Annual Report 2014

Building An International MacroHealth Branding and Marketing Platform

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)

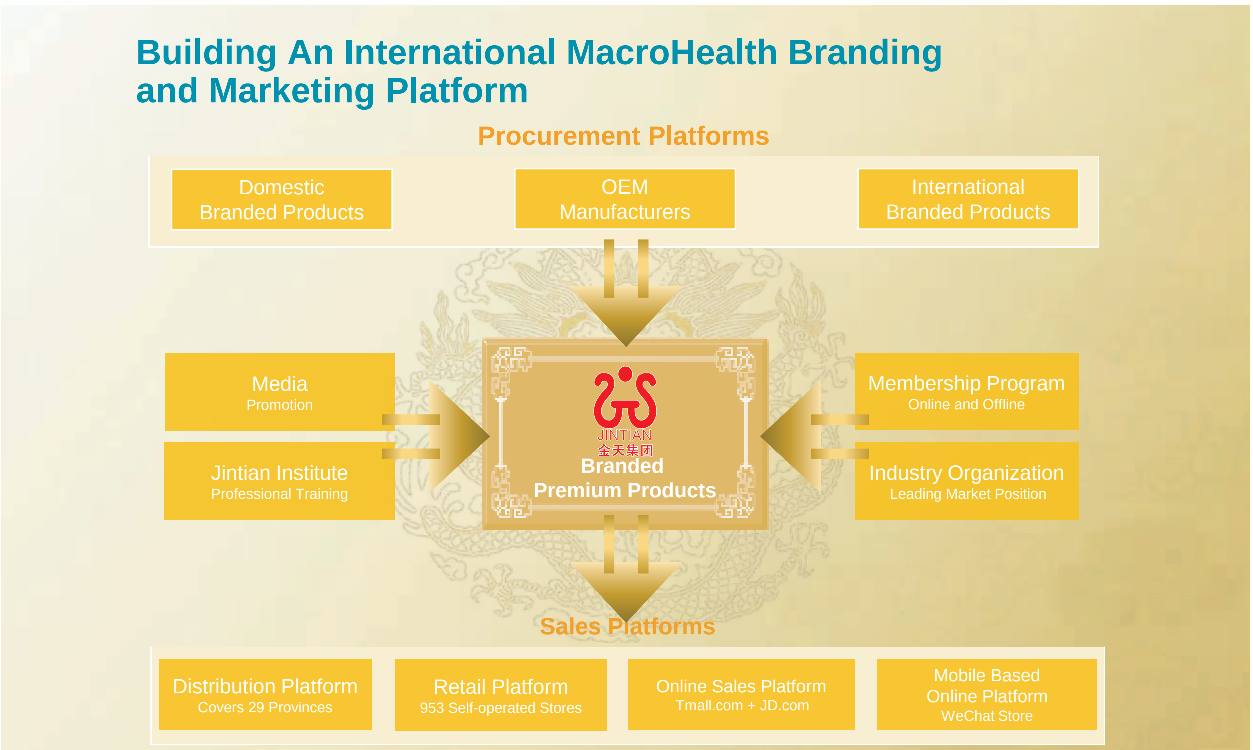
Stock Code: 2211

CONTENTS

Company Profile

Jintian Pharmaceutical Group Limited (the "Company" or "Jintian Pharma") and its subsidiaries (the "Group") are one of the leading pharmaceutical retailers and distributors in Northeast China, as well as an operator of MacroHealth brand in China.

The principal activities of the Group are as follows:



Source: Information provided by the Company

Company Profile

As at 31 December 2014, the Company has 953 retail pharmacies including four stores in Hong Kong and approximately 6,500 distribution customers. The Company has high net profit margin, which is attributable to the product mix with a focus on high-gross-margin products, the effective direct-supply model, the centralized procurement platform and low operation costs. The Company provides training programs to its employees and customers through Jintian Institute. The Company also has strong execution capability for acquisitions and integration which enables it to implement its product mix, advanced business model and sophisticated operation procedures in the acquired businesses. With the distinctive business model and core competitive advantages, the Company also enriches the product mix by introducing more healthcare products based on the expertise in pharmaceutical retail and distribution, so as to promote the concept of the MacroHealth industry.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Jin Dongtao *(Chairman)*
Mr. Jin Dongkun *(Vice Chairman)*
Mr. Chu Chuanfu *(Chief Executive Officer)*
Mr. Yang Jiacheng *(Chief Operating 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. Chiang Su Hui Susie
Mr. Chu Chuanfu

NOMINATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Yang Jiacheng
Mr. Tam Tsang Ngai

JOINT COMPANY SECRETARIES

Mr. Ge Junming
Mr. Tam Tsang Ngai

REGISTERED OFFICE

PO 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

Suite 1508
One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

Corporate Information

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISER

Guotai Junan Capital Limited

STOCK CODE

The Main Board of The Stock Exchange of Hong Kong Limited: 2211

INVESTOR RELATIONS

Ms. Winny Yip
ir@jtyyjt.com

COMPANY'S WEBSITE

www.jtyyjt.com

Financial Highlights

	Year ended 31 December		
	2014 *RMB Million* *(Audited)*	2013 *RMB Million* *(Audited)*	Change *(%)*
Revenue	**4,355.8**	3,323.5	+31.1
Gross profit	**1,267.5**	936.4	+35.4
Operating profit	**676.3**	519.5	+30.2
Profit attributable to owners of the Company	**472.7**	355.1	+33.1
Basic earnings per share – RMB cents[(1)]	**23.77**	21.91	+8.5
Proposed final dividend per share (HK cents)	**3.2**	–	N/A
Gross margin (%)	**29.1**	28.2	+0.9 pp
Operating margin (%)	**15.5**	15.6	-0.1 pp
Net margin (%)	**11.6**	11.6	–

	As at 31 December		
	2014 *(Audited)*	2013 *(Audited)*	
Current ratio (times)[(2)]	**3.3**	8.3	-5.0
Trade receivables turnover (days)[(3)]	**19.3**	20.2	-0.9
Inventory turnover (days)[(4)]	**37.5**	39.8	-2.3
Trade payables turnover (days)[(5)]	**16.1**	13.9	+2.2
Return on equity (%)	**18.2**	15.1	+3.1
Return on total assets (%)	**14.7**	14.0	+0.7

Financial Highlights

Notes:

1. Basic earnings per share is calculated by dividing profit attributable to owners of the Company by weighted average number of ordinary shares (the weighted average number of shares for the year ended 31 December 2014 was 1,988,903,000, versus 1,620,822,000 for last year).

2. Current ratio is calculated by dividing current assets by current liabilities.

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

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

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

6. Return on equity is calculated by dividing profit attributable to owners of the Company by equity attributable to owners of the Company.

7. Return on total assets is calculated by dividing profit for the year by total assets.

CHAIRMAN'S STATEMENT

Chairman's Statement

Dear Shareholders,

2014 represented the first full financial year after the listing of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), a year in which great progress was achieved on the hand of business development. On behalf of the board (the "Board") of directors (the "Directors") of the Group, I would like to express my heartfelt gratitude to the shareholders and the community for your great care and support to Jintian Pharma over time. I hereby present to you the annual report of the Group for the year ended 31 December 2014.

Business Review

For the year ended 31 December 2014 (the "Reporting Period"), the revenue of the Group amounted to RMB4,355.8 million, representing an increase of 31.1% as compared with the corresponding period of last year. Profit attributable to equity owners of the Company amounted to RMB472.7 million, representing a year-on-year increase of 33.1%. Although the environment of the pharmaceutical market in the People's Republic of China (the "PRC") remained challenging, Jintian Pharma maintained good growth momentum, a result from our commitment to our development strategy and innovation creativity.

Chairman's Statement

In 2014, the PRC economy settled into a new normal development pattern. Facing the complex and changing environment at home and abroad, the overall pharmaceutical industry made steady progress amid challenges and opportunities. Meanwhile, the government pushed forward reform on the domestic medical and health system, and efforts were made to strengthen the integration of the pharmaceutical distribution system. Despite of the intense market competition, we believe there is still large potential for development in the industry as the pharmaceutical retail sector is highly fragmented. During the Reporting Period, the Company continued to carry out acquisitions and mergers in a prudent manner, in an effort to extend its network of pharmacies. The Group acquired a total of 157 retail pharmacies and 2 pharmaceutical distribution companies during the Reporting Period. We believe that the strategic acquisition of quality pharmacies and companies will lay a solid foundation for the sustainable and robust growth of the Group.

The Group believes that a premium product portfolio with distinct levels and optimal structure is the main contributor to the sustainable development of our business. During the Reporting Period, the Group offered 2,752 products which enjoyed high profit margin. The Group set up the international trade function, which engaged in export and import of pharmaceutical products in Hong Kong and Macao with an aim to identifying quality products on a global scale that would meet the needs of the domestic consumers and would also be suitable for promotion by the Group. Meanwhile, in order to seize the business opportunities arising from the policy of "implementing the sales of infant formula milk powder product in drug stores", the Group cooperated with a number of well-known producers of formula milk powder worldwide to distribute quality imported infant formula milk powder in the domestic market.

As to the development of existing products, the Group maintained robust growth momentum in the overall business amid severe market competition through diversified promotion campaigns and timely adjustment of marketing strategy. During the Reporting Period, efforts were exerted to enhance the marketing and promotion of the exclusively licensed high-profit-margin product "Yushi" (御室), so as to promote the effects of brand marketing. At the same time, the Group upgraded its cooperation with the institutes, enhanced trainings for employees and improved services for downstream distributors.

During the Reporting Period, the Group started strategic cooperation with Alibaba Health Information Technology Limited ("Alibaba Health") and entered into a new field of the e-commerce pharmaceutical retail business. The Group also took advantage of the operation model of mobile internet pharmaceutical e-commerce to forge a MacroHealth platform combining online and offline services in the future. Through cooperation with Alibaba Health, the Group is committed to achieving material progress in its O2O pharmaceutical e-commerce platform into which the Company had put great efforts, and expected to speed up the development and expand the scale of its e-commerce business. The Group also established the WeChat marketing mobile e-commerce department, so as to further expand the breadth and depth of market coverage of our products.

So far, "Caring China" program has become the Group's social responsibility brand, comprising national fitness exercise, education aid programs and institute trainings to improve the quality of the industry talents, which helped to establish good reputation of the Group and improve the reliance and loyalty of our members and staff towards the Group. During the Reporting Period, the Group had over 1,040,000 registered members.

Chairman's Statement

Environment and Responsibility

The Group attaches importance to environmental protection, corporate governance and social responsibility. In promoting the concept of "green office, green consumption, energy conservation and environmental protection", the Group used energy saving lighting appliances in operating premises and encouraged reduction in printing at offices.

The Group is committed to pursuing good corporate governance. The Group has continuously optimized its corporate governance structure, as well as enhanced its internal control and cultivation of talents, so as to promote the healthy development of the Group.

Outlook and Strategy

Looking ahead, with the PRC economy settling into a new normal development pattern, a decline in the domestic GDP growth is expected. Experts predicted downgrading of forecast growth of the pharmaceutical industry and a divergence in the terminal sales performance, where the sales growth of hospital and retail business would slow down while sales growth of the third terminal would increase. In light of the macroeconomic condition, the Group established its development strategies, i.e.: to recruit and cultivate management talents; to focus on pharmaceutical retail chain and pharmaceutical distribution businesses; to enhance the revenue of high-gross-margin products by expanding the Direct-supply Model; to explore the development of e-commerce platform and expand into new business fields by seizing the opportunities arising from internet and technological evolution; to supply imported and exported products; to proactively implement the policies stipulated in 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》) and to advocate the MacroHealth industrial concept. In the coming year, the Company will adhere to its business philosophy of "1+1=11; 1+1=101; 1+1=Win" and give full play to the stakeholders' initiatives under the guidance of the platform concept, so as to better realize the strategic plan and development vision of the Group.

Finally, I would like to express my sincere gratitude again to the shareholders, Directors, strategic partners, members of senior management and all my fellow colleagues for their great support and unremitting efforts, which have enabled the Company to maintain rapid development and outstanding operating results and stride forward towards the establishment of MacroHealth industrial landscape.

Jin Dongtao
Chairman
Hong Kong
18 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

Industry Overview

2014 was the first year of deepening reform in China, in which the PRC economy stabilized with positive growth momentum and improvements. The domestic economy maintained a stable condition throughout the year, with continuous optimization and upgrading of the economic structure. The contribution of the tertiary industry to the GDP increased, and consumption demand gradually became the main driver for growth. Urban-rural and regional disparities were narrowing. With the better-than-expected employment rate in the urban areas, growth in household income outpaced economic growth, and benefits of development were reaching more people. According to the National Bureau of Statistics, China's GDP grew by 7.4% on a year-on-year basis to RMB63.65 trillion in 2014, and over 13 million new urban jobs were created. CPI for the year increased by 2% as compared with last year, and the income of urban and rural residents both maintained rapid growth. Benefitting from the increase in household income and the acceleration of urbanization, market demand for healthcare services and drugs steadily increased.

According to the data released by Southern Medicine Economy Research Institute of China Food and Drug Administration (國家食品藥品監督管理總局南方醫藥經濟研究所) for the year of 2014, the total output of the domestic pharmaceutical industry for the year maintained a growth of about 15%-17%. For the first three quarters of 2014, the total output of the pharmaceutical industry amounted to RMB1.77 trillion, representing an increase of 15.6% as compared with the corresponding period of last year. The pharmaceutical industry will maintain growth momentum in the coming year, the prospect for the industry still promising. According to the Ministry of Commerce, the total retail sales of pharmacies in China grew by 9% last year, exceeding the GDP growth of the PRC as a whole. Of which, the total sales value of pharmaceutical products for the first six months amounted to RMB761.3 billion, representing an increase of 14% as compared with the corresponding period of last year. Among which, sales in the retail market amounted to RMB137.1 billion, representing a year-on-year increase of 9%. The overall pharmaceutical market in the PRC maintained stable growth momentum. The introduction of new regulations governing sale of pharmaceutical products will further regulate the pharmaceutical retail market, so as to ensure healthy development of the pharmaceutical industry.

Management Discussion and Analysis

Meanwhile, an increasing number of pharmaceutical enterprises began to enter into the MacroHealth field. The so-called MacroHealth was, based on our basic necessities and natural track of lifecycle, designed to provide all-rounded healthcare services throughout the entire process of a lifetime after taking into consideration of all factors, in a pursuit for physiological/physical health and mental/psychological soundness of individuals as well as well-being of the society, environment, family and community. The MacroHealth industry comprised pharmaceutical and healthcare products, nutrition and healthcare products, medical healthcare apparatuses, leisure healthcare services, health consultation and other production and services closely related to human health. Compared with the traditional pharmaceutical industry, the MacroHealth industry provided not only products, but also healthy lifestyle solutions, creating greater business opportunities.

As to the development of the pharmaceutical e-commerce business, it was reported that sales of the pharmaceutical e-commerce business recorded an average growth of 250% per annum during the years from 2010 to 2013, with the online pharmacies increasing from 35 in 2010 to over 250 today. In view of the rapid development in the pharmaceutical e-commerce business, experts forecasted that online sales of some enterprises might exceed RMB2 billion in 2015. On the other hand, the Measures for the Supervision and Administration of Internet Food and Drug Business Operation, which is expected to be introduced at the beginning of 2015, shall provide a more diversified sale platform for the whole pharmaceutical industry, further promoting the development of the pharmaceutical e-commerce business.

Business Review

Following robust performance in 2013, the Group maintained strong growth momentum in 2014. During the Reporting Period, the Group proactively explored the domestic and overseas markets, expanded its network coverage, speed up development of retail distribution and strengthened liaison with Hong Kong and the international markets, so as to enhance our influence in the industry. Meanwhile, efforts were made to optimize product portfolio and improve the gross profit of our products, so as to make

Management Discussion and Analysis

full use of our operation strengths. With the increased popularity of pharmaceutical e-commerce, the Group also seized the opportunities and established a "WeChat marketing" team to explore the frontline market, building up a comprehensive retail business model covering the sea (distribution business of the marketing team), land (retail business of physical outlets) and air (online pharmacies of e-commerce business and WeChat marketing business), with an aim to establishing new competitive edges of MacroHealth. To facilitate the online sale of prescription drugs which is expected to be implemented in the near future, the Group started strategic cooperation with Alibaba Health in the second half of 2014. The Group also took advantage of the operation model of mobile internet pharmaceutical e-commerce to forge a MacroHealth platform combining online and offline services in the future. Overall, the management of the Group achieved all the business targets as set out in our established plans.

Chain Retail Business

The Group continued to expand its retail network through organic growth and acquisitive expansion. During the Reporting Period, the Group acquired 7 chain retailers with a total of 157 retail pharmacies, of which 3 chain retailers (with 42 pharmacies) were acquired in the first half of the year, while the other 4 (with 115 pharmacies) were acquired in the second half of the year. Among those pharmacies, 83 are based in Jilin Province and 74 are located in Liaoning Province. In the second half of the year, the Group completed and announced its acquisition of 36% equity interest in Shenyang Weikang Drug Store Co. Ltd. ("Weikang"), which enhanced our control over the chain pharmacies in Liaoning Province, even in Northeast China. As at 31 December 2014, the Group had 953 self-operated pharmacies in total, of which 688 are located in Heilongjiang, 168 in Liaoning, 93 in Jilin and 4 in prime retail locations of Tsim Sha Tsui, Mong Kok and Yuen Long in Hong Kong. Our self-operated pharmacies in Hong Kong plays an important role as our liaison between the Group and international markets, including approaching internationally well-known pharmaceutical and healthcare product suppliers and introducing suitable high-end products into the PRC market.

Management Discussion and Analysis

Nationwide Distribution Business

Focusing on high margin products (including licensed products and products with exclusive distribution rights), the Group enhanced the established effective Direct-supply Model and improved its nationwide distribution network (mainly including third-party retail pharmacies). During the Reporting Period, the Group had a nationwide distribution network covering approximately 6,500 customers. The Group acquired two distribution companies respectively in Liaoning Province and Hong Kong, which improved our distribution and delivery capacity in these areas. Meanwhile, the Group acquired a land use right and a building in Harbin, Heilongjiang, which was built into a modern logistics center, so as to improve our logistics distribution capacity and lay a solid foundation for obtaining certification under the new Good Supply Practice for Pharmaceutical Products ("GSP") applicable to chain pharmacies in Heilongjiang. The Group now has a total of six logistics centres in Shijiazhuang, Harbin, Jiamusi and other places, which further strengthened our advantages of nationwide distribution network.

E-commerce Business

As the Group believes that pharmaceutical e-commerce is a global trend in the industry, we proactively promoted the development and expanded the scale of the e-commerce business, focusing on establishment of a unique O2O platform. During the Reporting Period, the Group cooperated with Alibaba Health to launch online prescription drug business in Northeast China. Meanwhile, to keep abreast with the e-commerce market, the Group established WeChat marketing department to gain first-mover advantage in the "WeChat marketing" field. The Group has also obtained the licences required for the e-commerce business and the value-added telecom service operation licence from the relevant provincial administrators of communications, and has set up online pharmacies in Tmall.com and JD.com. We are of the opinion that as the government gradually opens up the relevant policies and the development of e-commerce becomes more and more mature, the e-commerce business will not only contribute to our revenue, but also enhance our market position and brand recognition.

Direct-Supply Sales Model

The Group's Direct-supply Model has streamlined our supply chain by effectively eliminating and reducing the excessive bureaucracy and duplication across the traditional sales process, thus enhancing sales efficiency and profitability as well as allowing the Group to achieve a profit margin which is higher than the industry average. During the Reporting Period, our management enhanced direct supply of branded products. As at 31 December 2014, revenue and gross profit generated through our Direct-supply Model accounted for 40.1% and 59.9% of total revenue and gross profit, respectively.

Branded Products Business

The Group intends to enhance the promotion of branded products for higher profitability. During the Reporting Period, the business divisions directly under our brand operation and management center have increased from 3 to 4, so as to further explore different market segments.

With regard to promotion, the Group enhanced awareness and influence of the Company and our high-gross-margin branded products (such as "Yushi" (御室)) through a series of title sponsorship activities (including trains connecting Beijing and Harbin, the fighting show named "Kunlun Fight" and the selection contest organized by China's major WeChat community "K Friends", etc.) as well as cooperation with "Tonglukuaijian" – the largest domestic e-commerce channel operator. In terms of sales promotion, the Group organized more distribution events. During the Reporting Period, 272 customer-specific direct-supply distribution activities were organized, resulting in an increase in sales of branded products totalling RMB215.9 million. The Group is confident that effective advertisement and sales promotion may rapidly improve its brand recognition, making our branded products more popular among the distributors and end consumers, and in turn boosting our sales consistently.

As to product planning, constant efforts were made to develop "Yushi" (御室) and other MacroHealth products based on the sales demand from physical pharmacies, online pharmacies and mobile terminal, so as to enrich our product lines. The Group launched 41 new branded products in the first half of the year and nearly 50 in the second half, laying a solid foundation for the Group to maintain high gross margin. As of 31 December 2014, the Company's retail and distribution product mix consisted of over 18,000 products, including 360 high margin products under the four licensed brands of Yushi (御室), Kangyisheng (康醫生), Shequyisheng (社區醫生) and Taoqimao (淘氣貓) and 2,392 products with exclusive distribution rights. Revenue and gross profit of high margin products accounted for 27.1% and 42.8% of total revenue and gross profit of the distribution business, respectively.

Acquisition Completed Under Structured Contracts

The Group announced on 25 August 2014 that, according to the undertakings under the Structured Contracts as disclosed in the paragraph headed "Contractual Arrangements" under the section headed "History and Reorganisation" in the prospectus of the Company dated 2 December 2013 (the "Prospectus"), the Group completed the transaction in relation to the acquisition of 4.99% equity interest in Heilongjiang Province Jintian Aixin Medicine Distribution Co., Ltd. ("Jintian Aixin Co.") on 29 August 2014. The acquisition represented the return of the legal ownership of the 4.99% equity interest in Jintian Aixin Co. which was held by Jiamusi Jintian Century Trade Company Limited ("Jintian Century") on behalf of Hong Kong Health Century International Group Limited ("Hong Kong Health Century"). Therefore, upon completion of the transaction, the Group legally and beneficially holds 100% equity interest of Jintian Aixin Co.. For details of the acquisition, please refer to the Company's announcement dated 25 August 2014.

International Trade

To cater to the international development of our business, during the Reporting Period, the Group recruited talents to set up the international trade department, which will seek to introduce more products with higher margins through its sales network, so as to create greater profits. In light of the implementation of the policy of "selling infant formula milk powder products in drug stores" by the PRC government, the Group took initiative to reach an exclusive general distributorship agreement for the Greater China region with McJayden (a renowned U.S. organic milk-based formula powder manufacturer) in June 2014. The Group also became the distributor of Betterway (an Australian branded formula milk powder supplier) in China by the end of 2014. Our quick reaction to the state policy has elicited a vigorous response within the industry and serves as a new profit driver for the Group.

Management Discussion and Analysis

Institute Training

To make better use of the Jintian Institute and to provide customers with superior value-added services, the Group carried out functional department restructuring, whereby Jintian Institute was under management of the brand operation and management center. The Group also stepped up efforts in serving customers with direct supply of branded products and provided a wide variety of value-added services in the form of open class, so as to strengthen our cooperation relationships with our customers.

During the Reporting Period, the dedicated branding programme of "Golden Rules of Marketing" designed by the Group held a total of 248 training sessions for our brand customers, covering cities such as Chongqing, Xi'an, Guilin, Zibo, Qingdao, Zaozhuang, Dalian, Wuhan, Shijiazhuang, Lanzhou, Harbin, Liuzhou, Suzhou, Jingzhou, Chengdu, Yuncheng, Shangdu, Anshan, Beijing, Jinhua, Baotou, Chifeng, Hengyang, Wenzhou and Yanji, which were highly appreciated by the customers. The Group believed that such training sessions effectively drove the sales of branded products.

Caring Activities

"Caring China" has become a unique social responsibility brand of the Group within the MacroHealth industry, which helped to constantly improve our social image. During the Reporting Period, the Group organized 160 major caring activities across a number of provinces and regions of China. Out of these activities, the national promotion activity "Caring + Health" produced the most profound impacts, building up a loyal member base for our branded products. As of 31 December 2014, the Company had a total of over 1,040,000 members, and sales from members accounted for approximately 41.2% of the total retail sales.

At the same time, some members from China Medical Pharmaceutical Material Association（中國醫藥物資協會）also participated in the "Caring China" activities, further enhancing our influence in the industry.

During the Reporting Period, the Group was awarded the "Best Charity Communication Award" and the Chairman Mr. Jin Dongtao was awarded the "China's Charitable Figure Award" by the "Charity Award Ceremony" during the China Charity Festival. As our devotion to charity activities won recognition in the international community, the Group was nominated for the "Corporate Social Responsibility Award" in the 13th Asia Business Leaders Awards held by Consumer News and Business Channel ("CNBC") in Singapore.

Industrial Achievements

Alongside with improvement in operating results and in performing our social responsibility, the Group was also highly recognized by the industry. At the annual awards organized by the China Medical Pharmaceutical Material Association, the Chairman, Mr. Jin Dongtao, was awarded the highest honour of the "Most Influential Figure in 2014", and the Chief Executive Officer Mr. Chu Chuanfu was honoured as the "Outstanding Manager in 2014".

Management Discussion and Analysis

Financial Review

For the year, the Group recorded revenue of RMB4,355.8 million, representing an increase of 31.1% as compared with RMB3,323.5 million last year. Profit attributable to owners of the Company was RMB472.7 million, representing an increase of 33.1% as compared with RMB355.1 million last year. Earnings per share for the year was RMB23.77 cents (2013: RMB21.91 cents). The increase in profit attributable to owners of the Company was mainly due to the increase in profit of both of the Group's retail and distribution businesses.

Revenue

For the year, the Group recorded revenue of RMB4,355.8 million, representing an increase of RMB1,032.3 million or 31.1% as compared with RMB3,323.5 million last year. The increase was mainly attributable to the substantial growth in both retail and distribution businesses.

Analysis of revenue by business segment

	Revenue (RMB million)			**% of total revenue**		
	2014	2013	Change *(%)*	**2014**	2013	Change *(%)*
Retails	**2,008.0**	1,549.8	+29.6	**46.1**	46.6	-0.5
Distributions	**2,347.8**	1,773.7	+32.4	**53.9**	53.4	+0.5
	4,355.8	3,323.5		**100.0**	100.0	

Retail Business Segment

The increase in the retail business was mainly due to the growth of the existing pharmacies and the increase in the number of retail pharmacies during the year. During the year, the Group continued its 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. Besides, the Group acquired 157 retail pharmacies through 7 acquisitions and opened 2 new retail pharmacies during the year. As at 31 December 2014, the Group had 953 (2013: 794) retail pharmacies in total, of which 688 (2013: 688) located in Heilongjiang, 168 (2013: 93) in Liaoning, 93 (2013: 10) in Jilin and 4 (2013: 3) self-operated retail pharmacies in Hong Kong. In addition, the Group had 16 (2013: 15) supermarkets in Shenyang as at 31 December 2014, mainly selling healthcare products and consumer goods.

Management Discussion and Analysis

Distribution Business Segment

The increase in the distribution business was due to the increase in the number of customers and more sales generated from existing customers. During the year, the Group continued its organic growth of distribution business through providing more specific value-added service to key customers and intensifying efforts to explore new quality customers. Besides, the distribution companies acquired in prior years continued to report substantial growth during the year. To expand the distribution net work, the Group acquired 2 distribution companies in Shenyang and Hong Kong during the year.

As at 31 December 2014, the Group had a nationwide distribution network covering approximately 6,500 customers, including approximately 4,300 pharmaceutical retailers, hospitals and clinics and approximately 2,200 distributors.

Gross profit

Gross profit of the Group for the year was approximately RMB1,267.5 million, representing an increase of RMB331.1 million or 35.4% as compared with RMB936.4 million last year. Overall gross profit margin increased from 28.2% to 29.1%.

Analysis of gross profit by business segment

	Gross profit (RMB million)			Gross profit margin (%)		
	2014	2013	Changes (%)	**2014**	2013	Changes (%)
Retails	**796.8**	605.2	+31.7	**39.7**	39.1	+0.6
Distributions	**470.7**	331.2	+42.1	**20.0**	18.7	+1.3
	1,267.5	936.4				

The increase in overall gross profit margin was mainly due to enhancement of product mix with more high-margin products. The Group's high-margin products consists of licensed products and products with exclusive distribution rights. During the year, revenue of the Group's high-margin products increased by 22.3% over last year and the gross profit margin of these high-margin products increased from 44.6% to 45.9%. As at 31 December 2014, the Group had 360 (2013: 371) types of licensed products and 2,392 (2013: 950) types of products with exclusive distribution rights.

Selling and marketing expenses

Selling and marketing expenses for the year was RMB502.5 million, representing an increase of RMB169.8 million or 51.0% over last year and accounted for 11.5% (2013: 10.0%) of the Group's revenue. The increase was mainly due to the increase in marketing staff costs and advertising expenses as a result of continuous expansion.

Management Discussion and Analysis

Administrative expenses

Administrative expenses for the year was RMB89.7 million, representing an increase of RMB6.6 million or 8.0% over last year and accounted for 2.1% (2013: 2.5%) of the Group's revenue. The increase was mainly due to (i) the increase in amortisation of intangible assets arising from acquisitions; (ii) the increase in professional fee and director fee after initial public offering ("IPO"), and (iii) the increase in rental expenses after setting up Hong Kong office in 2014.

Finance income/cost – net

Net finance income for the year was RMB4.5 million (2013: Net finance cost of RMB1.2 million). The increase was primarily due to more interest income from the increasing average bank balances during the year.

Income tax expense

Income tax expense for the year was RMB178.7 million, representing an increase of RMB44.0 million or 32.6% over last year. The effective income tax rate for the year was 26.2% (2013: 25.9%).

Liquidity and Capital Resources

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

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

As at 31 December 2014, the Group's unpledged cash and cash equivalents totalled approximately RMB1,349.2 million (2013: RMB1,564.2 million), and the Group's net current assets were approximately RMB1,731.2 million (2013: RMB1,941.0 million).

During the year, net cash flows generated from operating activities amounted to approximately RMB592.0 million, as compared to approximately RMB386.9 million last year. The increase was in line with the Group's operating performance.

During the year, the Group had capital expenditure of approximately RMB437.6 million (2013: RMB164.8 million).

Having considered the cash flow from operating activities, existing financial gearing and banking facilities available to the Group, the management believes that the Group's financial resources are sufficient to fund its debt payments, day-to-day operations, capital expenditures and prospective business development projects.

Management Discussion and Analysis

The Group mainly operates in the PRC, with most of its transactions denominated and settled in Renminbi. The Group's currency risk mainly arises from certain bank deposits that are denominated in Hong Kong dollars. As at 31 December 2014, the Group had approximately RMB1,349.2 million in cash and bank balances of which the equivalent of approximately RMB21.4 million was denominated in Hong Kong dollars. During the year, the Company has converted most of the Hong Kong dollars into equivalent Renminbi to reduce the impact of fluctuations in exchange rate.

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

Capital Structure

There was no movements in the Company's share capital and share options during the year.

As at 31 December 2014, the Group had certain interest-bearing bank borrowings of approximately RMB295.5 million (2013: Nil). Bank borrowings carried annual interest rates at approximately 2.9% (2013: N/A). All of the bank borrowings are denominated in Renminbi.

The gearing ratio of the Group as at 31 December 2014, calculated as net debt divided by sum of total equity and net debt, was N/A (2013: N/A).

Contingent Liabilities and Pledge of Assets

As at 31 December 2014, the Group has no significant contingent liabilities (2013: Nil).

As at 31 December 2014, the bank borrowings and notes payable of the Group were secured by the time deposits of the Group with net aggregate booking value of approximately RMB382.8 million. As at 31 December 2013, the notes payable of the Group were secured by the time deposits of the Group with net aggregate booking value of approximately RMB8.6 million.

Acquisitions

During the year, the Group supplemented its organic growth strategy with selected acquisitions to expand geographical reach. The Group acquired 157 retail pharmacies and 2 distribution companies through 9 acquisitions during the year, with an aggregate consideration of approximately RMB386.1 million. In addition, the Group acquired a land use right and a building at a consideration of RMB42.9 million during the year for the construction of logistics centre.

Further, on 20 June 2014, the Group entered into a sale and purchase agreement to acquire the remaining 36% equity interest in Weikang, an indirect 64% owned subsidiary of the Company, at a consideration of RMB250.0 million. This transaction was completed on August 2014 and Weikang has become a wholly-owned subsidiary of the Group. Details of this transaction were set out in the Company's circular dated 18 July 2014.

Management Discussion and Analysis

On 25 August 2014, in order to enforce the deed of undertaking dated 23 November 2013, the Group entered into a sale and purchase agreement with Jintian Century, a related company of the Company, to acquire the remaining 4.99% equity interest in Jintian Aixin Co., an indirect 95.01% legally owned subsidiary of the Company, at a consideration of approximately RMB67.5 million (the "Acquisition"). The Acquisition was completed in August 2014 and did not affect the consolidated equity attributable to the owners of the Company, the shareholders of Jintian Century has transferred an amount equal to the consideration for the Acquisition to the Group. Details of the deed of undertaking dated 23 November 2013 were set out in the Prospectus and details of the Acquisition were set out in the Company's announcement dated 25 August 2014.

Human Resources

As at 31 December 2014, the Group had 6,272 (2013: 5,561) full-time employees in Hong Kong and the PRC with total employee benefit expenses amounted to approximately RMB229.9 million (2013: RMB168.5 million). Employees are paid according to their positions, performance, experience and prevailing market practices, and are provided with management and professional training. The Group has implemented a number of initiatives to enhance the productivity of its employees. In particular, the Group conducts periodic performance reviews of most of the employees, and their compensation is tied to their performance. Further, the Group's compensation structure is designed to incentivize its employees to perform well by linking a portion of their compensation to their performance and the overall performance of the Group. The performance-based portion depends on the employee's job function and seniority.

Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of China. The Company has adopted a share option scheme and a share award plan for the purpose of providing incentives to participants for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

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 remedial actions adopted by the Group for these noncompliance matters as at the date of this annual report:

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

   As disclosed in the Prospectus and 2014 interim report, due to administrative issues at local authorities, the Group was not able to obtain or renew the GSP certificates for four subsidiaries collectively operated by it before 12 December 2013 (the "Listing Date"). The GSP certificates are required by pharmaceutical retail and wholesale operators under the Administrative Rules on Certification of Good Supply Practice (《藥品經營品質管制規範認證管理辦法》).

Management Discussion and Analysis

According to the progress of publication and implementation of detailed rules regarding new version of GSP certificates by relevant government authorities, the Company took proactive initiatives to establish the software and hardware foundation, improve construction of the storage and logistics facilities and enhance employee trainings. The Group has initiated the application procedure in the relevant place of business of the subsidiaries since June 2014, where one subsidiary in Changchun has already received certificates while the rest three names in Heilongjiang are expected to apply certificates in 2015.

2. **Failure to obtain or renew health food hygiene permits**

   9 pharmacies still failed to obtain or renew health food hygiene permits and will apply to obtain such permits once the relevant authorities launch the approval procedure.

Future Plan

The Group will continue to focus on business expansion in Northeast China and explore expansion opportunities in the Greater China Region. Our strategy is to: (1) recruit and cultivate talents in operation and management, and keep abreast with the development and innovation mode of advanced technology; (2) strengthen cooperation with peer companies, expand the direct supply mode and enhance awareness of the brand "Jintian Aixin" and influence of the branded products by carrying out "Caring China" charity activities to enhance brand recognition as well as enhancing team management and conducting advertisement and promotional campaigns to improve sales volume and contribution of the branded products; (3) enhance international trades and step up efforts in introducing good quality products from overseas markets; (4) further improve the operating system of online pharmacies, and explore advanced approach to implement online and offline link by making the best use of new media communication as well as taking advantage of WeChat marketing and other marketing channels; (5) push ahead the implementation of "electronic prescription" business by promoting cooperation with online platforms such as Alibaba, with an aim to increase product sales; (6) enrich our product mix by introducing more healthcare products based on our expertise in pharmaceutical retail and distribution, so as to promote the concept of the MacroHealth industry.

While focusing on its existing business, the Company is confident in continuing enhancing its influence in the industry by leveraging on its team strengths and seizing the opportunities arising from market resource consolidation to create greater value for our shareholders, customers, employees and the society.

Report of the Directors

The Board has pleasure in presenting the Report of the Directors and the audited consolidated financial statements of the Group for the year ended 31 December 2014.

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 PRC. Analysis of the principal activities of the Group during the year ended 31 December 2014 is set out in the note 9 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of comprehensive income on page 75 of this annual report.

Final Dividend

The Board recommends the payment of a final dividend of HK3.2 cents per share in cash for the year ended 31 December 2014 (2013: nil). Such final dividend will not be subject to any withholding tax in Hong Kong.

The Board declared an interim dividend of HK2.8 cents per share in cash for 2014 (2013: nil) and total distribution for the year ended 31 December 2014 will be HK6.0 cents per share.

Closure of the register of members

The register of members of the Company will be closed from Friday, 12 June 2015 to Tuesday, 16 June 2015, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend the forthcoming annual general meeting to be held on 16 June 2015. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 11 June 2015.

The register of members of the Company will also be closed from Monday, 22 June 2015 to Wednesday, 24 June 2015, both days inclusive, in order to determine the entitlement of the shareholders to the final dividend (if approved by the shareholders). All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, 19 June 2015.

Summary of Financial Information

A summary of the results and of the assets and liabilities of the Group for the year ended 31 December 2014 are set out on page 146 of this annual report.

Report of the Directors

Use of Proceeds From Share Offer

The shares of the Company were listed on the Listing Date on the Main Board of the Stock Exchange. The total net proceeds amounted to approximately RMB868.1 million (equivalent to approximately HK$1,101.6 million). As at 31 December 2014, the net proceeds from the IPO were used for purposes which were consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus and for the following purposes:

		RMB million	
Use of proceeds	**Net Proceeds**	**Proceeds used**	**Proceeds unused**
For acquisitive expansion	347.2	(347.2)	–
For organic growth	260.4	(75.1)	185.3
For brand promotion	173.6	(76.3)	97.3
For working capital	86.9	(56.0)	30.9
Total	868.1	(554.6)	313.5

As at 31 December 2014, the unused net proceeds were placed with banks in Hong Kong, Macau and the PRC as short-term deposits or term deposits.

Major Customers and Suppliers

During the Reporting Period, the purchase from the Group's five largest suppliers contributed 12.9% of the total costs and the sale to the Group's five largest customers contributed 0.6% of the total revenue.

Save for the following, none of our Directors or any of their respective close 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 2014, had any interest in any of our five largest suppliers or customers in 2013 and 2014:

Heilongjiang Baitai Pharmaceutical Company Limited ("Heilongjiang Baitai") was one of our five largest suppliers in 2013 and 2014. 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 (licensed products) amounted to RMB59.7 million and RMB83.8 million in 2013 and 2014 respectively. During the same periods, purchases from Heilongjiang Baitai accounted for 2.5% and 2.7% of the Group's total purchases respectively. Heilongjiang Baitai was the Group's third largest supplier and second largest supplier for the years ended 31 December 2013 and 2014 respectively.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2014 are set out in note 6 to the consolidated financial statements.

Report of the Directors

Share Capital

Details of movements in the share capital of the Company during the year ended 31 December 2014 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 2014 are set out in note 18 in the consolidated statement of changes in equity.

Distributable Reserves

As at 31 December 2014, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law of the Cayman Island, amounted to approximately RMB755.2 million (as at 31 December 2013: RMB847.9 million).

Bank Loans and Other Borrowings

Details of bank loans and other borrowings as at 31 December 2014 and 31 December 2013 are set out in note 20 to the consolidated financial statements.

Directors

The Directors during the year ended 31 December 2014 and up to the date of this report were:

Executive Directors:

Mr. Jin Dongtao *(Chairman)*
Mr. Jin Dongkun *(Vice Chairman)*
Mr. Chu Chuanfu *(Chief Executive Officer)*
Mr. Yang Jiacheng *(Chief Operating Officer)* (appointed on 25 August 2014)
Ms. Chen Xiaoyan (retired on 12 June 2014)
Ms. Wu Qiong (resigned on 25 August 2014)

Independent non-executive Directors:

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

Mr. Yang Jiacheng was appointed by the Board as Director with effect from 25 August 2014. In accordance with article 16.2 of the articles of association of the Company, Mr. Yang Jiacheng shall hold office until the next following general meeting of the Company, shall retire from office as Director and being eligible, has offered himself for election as Director at the forthcoming annual general meeting. In accordance with article 16.18 of the articles of association of the Company, Mr. Chu Chuanfu and Mr. Cheng Sheung Hing will retire by rotation and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 59 to 69 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 for the year ended 31 December 2014.

Directors' Service Contracts and Letters of Appointment

Executive Directors

Each of Mr. Jin Dongtao, Mr. Jin Dongkun and Mr. Chu Chuanfu has signed an appointment letter with the Company for a term of three years commencing on 18 November 2013. Mr. Yang Jiacheng has entered into an appointment letter with the Company for a term of three years commencing from 25 August 2014. All of the appointment letters of the executive Directors may be renewable subject to both parties' agreement.

Independent non-executive Directors

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, there was no contract of significance between the Company or its holding company or any of its subsidiaries and any Controlling Shareholder or any of its subsidiaries for the year ended 31 December 2014.

For the year ended 31 December 2014, none of the Company or any of its subsidiaries has entered into any contract of significance for the provision of services by any Controlling Shareholders or any of its subsidiaries.

Report of the Directors

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 ended 31 December 2014.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2014.

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.

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 24 to the consolidated financial statements.

No director has waived or has agreed to waive any emolument during the year ended 31 December 2014.

Changes to Information in Respect of Directors

Pursuant to Rule 13.51B of the Listing Rules, the changes in Directors information are set out below.

Ms. Chen Xiaoyan ("Ms. Chen") retired as an executive director of the Company with effect from the conclusion of the annual general meeting held on 12 June 2014. Following her retirement, Ms. Chen also ceased to be a member of the remuneration committee of the Company.

Mr. Chu Chuanfu, an executive director of the Company, was appointed as a member of the remuneration committee of the Company with effect from 12 June 2014.

Ms. Wu Qiong resigned as an executive director, chief financial officer and authorized representative of the Company with effect from 25 August 2014 and is re-designated as the vice president of the Company due to work rearrangement.

Mr. Yang Jiacheng, was appointed as an executive director and authorized representative of the Company with effect from 25 August 2014.

Report of the Directors

Save as disclosed above, during the year ended 31 December 2014, 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 2014, 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 close 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%
Jin Dongkun	Interest in a controlled corporation *(Note 2)*	40,943,135 (Long Position)	2.05%

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. 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 2014, 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 close 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.

Report of the Directors

Share Option Scheme

The Company's existing share option scheme (the "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 shares 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 date on which the shares of the Company were listed (i.e. 12 December 2013) 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.

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, on 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 (the "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.

Report of the Directors

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 Listing Date and 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 approval of its shareholders in accordance with the Listing Rules.

Any grant of an option to any Director, chief executive or substantial shareholder of our Company, or any of their respective close 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).

For the year ended 31 December 2014, no options were granted under the Share Option Scheme.

Report of the Directors

Share Award Plan

The Company adopted the share award plan (the "Share Award Plan") on 23 April 2014. The purposes of the Share Award Plan are to recognize the contributions by eligible persons to the Group and to provide them with incentives in order to retain them for continual operation and development of the Group and to attract suitable personnel for further development of the Group.

Subject to any early termination as may be determined by the Board, the Share Award Plan shall be valid and effective for a term of 10 years commencing from 23 April 2014.

The Share Award Plan shall be subject to the administration of the Board of the administration committee or the trustee of the Share Award Plan in accordance with its terms. The Board or the Remuneration Committee may select any eligible person for participation in the Share Award Plan and determine the number of awarded Shares to be awarded to the selected person(s), subject to any condition(s).

The Company has initially paid the trustee up to HK$50 million to enable the Share Award Plan to operate. The Company may at its discretion make further arrangements to fund the trustee for acquisition of further shares. Subject to the instruction of the Company, the trustee can use the money paid to it to buy shares in advance in respect of which the Company can make awards under the Share Award Plan.

The Board shall not make any further award of shares under the Share Award Plan which will result in the nominal value of the shares awarded exceeding 10% of the issued share capital of the Company as at 23 April 2014. The maximum number of shares which may be awarded to a selected person under the Share Award Plan in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time. Based on the 2,000,000,000 shares in issue as at 23 April 2014, the maximum number of awarded shares under the Share Award Plan would be 200,000,000 shares.

As at 31 December 2014, the trustee of the Share Award Plan held 16,993,000 Shares and nil shares were granted under the Share Award Plan.

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2014 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.

Report of the Directors

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

As at 31 December 2014, 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**
Chen Xiaoyan	Beneficiary of a trust *(Notes 1 and 2)*	902,796,135 (Long Position)	45.14%
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%
AMG Holdings Limited	Beneficial owner *(Note 3)*	137,164,903 (Long Position)	6.86%
CVC Portfolio Holdings Limited	Interest in a controlled corporation *(Note 3)*	137,164,903 (Long position)	6.86%
CVC MMXII Limited	Interest in a controlled corporation *(Note 3)*	137,164,903 (Long position)	6.86%
CVC Group Holdings L.P.	Interest in a controlled corporation *(Note 3)*	137,164,903 (Long position)	6.86%
CVC Capital Partners SICAV-FIS S.A.	Interest in a controlled corporation *(Note 3)*	137,164,903 (Long position)	6.86%
CVC Capital Partners Finance Limited	Interest in a controlled corporation *(Note 3)*	137,164,903 (Long position)	6.86%

Report of the Directors

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
CVC Capital Partners Asia Pacific III L.P.	Interest in a controlled corporation *(Note 3)*	137,164,903 (Long position)	6.86%
CVC Capital Partners Asia III Limited	Interest in a controlled corporation *(Note 3)*	137,164,903 (Long position)	6.86%
CVC Capital Partners Advisory Company Limited	Interest in a controlled corporation *(Note 3)*	137,164,903 (Long position)	6.86%
CVC Capital Partners 2013 PCC (formerly known as CVC Capital Partners 2012 Limited)	Interest in a controlled corporation *(Note 3)*	137,164,903 (Long position)	6.86%
Teng Ngiek Lian	Interest in a controlled corporation *(Note 4)*	101,740,000 (Long position)	5.09%
Target Asset Management Pte Ltd	Investment manager *(Note 4)*	101,740,000 (Long position)	5.09%
Target Value Fund	Beneficial owner *(Note 4)*	101,740,000 (Long position)	5.09%

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.

3) These 137,164,903 shares belong to the same group of shares.

4) These 101,740,000 shares belong to the same group of shares.

Save as disclosed above, as at 31 December 2014, 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.

Report of the Directors

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2014, neither the Company nor any of its subsidiaries or holding company or subsidiaries of holding company had 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.

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 ("Non-competition Deed") 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 of the Company 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 the core businesses of the Company 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 Non-competition Deed for disclosure in this annual report during the year ended 31 December 2014. 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.

Report of the Directors

Directors' Interest in Competing Business

Save as disclosed in this report, none of the Directors or their respective close associates has engaged in or has any interest in any business which competes or may compete with the businesses of the Group.

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 had entered into the contractual arrangements which comprised 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, 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, a company incorporated in Hong Kong on 15 September 2010 and our wholly-owned subsidiary and 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 provided, among other things, that:

(a) Jintian Century acknowledges that it held 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 granted 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.

Report of the Directors

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.

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 was 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 included 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 2014, 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.105 of the Listing Rules for, and the Stock Exchange had 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 "core connected person", Jintian Aixin Co. would 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 close associates had been treated as core connected persons of our Company (excluding for this purpose, Jintian Aixin Co.), and transactions between these core connected persons and our Group (including for this purpose, Jintian Aixin Co.), other than those under the Contractual Arrangements, were subject to requirements under Chapter 14A of the Listing Rules.

- Jintian Century had 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.

Report of the Directors

On 25 August 2014, Hong Kong Health Century entered into an equity transfer agreement as purchaser with Jintian Century as vendor for the acquisition of 4.99% equity interest in Jintian Aixin Co. at a consideration of approximately RMB67.5 million. The Acquisition was completed in August 2014 and did not affect the consolidated equity attributable to the owners of the Company, the shareholders of Jintian Century has transferred an amount equal to the consideration for the Acquisition to the Group. Jintian Aixin Co. became a wholly-owned subsidiary of Hong Kong Health Century thereafter. The above four agreements were terminated since then and the above transactions ceased to be continuing connected transactions.

2. *National Sales and Use of Trademark Agreement with Chengde Yushi Jindan Pharmaceutical Company Limited ("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 was paid in October 2014 and third instalment of RMB2.6 million will be paid in November 2015.

Chengde Yushi was 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 was a core 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.

Report of the Directors

Mr. Geng Liyuan (耿立元) and Mr. Geng Changsheng (耿長勝) have transferred their equity interest in Chengde Yushi to an independent third party of the Company on 14 May 2014. Accordingly, Chengde Yushi is no longer a connected person of the Group and the above transactions are no longer continuing connected transactions of the Group.

From 1 January to 14 May 2014, the aggregate value of purchase of pharmaceutical products from Chengde Yushi by the Group was RMB72.5 million and the payment for use the "Yushi" trademark was RMB1.16 million.

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 the Group 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 RMB2.91 million was paid in October 2014 and third instalment of RMB2.92 million will be paid in November 2015.

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 core connected person of the Company.

The annual cap in respect of the aggregate value of the purchases of pharmaceutical products from Heilongjiang Baitai by the Group for the year ended 31 December 2014 were RMB84.0 million (2013: RMB60.0 million). And the annual cap in respect of the use of the "Kangyisheng" trademark by the Group for the year ended 31 December 2014 were RMB2.92 million (2013: RMB2.91 million).

Report of the Directors

During the year ended 31 December 2014, the aggregate value of purchase of pharmaceutical products from Heilongjiang Baitai by the Group was RMB83.8 million and the payment for use the "Kangyisheng" trademark was RMB2.91 million.

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) owned 36% equity interest in our subsidiary, Weikang. As such, each of Mintai and Jifeng was a core 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.

As Ms. Li Shuyu (李樹郁) disposed her equity interest in Weikang and Weikang became a wholly-owned subsidiary of the Company on 27 August 2014. The above transactions ceased to be continuing connected transactions.

From 1 January to 27 August 2014, the aggregate value of purchase of pharmaceutical products from Mintai and Jifeng by the Group was RMB73.9 million.

Report of the Directors

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

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the continuing connected transactions for the year ended 31 December 2014 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) according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and its 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.56 of the Listing Rules, and confirmed that the continuing connected transactions:

(i) have been approved by the Board;

(ii) were, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

(iii) were entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(iv) have not exceeded the annual cap for the year ended 31 December 2014.

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 33 to the financial statements.

Charitable Donations

During the year ended 31 December 2014, the Group had no charitable and other donations.

Report of the Directors

Audit Committee

The audit committee of the Company (the "Audit Committee") 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 are to examine, review and monitor the financial data and financial reporting procedure of the Company. The Audit Committee (as defined in the Corporate Governance Report) had reviewed the audited annual results of the Group for the year ended 31 December 2014.

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 as set out in Appendix 10 to 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 year ended 31 December 2014.

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 Listing Rules throughout the year ended 31 December 2014. 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 46 to 58 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

The financial statements of the Group for the year ended 31 December 2014 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Mr. Jin Dongtao
Chairman

Hong Kong
18 March 2015

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 2014.

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 during the year ended 31 December 2014. 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 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 four executive Directors, namely Mr. Jin Dongtao, Mr. Jin Dongkun, Mr. Chu Chuanfu and Mr. Yang Jiacheng, 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.

For the year ended 31 December 2014, 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 identities 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 2014, all Directors participated in various 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, all Directors 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 aforesaid Directors study such materials.

Corporate Governance Report

The Company maintains records of training attended by the Directors. The training attended by the Directors during the year are as follows:

	Training received *(note)*
Executive Directors	
Mr. JIN Dongtao	1&2
Mr. JIN Dongkun	1&2
Ms. CHEN Xiaoyan (retired on 12 June 2014)	1&2
Mr. CHU Chuanfu	1&2
Ms. WU Qiong (resigned on 25 August 2014)	1&2
Mr. YANG Jiacheng (appointed on 25 August 2014)	1&2
Independent Non-executive Directors	
Mr. CHENG Sheung Hing	1&2
Ms. CHIANG Su Hui Susie	1&2
Mr. CHEN Xiao	1&2

Notes:

1. The roles, functions and duties of a listed company director

    (a) Presentations and briefings provided by the Company's external lawyers

    (b) Reading materials prepared by the Company's external lawyers

2. The reading materials of the roles, functions and duties of a listed company director prepared by Mr. Ge Junming, one of the joint company secretaries of the Company

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

Save for Mr. Yang Jiacheng, an executive Director, 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.

Corporate Governance Report

Mr. Yang Jiacheng has entered into an appointment letter with the Company for a term of three years commencing from 25 August 2014, and may be terminated in accordance with the terms of the appointment letter.

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 his/her appointment and new Director appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following general meeting of the Company after his/her 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.

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.

Corporate Governance Report

For the year ended 31 December 2014, 4 board meetings and 1 general meeting were held and the attendance of the individual Directors at these meetings is set out in the table below:

Directors	**Attended/Eligible to attend**	
	Board Meetings	**General Meeting**
Executive Directors		
Mr. Jin Dongtao *(Chairman)*	4/4	1/1
Mr. Jin Dongkun	4/4	1/1
Ms. Chen Xiaoyan (retired as an executive Director on 12 June 2014)	2/2	1/1
Mr. Chu Chuanfu	4/4	1/1
Ms. Wu Qiong (resigned as an executive Director on 25 August 2014)	3/3	1/1
Mr. Yang Jiacheng (appointed as an executive Director on 25 August 2014)	2/2	0/0
Independent Non-Executive Directors		
Mr. Cheng Sheung Hing	4/4	1/1
Ms. Chiang Su Hui Susie	4/4	1/1
Mr. Chen Xiao	4/4	1/1

During the year ended 31 December 2014, the Chairman held one meeting with the independent non-executive directors without the other executive Directors.

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made of all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code for the year ended 31 December 2014.

During the year ended 31 December 2014, 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.

Corporate Governance Report

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.

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 senior 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.

For the year ended 31 December 2014, 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.

For the year ended 31 December 2014, 4 meetings of the Nomination Committee were 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	4/4
Mr. Cheng Sheung Hing	4/4
Ms. Chiang Su Hui Susie	4/4

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 is 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. Chiang Su Hui Susie and Mr. Chu Chuanfu, the majority of them are independent non-executive Directors. Mr. Chu Chuanfu has been appointed as the member of the Remuneration Committee on 12 June 2014, in place of Ms. Chen Xiaoyan who has ceased to be a member of the Remuneration Committee with effect from 12 June 2014.

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 close 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.

Corporate Governance Report

For the year ended 31 December 2014, 2 meetings of the Remuneration Committee were 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	2/2
Ms. Chen Xiaoyan (ceased as member of Remuneration Committee on 12 June 2014)	1/1
Ms. Chiang Su Hui Susie	2/2
Mr. Chu Chuanfu (appointed as member of Remuneration Committee on 12 June 2014)	1/1

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 2015. 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 pages 67 to 69 of this annual report, fall within the band from nil to RMB0.5 million for the year ended 31 December 2014.

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

Corporate Governance Report

For the year ended 31 December 2014, 3 meetings of the Audit Committee were 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	3/3
Mr. Cheng Sheung Hing	3/3
Ms. Chiang Su Hui Susie	3/3

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 2014 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 senior 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 independent 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 pages 70 to 71 of this annual report.

Corporate Governance Report

Internal Control

The Board acknowledges that it is the responsibility of the Board to maintain an adequate internal control system to safeguard shareholder investments and Company assets and review 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.

Auditor's Remuneration

For the year ended 31 December 2014, the Company engaged PricewaterhouseCoopers as the external auditors. The professional fee paid or payable to the external auditors for services rendered as set out below:

	Fee paid/payable *(RMB'000)*
Audit service	3,200
Non-Audit Service – Interim review	1,600
Total	4,800

Company Secretaries

Mr. Ge Junming, one of the joint company secretaries 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 one of the joint company secretaries of the Company. The primary corporate contact person at the Company is Mr. Ge Junming, one of the joint company secretaries of the Company.

Corporate Governance Report

For the year ended 31 December 2014, 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.

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 shareholders' meetings, including the election of individual directors.

All resolutions put forward at shareholders' 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 shareholders' meeting.

Corporate Governance Report

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 Suite 1508, One Pacific Place, 88 Queensway, 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 Suite 1508, One Pacific Place, 88 Queensway, Hong Kong or to email address: ir@jtyyjt.com.

Change in Constitutional Documents

For the year ended 31 December 2014, there is no significant change in constitutional documents of the Company.

Directors and Senior Management

Directors

Executive Directors

Mr. JIN Dongtao (金東濤), aged 46, 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 – September 2014: 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. He 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 41, 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 – September 2014: vice chairman of the Heilongjiang Alliance of Pharmaceutical Retailers (黑龍江藥店聯盟副理事長)
- November 2014 – present: vice chairman of the China Medical Pharmaceutical Material Association (中國醫藥物資協會)

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.

Mr. Jin Dongkun is qualified as a practising pharmacist in China. He 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

Mr. CHU Chuanfu (初川富), aged 44, 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 15 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

- September 2014 – present: chairman of the Heilongjiang Alliance of Pharmaceutical Retailers (黑龍江藥店聯盟理事長)

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

Mr. Chu is qualified as a nutritionist 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 44, was appointed as the Chief Operating Officer in January 2014 and was appointed as an executive Director on 25 August 2014. He joined our Group in January 2013 and is responsible for operations of our Group. 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

Independent non-executive Directors

Mr. CHENG Sheung Hing (鄭雙慶), aged 67, was appointed as an independent non-executive Director of the Company on 18 November 2013. Mr. Cheng is a senior economist of PBOC with many 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 Heng Fai Enterprises Limited (恒輝企業控股有限公司) (formerly known as Xpress Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 00185)

- 2005 – 2013: independent director of National United Resources Holdings Limited (國家聯合資源控股有限公司) (formerly known as China Outdoor Media Group Limited), 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 68, 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 a 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

Mr. CHEN Xiao (陳曉), aged 51, was appointed as an independent non-executive Director of the Company on 18 November 2013. Mr. 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. Mr. 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)

- 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 – 2014: 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)

Directorships:

- 2014 – present: independent director of the Beijing Chineseall Digital Publishing Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300364)

- 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)

Directors and Senior Management

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

Save as disclosed above, Mr. 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. GE Junming (葛俊明), aged 46, 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

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

Directors and Senior Management

Mr. ZHAO Zehua (趙澤華), aged 46, 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. (承德藥業集團六合製藥有限責任公司)

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. TAM Tsang Ngai (譚錚毅), aged 40, was appointed as financial controller in November 2014. He is responsible for the financial management outside the PRC.

Other experience:

- 1997 – 2000: semi-senior accountant, audit of Deloitte Touche Tohmatsu (德勤 • 關黃陳方會計師行)
- 2001 – 2007: finance manager of China Resources Petrochems (Group) Co., Ltd.（華潤石化（集團）有限公司）and China Resources Gas Holdings Ltd.（華潤燃氣控股有限公司）
- 2008 – 2010: finance manager of Ming Hing Waterworks Holdings Ltd.（明興水務控股有限公司）, a company listed on the Stock Exchange (stock code: 00402)
- 2010 – 2012: chief financial officer and company secretary of CNC Holdings Ltd.（中國新華電視控股有限公司）, a company listed on the Stock Exchange (stock code: 08356)
- 2012 – 2014: director of Voyage Consulting Ltd. (沃亞顧問有限公司)

Education:

- 1997: graduated from the Chinese University of Hong Kong with a major in Professional Accountancy

Mr. Tam is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He has not held any directorships in any publicly 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 72 to 145, which comprise the consolidated and company balance sheets as at 31 December 2014, 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.

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

Independent Auditor's Report

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 2014, 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

HongKong, 18 March 2015

Consolidated Balance Sheet

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	120,870	75,904
Land use rights	7	3,807	–
Intangible assets	8	799,509	443,734
Investments in joint ventures	10	6,454	5,249
Prepayment for intangible assets		2,103	2,103
Deferred income tax assets	11	11,953	10,797
Total non-current assets		944,696	537,787
Current assets			
Trade and other receivables	13	374,155	361,805
Inventories	14	362,940	271,748
Restricted cash	15	382,843	8,643
Cash and cash equivalents	16	1,349,231	1,564,248
Total current assets		2,469,169	2,206,444
Total assets		3,413,865	2,744,231
EQUITY			
Equity attributable to owners of the Company			
Share capital	17	12,259	12,259
Reserves	18	1,355,464	1,559,795
– Proposed final dividend	29	50,333	–
– Others		1,305,131	1,559,795
Retained earnings		1,230,436	782,838
		2,598,159	2,354,892
Non-controlling interests		27,009	100,884
Total equity		2,625,168	2,455,776

Consolidated Balance Sheet

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	11	50,698	23,011
Current liabilities			
Borrowings	20	295,500	–
Trade and other payables	21	380,936	216,881
Current income tax liabilities		61,563	48,563
Total current liabilities		737,999	265,444
Total liabilities		788,697	288,455
Total equity and liabilities		3,413,865	2,744,231
Net current assets		1,731,170	1,941,000
Total assets less current liabilities		2,675,866	2,478,787

The notes on pages 78 to 145 are an integral part of these consolidated financial statements.

The financial statements on pages 72 to 145 were approved by the Board of Directors on 18 March 2015 and were signed on its behalf.

Jin Dongtao
Director

Chu Chuanfu
Director

Company Balance Sheet

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	9(a)	**58,533**	3,533
Other receivables	13	**174,033**	–
Total non-current assets		**232,566**	3,533
Current assets			
Other receivables	13	**511,502**	74,942
Cash and cash equivalents	16	**14,270**	848,918
Total current assets		**525,772**	923,860
Total assets		**758,338**	927,393
EQUITY			
Equity attributable to owners of the Company			
Share capital	17	**12,259**	12,259
Reserves	18	**805,632**	889,581
– Proposed final dividend	29	**50,333**	–
– Others		**755,299**	889,581
Accumulated losses		**(74,773)**	(26,268)
Total equity		**743,118**	875,572
Current liabilities			
Other payables	21	**15,220**	51,821
		15,220	51,821
Total liabilities		**15,220**	51,821
Total equity and liabilities		**758,338**	927,393
Net current assets		**510,552**	872,039
Total assets less current liabilities		**743,118**	875,572

The notes on pages 78 to 145 are an integral part of these consolidated financial statements.

The financial statements on pages 72 to 145 were approved by the Board of Directors on 18 March 2015 and were signed on its behalf.

Jin Dongtao
Director

Chu Chuanfu
Director

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Revenue	5	**4,355,842**	3,323,499
Cost of sales	23	**(3,088,382)**	(2,387,081)
Gross profit		**1,267,460**	936,418
Selling and marketing expenses	23	**(502,472)**	(332,678)
Administrative expenses	23	**(89,660)**	(83,040)
Other income		**455**	294
Other gains/(losses) – net	22	**550**	(1,511)
Operating profit		**676,333**	519,483
Finance income	25	**16,146**	2,359
Finance costs	25	**(11,599)**	(3,526)
Finance income/(cost) – net	25	**4,547**	(1,167)
Share of profit of joint ventures	10	**1,205**	1,530
Profit before income tax		**682,085**	519,846
Income tax expense	26	**(178,744)**	(134,786)
Profit and total comprehensive income for the year		**503,341**	385,060
Profit and total comprehensive income attributable to:			
– Owners of the Company		**472,724**	355,103
– Non-controlling interests		**30,617**	29,957
		503,341	385,060
Earnings per share attributable to owners of the Company for the year (RMB cents)			
– Basic and diluted	27	**23.77**	21.91
Dividends	29	**94,502**	85,764

The notes on pages 78 to 145 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	Shares held for Share Award Plan 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 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)(i)	–	–	(11,248)	–	–	–	–	(11,248)	(8,450)	(19,698)
Gross proceeds from placing and public offering of shares	17(c)	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)(ii)	–	650,658	–	–	–	–	–	650,658	–	650,658
Contribution from the Parent Company	18(a)(iii)	–	–	10,936	–	–	–	–	10,936	–	10,936
Dividends distribution	29	–	–	–	–	–	–	(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
Balance at 1 January 2014		12,259	1,524,825	(8,939)	35,056	–	8,853	782,838	2,354,892	100,884	2,455,776
Profit for the year		–	–	–	–	–	–	472,724	472,724	30,617	503,341
Purchase of non-controlling interests	18(a)(iv)	–	–	(145,508)	–	–	–	–	(145,508)	(104,492)	(250,000)
Shares purchase for Share Award Plan	19(b)	–	–	–	–	(39,780)	–	–	(39,780)	–	(39,780)
Dividends distribution	29	–	(44,169)	–	–	–	–	–	(44,169)	–	(44,169)
Profit appropriation to statutory reserves	18(b)	–	–	–	25,126	–	–	(25,126)	–	–	–
Balance at 31 December 2014		12,259	1,480,656	(154,447)	60,182	(39,780)	8,853	1,230,436	2,598,159	27,009	2,625,168

The notes on pages 78 to 145 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Cash flows from operating activities:			
Cash generated from operations	30	**768,182**	506,919
Interest paid	25	**(5,527)**	–
Bank charges paid	25	**(465)**	(268)
Income tax paid		**(170,175)**	(119,703)
Net cash generated from operating activities		**592,015**	386,948
Cash flows from investing activities:			
Net cash received for financial assets at fair value through profit or loss		**–**	95,798
Change in restricted cash		**(374,200)**	13,831
Interest received		**16,316**	2,359
Proceeds from disposal of property, plant and equipment		**53**	178
Purchase of intangible assets		**(19)**	–
Purchase of land use rights		**(3,870)**	–
Purchase of property, plant and equipment		**(64,362)**	(42,582)
Acquisition of subsidiaries and business net of cash required	32	**(369,310)**	(122,206)
Net cash used in investing activities		**(795,392)**	(52,622)
Cash flows from financing activities:			
Proceeds from initial public offering ("IPO")		**–**	856,163
Proceeds from IPO hold by the sponsor		**25,879**	–
Borrowings from bank		**295,500**	–
Loan from a shareholder		**–**	24,247
Purchase of non-controlling interests	18(a)(iv)	**(250,000)**	(19,698)
Purchase of shares for Share Award Plan	19(b)	**(39,780)**	–
Dividends paid		**(44,169)**	(85,764)
Net cash (used in)/generated from financing activities		**(12,570)**	774,948
Net (decrease)/increase in cash and cash equivalents		**(215,947)**	1,109,274
Cash and cash equivalents at beginning of the year		**1,564,248**	455,916
Exchange gains/(losses) on cash		**930**	(942)
Cash and cash equivalents at end of the year	16	**1,349,231**	1,564,248

The notes on pages 78 to 145 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 northeastern region of the People's Republic of China (the "PRC").

The Company was incorporated in the Cayman Islands on 12 March 2012, as an exempted company with limited liabilities under the Companies Law (2013 Revision) of the Cayman Islands. The address of the Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The parent company of the Group is Asia Health Century International Inc. (the "Parent Company"), a company which was incorporated in the Cayman Islands. The ultimate controlling party of the Group is Mr. Jin Dongtao.

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

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 18 March 2015.

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 2014.

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.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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.

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

(a) New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2014:

Amendment to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendment to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendment to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendment to IAS 39	Novation of Derivatives and Contribution of Hedge Accounting
IFRIC Int 21	Levies
Annual Improvements Project	Annual improvements 2010-2012 cycle

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

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

A number of new and amended standards are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. The Group will apply the new and amended standards when they become effective. The Group is in the process of making an assessment of the impact of the new and amended standards and do not expect that the adoption of these new and amended standards will result in any material impact on the consolidated financial statements of the Group.

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendment to IAS 1	Presentation of Financial Statement[5]
Amendment to IFRS 11	Accounting for Acquisitions of Interests in Joint Operation[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendment to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendment to IAS 27	Equity Method in Separate Financial Statements[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Annual Improvements Project	Annual Improvements 2010-2012 cycle[4]
Annual Improvements Project	Annual Improvements 2011-2013 cycle[4]
Annual Improvements Project	Annual Improvements 2012-2014 cycle[5]

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 and amended standards not yet adopted by the Group *(continued)*

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

[2] Effective for the first annual IFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

[3] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

[4] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

[5] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

There are no other new and amended standards that are not yet effective that would be expected to have a material impact on the Group.

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

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. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

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 consolidated statement of comprehensive income.

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 close 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 derecognised. 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:

– Buildings	20 years
– Motor vehicles	4-8 years
– Furniture and office equipment	3-5 years
– Leasehold improvements	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 2.9).

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 Land use rights

Land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the consolidated statement of comprehensive income on a straight-line basis over the remaining period of the lease. The estimated useful life of land use rights is 50 years.

Notes to the Consolidated Financial Statements

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

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and business, joint ventures represents 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 identified net assets acquired.

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 the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. 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 amortisation. 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 amortisation. Amortisation is calculated using the straight-line method from 10 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)*

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life 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.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: financial assets 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 2.14 and 2.15).

Notes to the Consolidated Financial Statements

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

2.10 Financial assets *(continued)*

2.10.2 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 consolidated statement of comprehensive income within 'Other (losses)/gains – net' in the period in which they arise.

2.11 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 Impairment of financial assets

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)*

2.12 Impairment of financial assets *(continued)*

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.

2.13 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.

2.14 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.

2.15 Cash and cash equivalents

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

2.16 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)*

2.17 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.18 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.

2.19 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.

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

2.19 Current and deferred income tax *(continued)*

(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.

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 when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences is 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.

Notes to the Consolidated Financial Statements

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

2.20 Employee benefits

(a) Pension obligations

The PRC based 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 contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligations for retirement benefits beyond the contributions made. The assets of these plans are held separately from those of the Group in an independently administered fund. Contributions to these plans are expensed as incurred.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(b) 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. The assets of the housing benefits are held separately from those of the Group in an independently administered fund. Contributions to the housing benefits are expensed as incurred.

(c) Share-based payments

The Group operates a number of equity-settled, share-based compensation plans. under which the entity receives services from employees as consideration for equity instruments (options and shares) of the Group. The fair value of the employee services received in exchange for the grant of options or shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options or shares granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- excluding the impact of any non-vesting conditions.

Notes to the Consolidated Financial Statements

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

2.20 Employee benefits *(continued)*

(c) Share-based payments (continued)

Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options or shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Share Option Scheme

The Group operates a share option scheme ("Share Option Scheme") (Note 19(a)).

When the options are granted to identified participants, the fair value of the option is recognised as an expense over the vesting period. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Share Award Plan

The Company adopted a share award plan ("Share Award Plan") (Note 19(b)). When the shares of the Company are purchased by the Share Award Plan from the market, the consideration paid, including any directly attributable incremental costs is presented as "shares held for Share Award Plan" and deducted from total equity.

When shares are granted to identified participants, the fair value of the shares awarded based on the market value of the Company's shares on the date of grant is charged as employee expenses to the consolidated statement of comprehensive income of the Group.

Notes to the Consolidated Financial Statements

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

2.21 Provisions and contingent liabilities

2.21.1 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.

2.21.2 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.

2.22 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)*

2.22 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.

Revenue from the sale of goods on the internet is recognised at the point that the client sign to acknowledge the receipt of the goods. Transactions are settled by cash or online payment.

2.23 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.

2.24 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.

2.25 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) denominated in Hong Kong Dollars ("HKD") and US Dollars ("USD"). The Group currently does not hedge its foreign exchange exposure.

As at 31 December 2014 and 2013, 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 2014 and 2013 would have been RMB1,266,000 lower/higher and RMB19,678,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and bank deposits.

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 and cash equivalents, 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 2014 and 2013, 56.6% and 89.2% of the Group's restricted cash, cash and cash equivalents 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 13. 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 2014, the exposure to the top 15 customers did not exceed 23% of the gross trade receivables, with the exposure to the largest customer representing less than 6%.

(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.

As at 31 December 2014 and 2013 the Group held cash of RMB1,349,231,000 and RMB1,564,248,000 (Note 16), trade receivables of RMB266,459,000 and RMB194,363,000 (Note 13) and restricted cash of RMB382,843,000 and RMB8,643,000 (Note 15), that are expected to readily generate cash inflows for managing liquidity risk.

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

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.

	Less than 1 year
	RMB'000
As at 31 December 2014	
Borrowings *(Note 20)*	295,500
Trade and other payables *(Note 21)*	380,936
As at 31 December 2013	
Trade and other payables *(Note 21)*	216,881

(d) Interest rate risk

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

The interest rates and maturities of the Group's restricted cash, bank deposits and borrowings are disclosed in Notes 15, 16 and 20 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 and liabilities.

As at 31 December 2014 and 2013, if the interest rates on restricted cash, bank deposits and borrowings 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 RMB7,177,000 and RMB7,861,000 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 borrowings 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 2014 and 2013 were as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Borrowings *(Note 20)*	**295,500**	–
Less: cash and cash equivalents *(Note 16)*	**1,349,231**	1,564,248
Less: restricted cash in association of the borrowings (*Note 15*)	**300,000**	–
Net cash	**(1,353,731)**	(1,564,248)
Total equity	**2,625,168**	2,455,776
Total capital	**1,271,437**	891,528
Gearing ratio	**NA**	NA

3.3 Fair value estimation

The carrying amounts of the Group's financial assets, including cash, restricted cash, receivables; and financial liabilities including payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

There is no financial instrument carried at fair value of the Group at 31 December 2014 and 2013.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgments

Estimates and judgments 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 judgment 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 recognises 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 2.9. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8). 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 to 20 years (Note 2.8). 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.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgments *(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 northeastern 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 northeastern region of the PRC. The Group has a large number of customers, which are widely dispersed within the northeastern region of the PRC, no single customer accounted for more than 10% of the Group's total revenues for the years ended 31 December 2014 and 2013. 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 adjusted earnings before interests, tax, depreciation and amortisation ("Adjusted EBITDA"). The measurement basis of Adjusted EBITDA excludes the effect of share of profit of joint ventures.

Notes to the Consolidated Financial Statements

5. Revenue and segment information *(continued)*

The segment information for the year ended 31 December 2014 and as at 31 December 2014 is as follows:

	Year ended 31 December 2014			
	Distributions RMB'000	Retails RMB'000	Others RMB'000	Total RMB'000
Segment revenue	3,170,056	2,008,001	–	5,178,057
Inter-segment revenue	(822,215)	–	–	(822,215)
Revenue from external customers	2,347,841	2,008,001	–	4,355,842
Adjusted EBITDA	270,527	467,482	(25,137)	712,872
Depreciation and amortisation	(8,604)	(27,865)	(70)	(36,539)
Finance income	3,563	2,545	10,038	16,146
Finance costs	(2,336)	(4,132)	(5,131)	(11,599)
Share of profit of joint ventures	–	1,205	–	1,205
Income tax expense	(69,184)	(109,560)	–	(178,744)
Profit and total comprehensive income for the year	193,966	329,675	(20,300)	503,341
Additions of non-current assets	146,764	295,877	405	443,046

	As at 31 December 2014			
	Distributions RMB'000	Retails RMB'000	Others RMB'000	Total RMB'000
Total assets before eliminations	2,085,108	1,690,616	1,287,491	5,063,215
Inter-segment assets	(618,916)	(163,202)	(867,232)	(1,649,350)
Total assets	1,466,192	1,527,414	420,259	3,413,865
Total liabilities before eliminations	872,562	572,487	16,946	1,461,995
Inter-segment liabilities	(467,519)	(193,259)	(12,520)	(673,298)
Total liabilities	405,043	379,228	4,426	788,697

Notes to the Consolidated Financial Statements

5. Revenue and segment information *(continued)*

The segment information for the year ended 31 December 2013 and as at 31 December 2013 is as follows:

	Year ended 31 December 2013			
	Distributions	Retails	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*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
Adjusted 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)
Share of profit of joint ventures	–	1,530	–	1,530
Income tax expense	(51,253)	(83,780)	247	(134,786)
Profit and total comprehensive income for the year	149,391	256,757	(21,088)	385,060
Additions of non-current assets	869	146,675	–	147,544

	As at 31 December 2013			
	Distributions	Retails	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*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
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

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 – Group

	Buildings	Motor vehicles	Furniture and office equipments	Leasehold improvements	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013						
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	–	271	3,510	2,536	–	6,317
Additions	–	991	1,650	39,841	100	42,582
Disposals	–	(256)	(160)	–	–	(416)
Depreciation *(Note 23)*	(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
Year ended 31 December 2014						
Opening net book amount	2,744	4,614	14,210	54,236	100	75,904
Acquisition of subsidiaries *(Note 32)*	–	787	4,141	–	–	4,928
Additions	46,674	3,093	6,665	1,581	6,349	64,362
Disposals	–	(1)	(198)	(251)	–	(450)
Transfers	6,449	–	–	–	(6,449)	–
Depreciation *(Note 23)*	(1,232)	(1,590)	(7,170)	(13,882)	–	(23,874)
Closing net book amount	54,635	6,903	17,648	41,684	–	120,870
At 31 December 2014						
Cost	56,323	14,026	45,999	70,935	–	187,283
Accumulated depreciation	(1,688)	(7,123)	(28,351)	(29,251)	–	(66,413)
Net book amount	54,635	6,903	17,648	41,684	–	120,870

Notes to the Consolidated Financial Statements

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

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Administrative expenses	**3,447**	3,577
Selling and marketing expenses	**20,427**	15,903
	23,874	19,480

(b) Lease rentals amounting to RMB84,865,000 and RMB67,653,000 for the years ended 31 December 2014 and 2013 related to the lease of property are included in the consolidated statement of comprehensive income.

7. Land use rights – Group

	RMB'000
Year ended 31 December 2014	
Opening net book amount	**–**
Additions	**3,870**
Amortisation *(Note 23)*	**(63)**
Closing net book amount	**3,807**
At 31 December 2014	
Cost	**3,870**
Accumulated amortisation	**(63)**
Net book amount	**3,807**

The Group's interests in land use rights represent prepaid operating lease payments. The Group's land use rights are located in the PRC and with the lease period for 50 years.

Amortisation expenses of the Group's lease prepayments for land use rights have been charged to administrative expenses RMB63,000 in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

8. Intangible assets – Group

	Goodwill *RMB'000*	Trademarks and brand loyalty *RMB'000*	Contractual supplier relationships *RMB'000*	Computer software licences *RMB'000*	Total *RMB'000*
At 1 January 2013					
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	97,115	–	–	–	97,115
Amortisation charge *(Note 23)*	–	(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
Year ended 31 December 2014					
Opening net book amount	**347,436**	**89,700**	**4,652**	**1,946**	**443,734**
Acquisition of subsidiaries *(Note 32)*	**235,126**	**89,800**	**43,736**	**–**	**368,662**
Additions	**–**	**–**	**–**	**19**	**19**
Amortisation charge *(Note 23)*	**–**	**(7,320)**	**(5,155)**	**(127)**	**(12,602)**
Impairment *(Note 23)*	**(304)**	**–**	**–**	**–**	**(304)**
Closing net book amount	**582,258**	**172,180**	**43,233**	**1,838**	**799,509**
At 31 December 2014					
Cost	**582,562**	**188,816**	**53,511**	**2,152**	**827,041**
Accumulated amortisation	**–**	**(16,636)**	**(10,278)**	**(314)**	**(27,228)**
Impairment	**(304)**	**–**	**–**	**–**	**(304)**
Net book amount	**582,258**	**172,180**	**43,233**	**1,838**	**799,509**

(a) Amortisations of the Group's intangible assets for the years ended 31 December 2014 and 2013 amounting to RMB12,602,000 and RMB7,987,000 have been charged to the consolidated statement of comprehensive income as administrative expenses.

Notes to the Consolidated Financial Statements

8. Intangible assets – Group *(continued)*

(b) Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs in the operating segments as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Distributions	**58,114**	17,440
Retails	**524,144**	329,996
	582,258	347,436

During the years ended 31 December 2014 and 2013, the Group acquired several subsidiaries and businesses, all of which are engaged in the distribution and retail of pharmaceutical products (Note 32) in the northern region of the PRC and Hong Kong. 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 2014 are as follow:

	Distributions	**Retails**
Gross margin	20.0%	39.1%
Growth rate	3.0%	3.0%
Discount rate	18.5%	17.5%

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%

Notes to the Consolidated Financial Statements

8. Intangible assets – Group *(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.

In 2014, as one subsidiary suspended business, it's present value of estimates future cash flow lower than the carrying amount. The Group provided goodwill impairment amounting to RMB304,000 for the subsidiary, which is included in retails segment (2013: nil).

As at 31 December 2014, 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 RMB335,145,000, RMB179,901,000 and RMB179,521,000, to RMB2,822,400,000, RMB2,977,643,000, and RMB2,978,024,000; 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 RMB224,207,000, RMB279,793,000 and RMB277,022,000 to RMB4,281,964,000, RMB4,226,378,000 and RMB4,229,150,000. Respectively, the recoverable amount is still significantly higher than carrying amount.

9. Investment in subsidiaries – Company

(a) Investment in subsidiaries

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Unlisted investments, at cost	**58,533**	3,533

Notes to the Consolidated Financial Statements

9. Investment in subsidiaries – Company *(continued)*

(a) Investment in subsidiaries *(continued)*

The following is a list of subsidiaries at 31 December 2014 and 2013:

Name of company	Country/place and date of incorporation	Principal activities	Issued and fully paid in capital/ registered capital	Effective interest held	
				2014	2013
Directly owned:					
Hong Kong Health Century International Group Limited ("HKHCI")	Hong Kong/ 15 September 2010	Investment holding and retailing drugs and other pharmaceutical products	HKD1,000 /HKD10,000	100.00%	100.00%
Jilin Jintian Aixin Health Pharmaceutical Co.,Ltd.[a] ("Jintian Aixin Health")	PRC/ 25 May 2009	Retailing drugs and other pharmaceutical products	RMB2,000,000	100.00%	100.00%
Junfeng Global Limited	BVI/ 12 September 2014	Investment holding	USD1	100.00%	–
Neo Century Holdings Limited	BVI/ 20 May 2014	Investment holding	USD1	100.00%	–
Indirectly owned:					
Daqing Jintian Aixin Pharmacy Chain Co., Ltd. ("Da Qing")	PRC/ 6 September 2007	Retailing drugs and other pharmaceutical products	RMB3,000,000	100.00%	100.00%
Harbin Jintian Aixin Pharmacy Chain Co., Ltd.	PRC/ 18 April 2005	Retailing drugs and other pharmaceutical products	RMB5,000,000	100.00%	100.00%
Health Century Business Co., Ltd.	PRC/ 1 December 2010	Investment holding	USD17,999,942	100.00%	100.00%
Health Century Jintian Aixin Medical Limited	Hong Kong/ 2 May 2013	Retailing drugs and other pharmaceutical products	HKD10,000	100.00%	100.00%
Health Century (Hong Kong) Milky City Co. Limited	Hong Kong/ 8 September 2014	Retailing drugs and other pharmaceutical products	HKD10,000	100.00%	–

Notes to the Consolidated Financial Statements

9. Investment in subsidiaries – 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 2014	Effective interest held 2013
Health Century Muying Aixin Medicine Limited	Hong Kong/ 14 April 2014	Retailing drugs and other pharmaceutical products	HKD10,000	100.00%	–
Health Century Jintian Aixin Pharmaceutical Group Limited	Hong Kong/ 24 April 2013	Investment holding, wholesaling drugs and other pharmaceutical products	HKD100,000	100.00%	100.00%
Hebei Jintian Yan Xiao Pharmaceutical Co., Ltd.	PRC/ 27 December 2005	Wholesaling drugs and other pharmaceutical products	RMB30,000,000	100.00%	100.00%
Hegang Ji Shi Tang Pharmacy Chain Co., Ltd. ("Ji Shi Tang")	PRC/ 30 September 2006	Retailing drugs and other pharmaceutical products	RMB650,000	51.00%	51.00%
Heilongjiang Jintian Health Aixin Pharmacy Chain Co., Ltd. ("Aixin Health")	PRC/ 4 January 2006	Retailing drugs and other pharmaceutical products	RMB500,000	100.00%	100.00%
Heilongjiang Jintian Group Aixin Culture Communication Development Co., Ltd.	PRC/ 4 November 2011	Culture communication	RMB1,000,000	100.00%	100.00%
Heilongjiang Jintian Group Harbin Ciji Pharmaceutical Co., Ltd. ("Harbin Ciji Pharmaceutical")	PRC/ 20 July 2001	Wholesaling drugs and other pharmaceutical products	RMB1,400,000	100.00%	100.00%
Heilongjiang Jintian Aixin Pharmaceutical Chain Co., Ltd.[b]	PRC/ 23 June 2005	Retailing drugs and other pharmaceutical products	RMB1,000,000	100.00%	100.00%
Heilongjiang Jintian Aixin Pharmaceutical Distribution Co., Ltd.	PRC/ 12 February 2004	Wholesaling drugs and other pharmaceutical products	USD74,310,000	100.00%	100.00%
Hong Kong Wing Ming Medical Limited	Hong Kong/ 25 July 2014	Trading of health-care products and chinese patent medicines	HKD1	100.00%	–
Hong Kong Yushi Holdings Limited	Hong Kong/ 4 December 2014	Investment holding	HKD10,000	100.00%	–

Notes to the Consolidated Financial Statements

9. Investment in subsidiaries – 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 2014	Effective interest held 2013
Jiamusi Jintian Aixin Pharmaceutical Co., Ltd.[c]	PRC/ 15 July 1998	Wholesaling drugs and other pharmaceutical products	RMB15,000,000	100.00%	100.00%
Jiamusi Jintian Aixin Pharmaceutical Chain Co., Ltd.[d]	PRC/ 14 April 2004	Retailing drugs and other pharmaceutical products	RMB5,000,000	100.00%	100.00%
Jilin Jintian Aixin Pharmaceutical Distribution Co., Ltd.[e]	PRC/ 4 December 2007	Wholesaling drugs and other pharmaceutical products	RMB1,000,000	100.00%	100.00%
Jilin Jintian Aixin Renhe Drug Store Co., Ltd.[f] ("Ren He")	PRC/ 29 October 2001	Retailing drugs and other pharmaceutical products	RMB500,000	100.00%	–
Jilin Jintian Aixin Pharmacy Chain Co., Ltd.[g] ("Aixin Pharmacy Chain")	PRC/ 11 December 2012	Retailing drugs and other pharmaceutical products	RMB1,000,000	100.00%	100.00%
Jintian Pharmaceutical Company Limited	Hong Kong/ 27 March 2014	Wholesaling drugs and other pharmaceutical products	HKD1	100.00%	–
Jinzhou Tiankang Pharmacy Chain Co., Ltd. ("Tian Kang")	PRC/ 16 January 2012	Retailing drugs and other pharmaceutical products	RMB500,000	100.00%	–
Liaoning Deren Drug Store Co., Ltd. ("De Ren")	PRC/ 20 November 2009	Retailing drugs and other pharmaceutical products	RMB2,000,000	100.00%	–
Liaoning Jintian Aixin Supermarket Chain Co., Ltd.	PRC/ 6 December 2012	Commercial retail	RMB3,000,000	100.00%	64.00%
Luen Fat Dispensary Limited	Hong Kong/ 18 August 2011	Retailing drugs and other pharmaceutical products	HKD100	100.00%	100.00%
Qitaihe Jintian Aixin Health Pharmaceutical Chain Co., Ltd.	PRC/ 7 July 2005	Retailing drugs and other pharmaceutical products	RMB2,360,000	100.00%	100.00%
Rebound Global Limited ("Rebound Global")	BVI/ 11 June 2014	Investment holding	USD1	100.00%	–

Notes to the Consolidated Financial Statements

9. Investment in subsidiaries – 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 2014	Effective interest held 2013
Shenyang Hongmian Jianzhen Drug Store Chain Co., Ltd. ("Hong Mian")	PRC/ 12 November 2012	Retailing drugs and other pharmaceutical products	RMB480,000	100.00%	–
Shenyang Shengshi Pharmacy Chain Co., Ltd. ("Sheng Shi")	PRC/ 28 May 2008	Retailing drugs and other pharmaceutical products	RMB300,000	100.00%	–
Shenyang Wei Kang Drug Store Chain Co., Ltd. ("Wei Kang")	PRC/ 24 October 2001	Retailing drugs and other pharmaceutical products	RMB30,000,000	100.00%	64.00%
Shenyang Weishi Pharmaceutical Co., Ltd. ("Wei Shi")	PRC/ 27 October 2013	Wholesaling drugs and other pharmaceutical products	RMB5,000,000	100.00%	–
Shuangcheng Chang Shou Tang Lao Bai Xing Drug Store	PRC/ 10 June 2008	Retailing drugs and other pharmaceutical products	–	100.00%	100.00%
Suibin Le Ren Tang Drug Store	PRC/ 13 March 2008	Retailing drugs and other pharmaceutical products	–	51.00%	51.00%
Suibin Jintian Aixin Drug Store	PRC/ 5 April 2008	Retailing drugs and other pharmaceutical products	–	51.00%	51.00%
Suibin Lao Bai Xing Drug Store	PRC/ 23 March 2009	Retailing drugs and other pharmaceutical products	–	51.00%	51.00%
Suibin Bai Xing Drug Store	PRC/ 11 May 2009	Retailing drugs and other pharmaceutical products	–	51.00%	51.00%
Suibin Jintian Drug Store	PRC/ 23 December 2009	Retailing drugs and other pharmaceutical products	–	51.00%	51.00%
Suihua Jintian Aixin Pharmaceutical Mall Chain Co., Ltd.[h]	PRC/ 8 April 2003	Retailing drugs and other pharmaceutical products	RMB3,800,000	99.04%	99.04%
Tonghua Jinfeng Pharmacy Chain Co., Ltd. ("Jin Feng")	PRC/ 9 December 2010	Retailing drugs and other pharmaceutical products	RMB1,100,000	100.00%	–

9. Investment in subsidiaries – Company *(continued)*

(a) Investment in subsidiaries *(continued)*

[a] Jilin Guojian Drug Store Co., Ltd. was renamed as Jilin Jintian Aixin Health Pharmaceutical Co., Ltd. in May 2014.

[b] Heilongjiang Jintian Group Lao Bai Xing Drug Store Co., Ltd. ("Lao Bai Xing Drug Store") was renamed as Heilongjiang Jintian Aixin Pharmaceutical Chain Co., Ltd. in August 2014.

[c] Heilongjiang Jintian Group Jintian Ciji Pharmaceutical Co., Ltd. ("Jintian Ciji Pharmaceutical") was renamed as Jiamusi Jintian Aixin Pharmaceutical Co., Ltd. in October 2014.

[d] Heilongjiang Jintian Group Jintian Ciji Drug Store Co., Ltd. ("Jintian Ciji Drug Store") was renamed as Jiamusi Jintian Aixin Pharmaceutical Chain Co., Ltd. in September 2014.

[e] Jilin Hao Yao Shi Pharmaceutical Co., Ltd. ("Hao Yao Shi") was renamed as Jilin Jintian Aixin Pharmaceutical Distribution Co., Ltd. in June 2014.

[f] Jilin Renhe Drug Store Co., Ltd. was renamed as Jilin Jintian Aixin Renhe Drug Store Co., Ltd. in June 2014.

[g] Changchun Fuhe Jitai Drug Store Co., Ltd. ("Ji Tai") was renamed as Jilin Jintian Aixin Pharmacy Chain Co., Ltd. in April 2014.

[h] Suihua New Century Drug Store Co., Ltd. ("Sui Hua") was renamed as Suihua Jintian Aixin Pharmaceutical Mall Chain Co., Ltd. in July 2014.

[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 2014 and 2013 are RMB27,009,000 and RMB100,884,000, of which nil and RMB81,339,000 are attributed to Weikang. The non-controlling interest in respect of others is not material.

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

Notes to the Consolidated Financial Statements

9. Investment in subsidiaries – Company *(continued)*

(b) Material non-controlling interests *(continued)*

Summarised balance sheet

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Current		
Assets	**289,394**	160,036
Liabilities	**(197,109)**	(32,128)
Total current net assets	**92,285**	127,908
Non-current		
Assets	**390,382**	247,060
Liabilities	**(29,267)**	(18,900)
Total non-current net assets	**361,115**	228,160
Net assets	**453,400**	356,068

Summarised income statement

	For the year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Revenue	**591,075**	421,639
Profit before income tax	**128,839**	86,020
Income tax expense	**(31,506)**	(21,564)
Profit and total comprehensive income	**97,333**	64,456

	For the eight months ended 31 August 2014	For the year ended 31 December 2013
Profit and total comprehensive income attributable to non-controlling interests	**23,152**	23,204

Notes to the Consolidated Financial Statements

9. Investment in subsidiaries – Company *(continued)*

(b) Material non-controlling interests *(continued)*

Summarised cash flows

	For the year ended 31 December 2014 RMB'000	2013 RMB'000
Cash flows from operating activities	**140,546**	88,007
Bank charges paid	**(40)**	(40)
Income tax paid	**(31,013)**	(20,449)
Net cash generated from operating activities	**109,493**	67,518
Net cash used in investing activities	**(167,977)**	(18,907)
Net cash generated from financing activities	**80,642**	–
Net increase in cash	**22,158**	48,611
Cash at beginning of the year	**81,411**	32,800
Cash at end of the year	**103,569**	81,411

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

On 27 August 2014, a subsidiary of the Company acquired 36% interests of Wei Kang from the non-controlling shareholders for a consideration of RMB250,000,000. After the transaction, Wei Kang became a wholly owned subsidiary of the Company (Note 18(a)(iv)).

10. Investments in joint ventures – Group

	As at 31 December 2014 RMB'000	2013 RMB'000
At beginning of the year	**5,249**	3,719
Share of profits	**1,205**	1,530
At end of the year	**6,454**	5,249

Notes to the Consolidated Financial Statements

10. Investments in joint ventures – Group *(continued)*

As at 31 December 2014 and 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	Effective interest held 2014	Effective interest held 2013	Measurement method
Yichun Nancha Haolianghe Limin Drug Store[1]	PRC	5 August 2011	Note 1	30.00%*	30.00%*	Equity
Fuyuan Drug Store[1]	PRC	3 August 2011	Note 1	50.00%	50.00%	Equity
Yichun Nancha Huakang Drug Store[1]	PRC	6 August 2011	Note 1	50.00%	50.00%	Equity
Yichun Nancha Jintian Drug Store[1]	PRC	7 August 2011	Note 1	50.00%	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 this entity. The directors of the Company consider that this entity is jointly controlled entity of the Company because its 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 their shares.

Notes to the Consolidated Financial Statements

10. Investments in joint ventures – Group *(continued)*

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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Assets		
Non-current assets	**457**	385
Current assets	**6,212**	5,104
	6,669	5,489
Liabilities		
Current liabilities	**(215)**	(240)
Net assets	**6,454**	5,249

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Revenue	**4,579**	4,770
Expenses	**(3,374)**	(3,240)
Profit after income tax	**1,205**	1,530

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

11. Deferred income tax – Group

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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Deferred tax assets:		
– Deferred tax assets to be recovered within 12 months	**11,953**	10,797
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**(45,868)**	(21,153)
– Deferred tax liabilities to be recovered within 12 months	**(4,830)**	(1,858)
	(50,698)	(23,011)

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** *RMB'000*	**Accrual for sales commission** *RMB'000*	**Total** *RMB'000*
At 1 January 2013	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
At 1 January 2014	9,879	918	10,797
Credited to the consolidated statement of comprehensive income	890	266	1,156
At 31 December 2014	10,769	1,184	11,953

Notes to the Consolidated Financial Statements

11. Deferred income tax – Group *(continued)*

Deferred tax liabilities	Deferred tax liabilities arising from business combination *RMB'000*
At 1 January 2013	(24,869)
Credited to the consolidated statement of comprehensive income	1,858
At 31 December 2013	(23,011)
At 1 January 2014	(23,011)
Acquisition of subsidiaries *(Note 32)*	(30,962)
Credited to the consolidated statement of comprehensive income	3,275
At 31 December 2014	(50,698)

As at 31 December 2014 and 2013, deferred income tax assets of RMB7,706,000 and RMB5,425,000 have not been recognised in respect of the tax losses amounting to RMB43,884,000 and RMB30,750,000 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 2014 and 2013, no provision for withholding tax has been made, as unremitted earnings of those subsidiaries in the mainland China are not expected to be distributed in the foreseeable future. Unremitted earnings amounted to RMB1,319,296,000 and RMB836,382,000 as at 31 December 2014 and 2013, respectively.

Notes to the Consolidated Financial Statements

12. Financial instruments by category – Group and Company

	Group		Company	
	At at 31 December			
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Loans and receivables				
Trade and other receivables excluding prepayments	**283,793**	268,465	**685,202**	73,980
Restricted cash	**382,843**	8,643	**–**	–
Cash and cash equivalents	**1,349,231**	1,564,248	**14,270**	848,918
	2,015,867	1,841,356	**699,472**	922,898

	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial liabilities at amortized cost				
Trade and other payables	**380,936**	216,881	**15,220**	51,821
Borrowings	**295,500**	–	**–**	–
	676,436	216,881	**15,220**	51,821

Notes to the Consolidated Financial Statements

13. Trade and other receivables – Group and Company

	Group		Company	
	As at 31 December			
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables (a)	**266,459**	194,363	**–**	–
– Due from related parties *(Note 33)*	**471**	527	**–**	–
– Due from third parties	**265,988**	193,836	**–**	–
Prepayments	**90,362**	93,340	**333**	962
– Prepayments of rental expense	**44,854**	31,831	**–**	–
– Prepayments of goods due from related parties *(Note 33)*	**4,559**	38,553	**–**	–
– Prepayments of the fees for the use of trademarks from related parties *(Note 33)*	**1,533**	3,240	**–**	–
– Prepayments of goods and services due from third parties	**22,907**	14,151	**333**	962
– Prepayments of the fees for the use of trademarks from third parties	**1,707**	–	**–**	–
– Value added tax input credits	**14,802**	5,565	**–**	–
Other receivables	**19,108**	74,102	**685,202**	73,980
– Due from subsidiaries (d)	**–**	–	**685,003**	12,226
– Deposits	**11,122**	6,862	**–**	–
– Advance to employees	**425**	2,172	**–**	–
– IPO proceeds hold by the sponsor	**–**	61,301	**–**	61,301
– Others	**7,561**	3,767	**199**	453
Less: Provision for impairment (c)	**(1,774)**	–	**–**	–
Less non-current portion: due from subsidiaries (d)	**–**	–	**(174,033)**	–
Current portion	**374,155**	361,805	**511,502**	74,942

The carrying amounts of the current portion of receivables approximate their fair values.

Notes to the Consolidated Financial Statements

13. Trade and other receivables – Group and Company *(continued)*

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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Up to 3 months	**247,037**	183,627
4 to 6 months	**12,355**	2,795
7 to 12 months	**7,067**	7,941
	266,459	194,363

As at 31 December 2014 and 2013, the trade receivables of RMB19,422,000 and RMB10,736,000 were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Past due up to 3 months	**12,355**	2,795
Past due 4 to 9 months	**7,067**	7,941
	19,422	10,736

Notes to the Consolidated Financial Statements

13. Trade and other receivables – Group and Company *(continued)*

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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
RMB	**360,322**	296,621
HKD	**13,673**	65,184
USD	**160**	–
	374,155	361,805

(c) As of 31 December 2014, other receivables of RMB1,774,000 (2013: nil) were impaired. The amount of the provision was RMB1,774,000 as of 31 December 2014 (2013: nil). Movements on the group's allowance for impairment of other receivables are as follows:

	2014	2013
	RMB'000	*RMB'000*
At 1 January	**–**	–
Provision for other receivables	**1,774**	–
At 31 December	**1,774**	–

The creation and release of provision for other receivables have been included in 'administrative expenses' in the consolidated statement of comprehensive income. 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.

(d) The current balances due from subsidiaries are borrowings to subsidiaries, which are unsecured, non-interest bearing and have no fixed term of repayment.

The non-current balances due from subsidiaries were non-interest bearing and will not be collected within one year. As at 31 December 2014, the fair value of the balance due from subsidiaries is approximately equal to the carrying amount.

Notes to the Consolidated Financial Statements

14. Inventories – Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Goods	**362,940**	271,748

The cost of inventories recognised as expense and included in cost of sales for the years ended 31 December 2014 and 2013 amounted to RMB3,063,079,000 and RMB2,370,195,000 respectively (Note 23).

15. Restricted cash – Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Restricted cash	**382,843**	8,643

The balance of the restricted cash was secured for bank borrowings and notes payable. As at 31 December 2014 and 2013, the amount of trade finance facilities utilised by the Group for bank borrowings amounting to RMB300,000,000 and nil, respectively, (Note 20), and for issuing notes payable to its suppliers amounting to RMB82,843,000 and RMB8,643,000, respectively. (Note 21 (b)).

All restricted cash was denominated in RMB.

The ranges of interest rates on restricted cash, with mature days within one year, were 0.39% to 4.60% and 2.90% per annum as at 31 December 2014 and 2013.

Notes to the Consolidated Financial Statements

16. Cash and cash equivalents – Group and Company

	Group		Company	
	As at 31 December			
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	1,271	682	12	–
Cash at bank	1,347,960	1,563,566	14,258	848,918
Total	1,349,231	1,564,248	14,270	848,918

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

As at 31 December 2014 and 2013, the cash and bank denominated in the following currencies:

	Group		Company	
	As at 31 December			
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	1,326,860	1,193,497	5,155	480,000
HKD	21,407	370,571	8,295	368,918
USD	964	180	820	–
Total	1,349,231	1,564,248	14,270	848,918

Notes to the Consolidated Financial Statements

17. Share capital – Group and Company

	Number of ordinary shares	Nominal value ordinary shares *USD*
Authorised:		
Ordinary shares of USD0.001 each		
At 31 December 2014 and 2013	10,000,000,000	10,000,000

Issued and fully paid:

	Number of ordinary shares	Nominal value of ordinary shares *USD*	Equivalent nominal value of ordinary shares *RMB'000*
At 1 January 2013	1,000	1	–
Issue of ordinary shares for extinguishment of loan by the Parent Company *(a)*	1	–	–
Share issued under the capitalization *(b)*	1,599,998,999	1,599,999	9,204
New issue of shares *(c)*	400,000,000	400,000	3,055
At 31 December 2013 and 2014	2,000,000,000	2,000,000	12,259

Note:

(a) 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 at USD0.001 to the Parent Company.

(b) 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.

(c) 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 – Group and Company

The Group

	Note	Share premium RMB'000	Capital reserves (Note(a)) RMB'000	Statutory reserves (Note(b)) RMB'000	Shares held for Share Award Plan (Note 19(b)) RMB'000	Share-based compensation reserves (Note(d)) RMB'000	Total RMB'000
Balance at 1 January 2013		–	(8,627)	20,410	–	8,853	20,636
Purchase of non-controlling interests	(a)(i)	–	(11,248)	–	–	–	(11,248)
Issue of ordinary share for extinguishment of loan by the Parent Company	(a)(ii)	650,658	–	–	–	–	650,658
Gross proceeds from placing and public offering of shares	17(c)	905,205	–	–	–	–	905,205
Share issuance costs	(c)	(31,038)	–	–	–	–	(31,038)
Contribution from the Parent Company	(a)(iii)	–	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
Balance at 1 January 2014		1,524,825	(8,939)	35,056	–	8,853	1,559,795
Purchase of non-controlling interests	(a)(iv)	–	(145,508)	–	–	–	(145,508)
Dividends distribution	29(a)	(44,169)	–	–	–	–	(44,169)
Shares purchased for Share Award Plan	19(b)	–	–	–	(39,780)	–	(39,780)
Profit appropriation to statutory reserves	(b)	–	–	25,126	–	–	25,126
Balance at 31 December 2014		1,480,656	(154,447)	60,182	(39,780)	8,853	1,355,464

Notes to the Consolidated Financial Statements

18. Reserves – Group and Company *(continued)*

The Group *(continued)*

Notes:

(a) Capital reserves

(i) 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.

(ii) 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.

(iii) 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.

(iv) On 27 August 2014, a subsidiary of the Company acquired 36% equity interest in Weikang from non-controlling shareholders for a purchase consideration of RMB250,000,000. The carrying amount of the non-controlling interests in Weikang on the date of acquisition was RMB104,492,000. The Group recognised a decrease in non-controlling interests of RMB104,492,000 and a decrease in equity attributable to owners of the Company of RMB145,508,000. After the transaction with non-controlling shareholders, Weikang became a wholly owned subsidiary of the Group.

(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. "Wei Kang", "Sheng Shi" and "Da Qing" have reached 50% of the registered capital as at 31 December 2014. According to the relevant PRC laws and regulations, there is no statutory requirement for these eleven 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 one subsidiary of the Group were granted to an employee of the Group. The fair value of the shares were accounted for as share-based compensation reserve.

Notes to the Consolidated Financial Statements

18. Reserves – Group and Company *(continued)*

The Company

	Share premium *RMB'000*	Shares held for Share Award Plan *RMB'000*	Capital reserves *RMB'000*	Total *RMB'000*
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
Balance at 1 January 2014	874,167	–	15,414	889,581
Dividends distribution	(44,169)	–	–	(44,169)
Shares purchased for Share Award Plan	–	(39,780)	–	(39,780)
Balance at 31 December 2014	829,998	(39,780)	15,414	805,632

Notes to the Consolidated Financial Statements

19. Share-based payments

(a) Share Option Scheme

The Company's Share Option Scheme was approved for adoption 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. The Share Option Scheme remains in force for a period of 10 years until 17 November 2023.

No options were granted under the Share Option Scheme during the year.

(b) Share Award Plan

The Company adopted the Share Award Plan on 23 April 2014. The purposes of the Share Award Plan are to recognise the contributions by eligible persons to the Group and to provide them with incentives in order to retain them for continual operation and development of the Group and to attract suitable personnel for further development of the Group. The Share Award Plan, unless early terminated, will remain in force for 10 years until 22 April 2024.

Under the plan, the Company has appointed a trust in Hong Kong for administration of the Share Award Plan. The principal activity of the trust is administrating and holding the Company's shares for the Share Award Plan for the benefit of the Company's eligible persons. Pursuant to the Share Award Plan, the Company's shares will be purchased by the trust in the market out of cash contributed by the Company and held in the trust for the Company until such shares are awarded and vested in the relevant beneficiary in accordance with the provisions of the Share Award Plan.

As the Company has the power to govern the financial and operating policies of the trust and can derive benefits from the contributions of the employees who have been awarded the shares of the Company through their continued employment with the Group, the Group is required to consolidate the trust.

During the year, the Company had contributed RMB39,794,000 to the trust for financing its acquisition of the Company's shares. The trust of the Share Award Plan, pursuant to the terms of the rules and trust deed of the Share Award Plan, acquired 16,993,000 shares of the Company in the market at an aggregate consideration of approximately RMB39,780,000 (including transaction cost).

No shares were awarded under the Share Award Plan during the year.

Notes to the Consolidated Financial Statements

20. Borrowings – Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Current		
Short-term secured bank borrowings	**295,500**	–

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Opening amount	**–**	–
Additions	**295,500**	–
Closing amount	**295,500**	–

(a) The Group's borrowings are secured by:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Group's assets		
– Restricted cash	**300,000**	–

(b) The maturity date of the borrowings are analysed as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Within 1 year	**295,500**	–

(c) As at 31 December 2014 and 2013, there is no undrawn borrowing facilities of the Group.

(d) All of the Group's borrowings from bank are on fixed rate, as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Bank borrowings	**2.89%**	–

The carrying amount for the current borrowings approximated their fair values because of their short-term maturities.

Notes to the Consolidated Financial Statements

21. Trade and other payables – Group and Company

	Group		Company	
	As at 31 December			
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables (a)	**188,016**	85,119	**–**	–
– Due to a related party *(Note 33(b))*	**68**	–	**–**	–
– Due to third parties	**187,948**	85,119	**–**	–
Notes payable (b)	**82,843**	8,643	**–**	–
Other payables (c)	**110,077**	123,119	**15,220**	51,821
– Due to subsidiaries	**–**	–	**14,414**	5,132
– Due to third parties	**110,077**	123,119	**806**	46,689
Total	**380,936**	216,881	**15,220**	51,821

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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Up to 3 months	**182,031**	82,796
4 to 6 months	**5,378**	2,069
7 to 12 months	**477**	68
1 year to 2 years	**130**	166
2 years to 3 years	**–**	20
	188,016	85,119

(b) As at 31 December 2014 and 2013, the entire balance of notes payable was secured by restricted cash of RMB82,843,000 and RMB8,643,000, respectively. (Note 15).

Notes to the Consolidated Financial Statements

21. Trade and other payables – Group and Company *(continued)*

(c) Details of other payables are as follows:

	Group		Company	
	As at 31 December			
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Salary and welfare payable	**50,220**	44,649	**22**	525
Sales commissions and marketing expenses	**11,307**	10,208	**–**	–
Other taxes	**24,805**	21,989	**–**	–
Payable for professional fee incurred for IPO	**–**	40,999	**–**	40,363
Due to subsidiaries	**–**	–	**14,414**	7,147
Consideration payable *(Note 32)*	**15,500**	–	**–**	–
Others	**8,245**	5,274	**784**	3,786
Total	**110,077**	123,119	**15,220**	51,821

(d) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
RMB	**370,045**	176,438
HKD	**10,190**	28,009
USD	**701**	12,434
	380,936	216,881

Notes to the Consolidated Financial Statements

22. Other gains/(losses) – net

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Loss on financial assets at fair value through profit or loss	**–**	(1,160)
Loss on disposals of property, plant and equipment	**(397)**	(238)
Excess of the fair value of net assets of a subsidiary acquired over acquisition cost *(Note 32)*	**989**	–
Others	**(42)**	(113)
	550	(1,511)

23. Expenses by nature

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Changes in inventories *(Note 14)*	**3,063,079**	2,370,195
Employee benefit expenses *(Note 24)*	**229,944**	168,502
Advertising and other marketing expenses	**107,761**	48,156
Rental expenses *(Note 6)*	**84,865**	67,653
Transportation and related charges	**79,503**	56,607
Other tax expenses	**29,762**	21,025
Depreciation of property, plant and equipment *(Note 6)*	**23,874**	19,480
Amortisation of intangible assets *(Note 8)*	**12,602**	7,987
Office and communication expenses	**11,286**	9,769
Professional fees	**8,339**	1,962
License fee of trademarks	**6,490**	3,250
Professional fee incurred for IPO	**5,435**	18,281
Auditors' remuneration	**4,800**	3,000
Travelling and meeting expenses	**3,495**	1,377
Electricity and other utility fees	**3,454**	2,968
Provision for impairment of other receivable *(Note 13)*	**1,774**	–
Provision for impairment of goodwill *(Note 8)*	**304**	–
Amortisation of land use rights *(Note 7)*	**63**	–
Other expenses	**3,684**	2,587
	3,680,514	2,802,799

Notes to the Consolidated Financial Statements

24. Employee benefit expenses

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Salaries and wages	**168,429**	119,992
Contributions to pension plans	**57,242**	44,726
Other benefits	**4,273**	3,784
	229,944	168,502

(a) Directors' emoluments

The emoluments of the directors are set out as follows:

	Year ended 31 December 2014				
Name of directors	**Salaries and wages**	**Bonuses**	**Fee**	**Contributions to pension plans**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Jin Dongtao	480	–	788	23	1,291
Mr. Chu Chuanfu**	180	–	788	21	989
Mr. Jin Dongkun	180	–	788	21	989
Ms. Wu Qiong *(iii)*	165	–	512	15	692
Ms. Chen Xiaoyan *(i)*	180	–	354	17	551
Mr. Yang Jiacheng *(ii)*	120	–	66	19	205
Mr. Cheng Sheung Hing*	–	–	189	–	189
Ms. Chiang Su Hui Susie*	–	–	189	–	189
Mr. Chen Xiao*	–	–	189	–	189
	1,305	–	3,863	116	5,284

Notes to the Consolidated Financial Statements

24. Employee benefit expenses *(continued)*

(a) Directors' emoluments *(continued)*

	Year ended 31 December 2013				
Name of directors	Salaries and wages *RMB'000*	Bonuses *RMB'000*	Fee *RMB'000*	Contributions to pension plans *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

** Mr. Chu Chuanfu is the chief executive of the Group.

(i) Ms. Chen Xiaoyan retired as an executive director from 12 June 2014.

(ii) Mr. Yang Jiacheng was appointed as an executive director with effect from 25 August 2014.

(iii) Ms. Wu Qiong resigned as an executive director from 25 August 2014.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2013: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2013: nil) individual during the year are as follows:

	Year ended 31 December 2014 *RMB'000*	2013 *RMB'000*
Salaries and allowance	974	–
Contributions to pension plans	13	–
	987	–

The emolument paid to the above individual fell between nil to RMB1,000,000.

During the years of 2014 and 2013, no director or the five highest paid individuals received any emoluments 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

25. Finance income and costs

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Finance income		
Interest income on bank deposits	**16,146**	2,359
Finance costs		
Exchange losses	**(5,607)**	(3,258)
Interest expense on loans	**(5,527)**	–
Other charges	**(465)**	(268)
	(11,599)	(3,526)
Finance income/(cost) – net	**4,547**	(1,167)

26. Income tax expense

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Current income tax – PRC corporate income tax	**183,175**	138,144
Deferred income tax credit *(Note 11)*	**(4,431)**	(3,358)
Total income tax expense	**178,744**	134,786

Notes to the Consolidated Financial Statements

26. Income tax expense *(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	
	2014	2013
	RMB'000	*RMB'000*
Profit before income tax	**682,085**	519,846
Tax calculated at a PRC statutory tax rate of 25%	**170,521**	129,962
Tax effects of		
– Expenses not deductible for tax purpose	**1,962**	1,436
– Income not subject to tax	**(1,001)**	(1,092)
– Tax losses for which no deferred income tax asset was recognised	**2,281**	1,394
– Effect of different applicable tax rates for certain subsidiaries	**5,282**	3,469
– Results of joint ventures reported net of tax	**(301)**	(383)
Income tax expense	**178,744**	134,786

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 2014. The subsidiaries of the Group in the 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.

27. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchase under the Share Award Plan (Note 19(b)).

	Year ended 31 December	
	2014	2013
Profit attributable to owners of the Company *(RMB'000)*	**472,724**	355,103
Weighted average number of ordinary shares in issue *(thousands)*	**1,988,903**	1,620,822
Basic earnings per share *(RMB cents)*	**23.77**	21.91

Notes to the Consolidated Financial Statements

27. Earnings per share *(continued)*

(b) Diluted

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

As there were no dilutive potential ordinary shares outstanding for the years ended 31 December 2014 and 2013, the diluted earnings per share for the years is equal to basic earnings per share.

28. Loss attributable to owners of the Company

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB48,505,000 (2013: RMB22,032,000).

29. Dividends

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Interim dividend paid (a)	**44,169**	–
Proposed final dividend (b)	**50,333**	–
Dividends paid (c)	**–**	85,764
	94,502	85,764

(a) The dividends paid in 2014 amounted to RMB44,169,000 (2013: nil), which excluded the dividends of RMB379,000 (2013: nil) related to the shares held for the purpose of the Share Award Plan.

(b) Pursuant to a resolution passed on 18 March 2015, the Board of Directors of the Company proposed a final dividend of HK3.2 cents per ordinary share of the company for the year ended 31 December 2014 from the Company's share premium account. The final dividends proposed after 31 December was not recognised as a liability at 31 December.

(c) 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 Harbin Ciji Pharmaceutical, Heilongjiang Jintian Aixin Pharmaceutical Chain Co., Ltd. Jiamusi Jintain Aixin Pharmaceutical Co., Ltd. and Jiamusi Jintian Aixin Pharmaceutical Chain Co., Ltd. (collectively 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

30. Cash generated from operations

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Profit for the year	**503,341**	385,060
Adjustments for:		
– Income tax expense	**178,744**	134,786
– Depreciation of property, plant and equipment *(Note 6)*	**23,874**	19,480
– Amortisation of land use rights *(Note 7)*	**63**	–
– Amortisation of intangible assets *(Note 8)*	**12,602**	7,987
– Loss on disposal of property, plant and equipment *(Note 22)*	**397**	238
– Excess of the fair value of net assets of a subsidiary acquired over acquisition cost *(Note 22)*	**(989)**	–
– Impairment of goodwill *(Note 23)*	**304**	–
– Impairment of other receivable *(Note 23)*	**1,774**	–
– Finance income – net *(Note 25)*	**(4,547)**	(1,167)
– Share of profits of joint ventures *(Note 10)*	**(1,205)**	(1,530)
– Loss on financial assets at fair value through profit or loss *(Note 22)*	**–**	1,160
Changes in working capital:		
– Increase in inventories	**(64,391)**	(4,910)
– Increase in trade and other receivables	**(44,686)**	(25,674)
– Increase/(decrease) in trade and other payables	**162,901**	(8,511)
Cash generated from operations	**768,182**	506,919

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Net book amount *(Note 6)*	**450**	416
Loss on disposals of property, plant and equipment *(Note 22)*	**(397)**	(238)
Proceeds from disposal of property, plant and equipment	**53**	178

31. 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	
	2014	2013
	RMB'000	*RMB'000*
No later than 1 year	**64,379**	52,036
Later than 1 year and no later than 5 years	**46,082**	60,472
More than 5 years	**230**	108
	110,691	112,616

(b) Capital commitments

The Group did not have any significant capital commitments not provided for at 31 December 2014 and 2013.

Notes to the Consolidated Financial Statements

32. Business combinations

During the year ended 31 December 2014, certain equity interests in subsidiaries now comprising the Group were acquired from third parties for the purpose of expanding into new markets. Acquisitions of equity interests in these subsidiaries were accounted for using the acquisition method of accounting effective from the dates when the subsidiaries were controlled by the Group. Details are as follows:

(a) For the year ended 31 December 2014, the Group acquired equity interests in the following subsidiaries:

Company name	**Acquisition date**	**Percentage of equity acquired**	**Cash consideration**
			RMB'000
Ren He	1 February 2014	100.00%	6,600
Sheng Shi	31 March 2014	100.00%	21,000
Jintian Aixin Health	31 March 2014	100.00%	55,000
Wei Shi	1 July 2014	100.00%	78,000
Hong Mian	1 July 2014	100.00%	23,000
De Ren	1 July 2014	100.00%	35,000
Jin Feng	31 December 2014	100.00%	79,500
Tian Kang	31 December 2014	100.00%	76,000
Rebound Global	31 December 2014	100.00%	12,042
			386,142

Notes to the Consolidated Financial Statements

32. Business combinations *(continued)*

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

	Ren He	Sheng Shi	Jintian Aixin Health	Wei Shi	Hong Mian	De Ren	Jin Feng	Tian Kang	Rebound Global	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Consideration:										
– Cash consideration	6,600	21,000	55,000	78,000	23,000	35,000	70,000	70,000	12,042	370,642
– Consideration payable *(Note 21(c))*	–	–	–	–	–	–	9,500	6,000	–	15,500
Total consideration	6,600	21,000	55,000	78,000	23,000	35,000	79,500	76,000	12,042	386,142
Recognised amounts of identifiable assets acquired and liabilities assumed										
Cash	2	353	86	33	57	23	38	18	722	1,332
Property, plant and equipment *(Note 6)*	67	71	598	877	199	311	2,227	138	440	4,928
Trademarks and brand loyalty (included in intangibles) *(Note 8)*	1,900	6,700	17,000	–	7,300	10,300	25,100	21,500	–	89,800
Contractual supplier relationship (included in intangibles) *(Note 8)*	–	–	–	32,000	–	–	–	–	11,736	43,736
Inventories	436	767	6,228	4,565	1,523	1,877	6,735	4,604	66	26,801
Trade and other receivables	733	1,194	5,036	12,682	1,260	3,557	3,738	2,397	6,849	37,446
Trade and other payables	(216)	(442)	(2,689)	(4,779)	(302)	(1,904)	(3,032)	(930)	(6,782)	(21,076)
Deferred tax liabilities *(Note 11)*	(475)	(1,675)	(4,384)	(8,052)	(1,859)	(2,618)	(6,422)	(5,477)	–	(30,962)
Total identifiable net assets	2,447	6,968	21,875	37,326	8,178	11,546	28,384	22,250	13,031	152,005
Non-controlling interest	–	–	–	–	–	–	–	–	–	–
Goodwill *(Note 8)*	4,153	14,032	33,125	40,674	14,822	23,454	51,116	53,750	–	235,126
Excess of the fair value of net assets of a subsidiary acquired over acquisition cost *(Note 22)*	–	–	–	–	–	–	–	–	(989)	(989)
	6,600	21,000	55,000	78,000	23,000	35,000	79,500	76,000	12,042	386,142

Notes to the Consolidated Financial Statements

32. 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 RMB235,126,000 is attributable to the acquired human resources, economies of scale and synergy expected from combining the operations of the Group and above subsidiaries acquired not under common control combination. High profitability is expected to gain from these acquired subsidiaries 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 was RMB239,967,000. The acquired subsidiaries also contributed profit of RMB18,800,000 over the same period.

Had the acquired subsidiaries been consolidated from 1 January 2014, the consolidated statement of comprehensive income for 2014 would show revenue of RMB4,601,341,000 and profit of RMB529,357,000.

33. 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	
	2014	2013
	RMB'000	*RMB'000*
Purchases of goods	**156,251**	169,469
Purchases of services	**113**	–
Use of trademarks	**4,373**	3,250
Consulting services fee	**314**	–
Sales of goods	**4,717**	4,197

Notes to the Consolidated Financial Statements

33. Related-party transactions *(continued)*

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

(ii) Discontinued transactions

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Shareholder's loan	**–**	24,247

(b) Balances with related parties:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables *(Note 13)*	**471**	527
Prepayment of goods *(Note 13)*	**4,559**	38,553
Prepayment of fees for use of trademark *(Note 13)*	**1,533**	3,240
Trade payables *(Note 21)*	**68**	–

(c) Key management compensation

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**5,591**	2,109
Contributions to pension plans	**152**	71
	5,743	2,180

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

Results

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**4,355,842**	3,323,499	2,326,292	1,473,902	858,613
Gross profit	**1,267,460**	936,418	545,769	378,144	239,741
Profit before income tax	**682,085**	519,846	305,880	251,223	163,605
Income tax expense	**(178,744)**	(134,786)	(78,517)	(62,377)	(41,095)
Profit and total comprehensive income for the year	**503,341**	385,060	227,363	188,846	122,510
Attributable to:					
Owners of the Company	**472,724**	355,103	213,760	180,117	122,510
Non-controlling interests	**30,617**	29,957	13,603	8,729	-
	503,341	385,060	227,363	188,846	122,510

Assets, Liabilities And Non-controlling Interests

	As at 31 December				
	2014	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**3,413,865**	2,744,231	1,515,146	1,232,769	268,830
Total liabilities	**(788,697)**	(288,455)	(886,988)	(831,525)	(81,718)
Non-controlling interests	**(27,009)**	(100,884)	(79,377)	(38,787)	-
Equity attributable to owners of the Company	**2,598,159**	2,354,892	548,781	362,457	187,112