 2013	100.00%	102,687
			121,165

Notes to the Consolidated Financial Statements

29. Business combinations *(continued)*

The following table summarises the consideration paid for the acquired subsidiaries and businesses, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	Ji Tai *RMB'000*	**Retailing businesses** *RMB'000*	**Total** *RMB'000*
Consideration:			
– Cash consideration paid	18,478	102,687	121,165
Recognised amounts of identifiable assets acquired and liabilities assumed			
Property, plant and equipment *(Note 6)*	955	5,362	6,317
Inventories	682	16,714	17,396
Trade and other receivables	1,100	–	1,100
Trade and other payables	(763)	–	(763)
Total identifiable net assets	1,974	22,076	24,050
Consideration:			
Goodwill *(Note 7)*	16,504	80,611	97,115
	18,478	102,687	121,165

As a result of the acquisition, the Group is expected to facilitate entry into and/or increase its presence in these developing markets which operate primary in third or fourth tier cities. It also expects to reduce costs through economies of scale. The goodwill of RMB97,115,000 is attributable to the acquired human resources, economies of scale and synergy expected from combining the operations of the Group and above subsidiaries and businesses acquired not under common control combination. High profitability is expected to gain from these acquired subsidiaries and businesses and this expectation is subsumed in goodwill. None of the goodwill recognised is expected to be deductible for income tax purposes.

The revenue included in the consolidated statement of comprehensive income since the respective acquisition dates contributed by the acquired subsidiaries and businesses was RMB98,799,000. The acquired subsidiaries and businesses also contributed profit of RMB17,231,000 over the same period.

Had the acquired subsidiaries and businesses been consolidated from 1 January 2013, the consolidated statement of comprehensive income for 2013 would show revenue of RMB3,390,186,000 and profit of RMB397,017,000.

Notes to the Consolidated Financial Statements

29. Business combinations *(continued)*

(b) For the year ended 31 December 2012, the Group acquired equity interests in the following subsidiaries and businesses:

Company name/business	Acquisition date	Percentage of equity interests acquired	Cash consideration *RMB'000*
Da Qing	1 January 2012	100.00%	17,878
Qi Tai He	31 March 2012	100.00%	9,120
Harbin Jintian Aixin	30 April 2012	100.00%	41,680
Wei Kang	31 August 2012	64.00%	225,010
Retailing businesses	During the period from 29 September to 20 October 2012	100.00%	26,399
Luen	20 December 2012	100.00%	1,851
			321,938

The following table summarises the consideration paid for the acquired subsidiaries and businesses, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Notes to the Consolidated Financial Statements

29. Business combinations *(continued)*

	Da Qing *RMB'000*	Qi Tai He *RMB'000*	Harbin Jintian Aixin *RMB'000*	Wei Kang *RMB'000*	Luen *RMB'000*	Retailing business *RMB'000*	Total *RMB'000*
Consideration:							
– Cash consideration	17,878	9,120	41,680	225,010	810	26,399	320,897
– Consideration payable	–	–	–	–	1,041	–	1,041
Total consideration	17,878	9,120	41,680	225,010	1,851	26,399	321,938
Recognised amounts of identifiable assets acquired and liabilities assumed							
Cash	125	–	3,042	129,989	53	–	133,209
Property, plant and equipment *(Note 6)*	225	260	4,802	15,261	453	1,522	22,523
Trademarks and brand loyalty (included in intangibles) *(Note 7)*	2,025	804	3,659	81,000	–	–	87,488
Computer software (included in intangibles) *(Note 7)*	–	–	–	45	–	–	45
Inventories	7,767	4,038	6,401	36,893	754	5,490	61,343
Trade and other receivables	3,839	2,421	5,763	94,800	287	1,178	108,288
Trade and other payables	(242)	(1,703)	(2,549)	(188,151)	–	–	(192,645)
Deferred tax liabilities *(Note 10)*	(737)	(321)	(1,108)	(21,579)	–	–	(23,745)
Total identifiable net assets	13,002	5,499	20,010	148,258	1,547	8,190	196,506
Non-controlling interest	–	–	–	(53,373)	–	–	(53,373)
Goodwill *(Note 7)*	4,876	3,621	21,670	130,125	304	18,209	178,805
	17,878	9,120	41,680	225,010	1,851	26,399	321,938

29. Business combinations *(continued)*

As a result of the acquisition, the Group is expected to facilitate entry into and/or increase its presence in these developing markets which operate primary in third or fourth tier cities. It also expects to reduce costs through economies of scale. The goodwill of RMB178,805,000 is attributable to the acquired human resources, economies of scale and synergy expected from combining the operations of the Group and above subsidiaries and businesses acquired not under common control combination. High profitability is expected to gain from these acquired subsidiaries and businesses and this expectation is subsumed in goodwill. None of the goodwill recognised is expected to be deductible for income tax purposes.

The revenue included in the consolidated statement of comprehensive income since the respective acquisition dates contributed by the acquired subsidiaries and businesses was RMB182,766,000. The acquired subsidiaries and businesses also contributed profit of RMB19,617,000 over the same period.

Had the acquired subsidiaries and businesses been consolidated from 1 January 2012, the consolidated statement of comprehensive income for 2012 would show revenue of RMB2,500,576,000 and profit of RMB262,403,000.

30. Related-party transactions

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

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

(a) Transactions with related parties:

(i) Continued transactions

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Purchases of goods	**169,469**	100,842
Use of Trademarks	**3,250**	–
Sales of goods	**4,197**	3,813

Notes to the Consolidated Financial Statements

30. Related-party transactions *(continued)*

(a) Transactions with related parties: *(continued)*

(ii) Discontinued transactions

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Payments of staff bonus by related party on behalf of the Group and deemed as contribution on the Group	**–**	945
Repayment of shareholder's loan	**–**	40,764
Shareholder's loan	**24,247**	–

(b) Balances with related parties:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**527**	1,269
Prepayment of goods	**38,553**	17,469
Prepayment of fees for use of trademarks	**3,240**	–
Other receivables	**–**	423
Trade payables	**–**	17,962
Other payables	**–**	640,742

(c) Key management compensation

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**2,109**	1,234
Contributions to pension plan	**71**	39
	2,180	1,273

Notes to the Consolidated Financial Statements

31. Subsequent events

(a) On 24 January 2014, the Company entered into a share sale and purchase agreement with an independent third party in relation to acquisition of 100% equity interest in a PRC enterprise, which is located in northern China and principally engaged in retail of drugs and other pharmaceutical products. The consideration is RMB6,600,000. The transaction has been completed on 1 February 2014.

(b) On 22 February 2014, the Company entered into a share sale and purchase agreement with an independent third party in relation to acquisition of 100% equity interest in a PRC enterprise, which is located in northern China and principally engaged in retail of drugs and other pharmaceutical products. The consideration is RMB55,000,000. The transaction is still in progress.

Four-year Financial Summary

Operating results

	Years ended 31 December			
	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**3,323,499**	2,326,292	1,473,902	858,613
Gross profit	**936,418**	545,769	378,144	239,741
Profit before income tax	**519,846**	305,880	251,223	163,605
Income tax expense	**(134,786)**	(78,517)	(62,377)	(41,095)
Profit and total comprehensive income for the year	**385,060**	227,363	188,846	122,510
Attributable to				
– Owners of the Company	**355,103**	213,760	180,117	122,510
– Non-controlling interests	**29,957**	13,603	8,729	–

Assets, Liabilities and Non-controlling Interests

	As at 31 December			
	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**2,744,231**	1,515,146	1,232,769	268,830
Total liabilities	**288,455**	886,988	831,525	81,718
Total equity	**2,455,776**	628,158	401,244	187,112
Attributable to				
– Owners of the Company	**2,354,892**	548,781	362,457	187,112
– Non-controlling interests	**100,884**	79,377	38,787	–