# ANNUAL REPORT 2015

UNIVERSAL HEALTH

**UNIVERSAL HEALTH INTERNATIONAL GROUP HOLDING LIMITED**

**大 健 康 國 際 集 團 控 股 有 限 公 司**

*(formerly known as 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

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# Company Profile

Universal Health International Group Holding Limited (Stock code: 2211) (the "**Universal Health International**" or the "**Company**") and its subsidiaries (the "**Group**") strives to create international brand operator of universal health and become leading practitioner of the strategy of "Internet and Universal Health". Universal Health International is one of the leading pharmaceutical retailers and distributors in the Northeast China. The Group has the largest pharmaceutical retail chain network in the Northeast China and it is also the largest privately operated pharmaceutical distributor in the Northeast China and was awarded as the top 10 Chain Drug Stores in China for its store number. As of the date of this annual report, the Group operated 954 retail pharmacies in Northeast China, four of which are located in Hong Kong and all are self-operated pharmacies. The Group has approximately 5,800 active distributors. The Group 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. Branded products are advantages of the core business of the Group. The Group has 360 authorised branded products, including main brands of Yushi (御室), Kangyisheng (康醫生), Shequyisheng (社區醫生) and Taoqimao (淘氣貓), and the Group is selling 2,386 products with exclusively distributed brand. The Group provides training programs to its employees and customers through Chinese Business Institute. The Group 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 Group 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 universal health industry.

Since the listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 December 2013, the Group vigorously developed imported brand network and cross-border e-commerce network by leveraging the listing position in Hong Kong on the basis of continuous and stable development of traditional retail distribution business, and realized the development of "Online and Offline Linkage, Cross-Boundary and Cross-Border Parallelizing". Under the support of the State policies, since June 2015, the Group has actively developed cross-border e-commerce business in combination of the development strategy of "Cross-Boundary and Cross-Border Integration", which increased sales and purchasing channel for the Group and firstly realized the industry upgrading and transformation in the industry.

# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors:**

Mr. Jin Dongtao *(Chairman)*
Mr. Jin Dongkun *(Vice Chairman)*
Mr. Chu Chuanfu *(Chief Executive Officer)*
Mr. Zhao Zehua

**Independent Non-executive Directors:**

Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie
Ms. Hao Jia

## AUDIT COMMITTEE

Ms. Hao Jia *(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. Zhao Zehua
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

Room No. 907B
9th Floor, Empire Centre
68 Mody Road
Kowloon
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

## AUDITOR

PricewaterhouseCoopers

## STOCK CODE

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

## INVESTOR RELATIONS

Ms. Joan Teng
ir@uhi-group.com

## COMPANY'S WEBSITE

www.uhighl.com

# Financial Highlights

| | Year ended 31 December | | |
|---|---|---|---|
| | **2015** *RMB Million* *(Audited)* | 2014 *RMB Million* *(Audited)* | Change *(%)* |
| Revenue | **4,805.9** | 4,355.8 | +10.3 |
| Gross profit | **1,340.6** | 1,267.5 | +5.8 |
| Operating profit | **97.2** | 676.3 | -85.6 |
| Profit for the year | **33.9** | 503.3 | -93.3 |
| EBITDA[1] | **289.6** | 713.2 | -59.4 |
| Basic earnings per share – RMB cents[2] | **1.57** | 23.77 | -93.4 |
| Gross margin (%) | **27.9** | 29.1 | -1.2 pp |
| Operating margin (%) | **2.0** | 15.5 | -13.5 pp |
| Net margin (%) | **0.7** | 11.6 | -10.9 pp |

| | As at 31 December | | |
|---|---|---|---|
| | **2015** *(Audited)* | 2014 *(Audited)* | |
| Current ratio (times)[3] | **4.4** | 3.3 | +1.1 |
| Trade receivables turnover (days)[4] | **19.6** | 19.3 | +0.3 |
| Inventory turnover (days)[5] | **40.1** | 37.5 | +2.6 |
| Trade payables turnover (days)[6] | **19.6** | 16.1 | +3.5 |
| Return on equity (%)[7] | **1.2** | 18.2 | -17.0 |
| Return on total assets (%)[8] | **1.1** | 14.7 | -13.6 |
| Interest coverage (times)[9] | **47.1** | 129.0 | -81.9 |

# Financial Highlights

*Notes:*

1. EBITDA are calculated by adjusting earnings before interests, tax, depreciation and amortisation excluding the effect of share of profit of joint ventures, share based payment expenses and goodwill impairment.

2. 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 2015 was 1,983,193,000, versus 1,988,903,000 for last year).

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

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

5. 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.

6. 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.

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

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

9. Interest coverage ratio are calculated by dividing EBITDA for the year by interest expenses.

# Chairman's Statement

# Chairman's Statement

## Setting Strategic Layout
### Starting New Growth Engine

***Dear Shareholders:***

I am glad to express my sincere gratitude to the shareholders of the Company (the "**Shareholder(s)**") and all who give strong support and encouragement to Universal Health International. Firstly, I am glad to express my sincere gratitude to the Shareholders and all who have paid continuous attention and support to the Company on behalf of the directors (the "**Director(s)**") of the board (the "**Board**"). I am also taking this opportunity to present the annual report of the Group for the year ended 31 December 2015 (the "**Reporting Period**").

# Chairman's Statement

## Macro Environment

In 2015, with the increased downward pressure in real economy, significant volatility experienced in the financial market and the lowered GDP guidance, the development of Chinese economy entered into the situation of a "New Norm".

The year of 2016 is the first year of the "Thirteenth Five-Year" plan of the People's Republic of China (the "PRC"), with major economic tasks in five aspects of "De-Production Capacity, De-Inventory, De-Leverage, Decreasing Cost and Reducing Deficiencies", and reforms in areas of politics, economy, military and society are in the crucial phase.

## Business Review

During the Reporting Period, the revenue of the Group amounted to RMB4,805.9 million, representing an increase of 10.3% year-on-year. Profit attributable to equity owners of the Company amounted to RMB31.2 million, representing a decrease of 93.4% year-on-year, which was caused by the strategic upgrade and transformation as well as promotion input.

Affected by macro and micro comprehensive environment factors, the Company maintained stability and made progress in 2015. During the Reporting Period, the Group actively carried out member interaction and large own-brand promotion activities, timely adjusted marketing strategy, applied a variety of promotion methods, strengthened the promotion of the exclusively licensed high-margin product "Yushi", and maintained the steady development of retail distribution business; at the same time, the Group actively expanded overseas markets, developed the network of imported brands, penetrated into the field of "Internet+", developed mobile e-commerce department of WeChat marketing, constantly expanded the breadth and depth of the product market coverage and vigorously developed the cross-border e-commerce network, achieved online and offline interaction, cross-border and cross-industry development, and expanded sales channels in all directions.

# Chairman's Statement

On the basis of the original business development, the Group actively prepared for the establishment of Universal Health International Industrial Fund, constructed the capital market marketing network through fund, further established and consolidated the Group's leading development position in the universal health industry.

In June 2015, the name of the Company was changed from "Jintian Pharmaceutical Group Limited" to "Universal Health International Group Holding Limited", which demonstrated the core direction of business expansion and strategic upgrading of the Group. It also indicated that the Company upgraded from the traditional pharmaceutical industry in the past to a health-based emerging enterprise with international influence and defined the international development layout in the universal health industry.

During the Reporting Period, "Caring China" continued to be a brand of the Group's social responsibility and the Group launched a total of 355 charitable activities, including National Body-building Exercise, helping the disadvantaged, as well as the business school training to improve the professional quality of industry professionals and other activities. The education-supporting project of Caring China organized 314 free love lectures about adolescents and continued to bring good social reputation for the Group; at the same time, the Group strengthened the dependence and loyalty of members and staff.

## Outlook and Strategies

In 2016, global economy is expected to continue slowing recovery and the main task of the Chinese economy is maintaining stability and making progress. The economic operation shall be kept in a reasonable range by stabilizing growth, adjusting structures, improving livelihood and preventing risks. The growth of medical industry will also slow down. However, the universal health service platform will see further development driven by the urban public hospital reform promoted by the National Health and Family Planning Commission, the exploration and development of Internet+ medical treatment, and the introduction of selective two-child policy, allowing couples to have a second baby if either parent is an only child. It is expected that the future development of retail pharmaceutical stores will face more opportunities and challenges, and products and services will be further diversified.

# Chairman's Statement

The Group will seize the historic opportunity, initially take the medical chain and pharmaceutical distribution as the development strategy, expand the business of "Universal Health +", continue to expand the sales network throughout the country, steadily develop offline operation while actively expanding the international trade, realize the steady growth of real business, the Company will continue to expand the mode of direct supply, continuously improve the revenue of high-margin products in the segments of retail and distribution business, consolidate and constantly develop the business model of high growth of high margin; secondly, bridge the "Internet+", set up and promote the development of the brand "Future Store"; the Group will accelerate the development of cross-border e-commerce and mobile Internet marketing business, and develop the advantageous business segments; it will make layout for the universal health industrial fund and realize the efficiency of capital use, specialization of mergers and acquisitions business, ecologization of upstream and downstream resources to help the Group develop the brand and international market and actively explore mergers and acquisitions at home and abroad and opportunities for cooperation.

Universal Health International will push the unique concept of universal health to the whole country by adhering to the business development purpose of "exploring national treasures and serving public health", holding the service creed of "everything for the people", and maintaining the mission of "escort for health by love".

## Environment, Governance and Society Responsibility

The fundamental task of senior management of the Group is always leading the management to concern environmental protection, perform social responsibility as an enterprise citizen, strengthen corporate governance, promote healthy and orderly development of the Group, and create more economic value and social utility for stakeholders such as consumers, upstream suppliers, downstream distributors, Shareholders, potential investors, management, employees, communities and even the environment.

The Group will take opportunities to exploit bravely, and will continue to build a leading brand in universal health field. The Group is full of confidence in the long-term development of the Company.

# Chairman's Statement

The year of 2016 is the beginning of a new era of structural upgrade, exploration and reformation. Employees with innovation awareness, loyalty, diligence and fighting spirit are precious resources of the Group. Taking this opportunity, I would like to express my sincere gratitude to the Board and all staff for their hardworking efforts and contribution last year.

**Jin Dongtao**
*Chairman*

Hong Kong
31 March 2016

# MANAGEMENT DISCUSSION AND ANALYSIS

# Management Discussion and Analysis



## Industry Overview

Looking back to 2015, Chinese economy has entered into a situation of a "New Norm", featured with lowered economic growth, optimized economic structure and transferred growth engine, deepened reform and enlarged space for economic development. Economic growth has transferred from high speed to medium- high speed with distinguishing feature of "New Norm". The "Three Carriages" (export, investment and consumption) which drive the economy are underpowered. The export volume continued to decline and reduce its contribution to GDP ratio. The high inventory in properties has negative impact on investment that slowed down sharply on growth rate. The consumption increased slightly but was limited. Facing the complex international situation and increasing stress of economic downturn, the government has taken a series of measures, such as implementation of interest rate liberalization, promotion of property destocking and reformation of supply, adjustment of tax rate policy. The effectiveness of these measures will gradually emerge in the future.

According to the statistic of the National Bureau of Statistics of the PRC, the GDP of 2015 was RMB67,670.8 billion, increased by 6.9% as compared to 2014 calculating at comparable price. In regard of consumption, with the increasing revenue of the mainland Chinese and the improvement of medical healthcare, their purchasing power and intention to buy enhances steadily. However, the growth of consumption remains slow, with the annual consumer price increased by 1.4% as compared with last year, of which health care and personal care increased by 2.0%.

# Management Discussion and Analysis


According to National Bureau of Statistics of the PRC, during the Reporting Period, the revenue from main business of pharmaceutical enterprises above the designated size in the PRC amounted to RMB2,553.7 billion, representing an increase of 9.1% on a year-on-year basis but a decrease of 3.8 percentage points as compared with the corresponding period last year. The total profit from scaled pharmaceutical industry in 2015 amounted to RMB262.7 billion, representing a year-on-year increase of 12.9%, and an increase of 0.8 percentage point as compared to the corresponding period last year. The sales revenue of Chinese and western drugs for the Reporting Period reached RMB789.5 billion, representing an increase of 14.2% on a year-on-year basis but a decrease of 0.8 percentage point as compared with the corresponding period last year. The growth of pharmaceutical industry slowed down slightly.

In spite of the downward pressure in the Chinese economy, there are good news from the medical industry. In 2015, the Amendment to Laws on Population and Family Planning of PRC (Draft) was passed on 27 December 2015, which expressly stipulated that the government advocates a couple with two children, while emphasizing the family planning is still the fundamental national policy and the PRC government would continue to control the population and improve population quality. On 6 January 2016, the State Council issued the order of universal two children policy reform decision, which was well received by the medical healthcare and service industry. It is expected the Company will benefit from the policy in the long run.

On 24 June 2015, at the executive meeting of the State Council, the Guidance on Promoting "Internet +" (《「互聯網+」行動指導意見》) was passed, which marked that the emerging business mode of "Internet +" has become the national strategy. In 2015, the internet achieved fast development and gradually changes the traditional mode of the medical industry. The online health care enterprises were not contended with

# Management Discussion and Analysis



the operation model of online registration and simple inquiry, and gradually established online hospital and promoted hierarchical diagnose and treatment. The combination of the hierarchical medical system, medicine review and approval system, the reform of medical equipment review and approval system, the reform of medicine price, traditional Chinese medicinal material protection, “Internet+” health care and precision medicine project guided the industry to a more efficient and reasonable direction, which brought a deepen reform to the pharmaceutical industry. Through internet, pharmaceutical enterprises enjoy price advantage by reducing the costs and intermediate links in the consumption, which helped to promote their products more easily and greatly enhanced their marketing capacity. The transformation of pharmaceutical e-commerce and traditional pharmacies through internet will become an inevitable development trend of the industry with huge potential for appreciation in the future.

During the Reporting Period, the State Council issued Opinion of the Internet Action by the PRC State Council (《關於大力發展電子商務加快培育經濟新動力的意見》), Accelerating the Development of New Competitive Advantages in Foreign Trade (《關於加快培育外貿競爭新優勢的若干意見》), Guiding Opinions of the General Office of the State Council on Promoting the Healthy and Rapid Development of Cross-border E-commerce (《關於促進跨境電子商務健康快速發展的指導意見》) successively, all of which include “Internet+”, facilitating the contents of the sustainable and healthy development for foreign trade of the Country. Cross-border e-commerce will be a new engine to the development of the foreign trade with new concept and new mode.

# Management Discussion and Analysis

## Business Review

As global economic growth slowed down, the development of China's economy has experienced an adjustment while the traditional drive force weakened and the new engine emerged. The growth of economy has been facing a challenge of mitigation and descending.

During the Reporting Period, on the basis of good growth momentum of 2014, the Group entered into a period to analyze, integrate, optimize and accelerate the universal health business, and established the complete business layout of "Universal Health +", including four sections of traditional retail distribution, brand management, overseas trade and cross-border e-commerce and merger and acquisition fund of universal health, and built the development model with two engines of "Industry + Capital", with an aim to explore the global market network of universal health.

By taking advantage of its listing position in Hong Kong, the Group actively implemented the strategy of "Two Cross and One Integration", namely cross-border, cross boundary, and integration of online and offline, which promoted the expansion of major business in the universal health industry. With the "Healthy China" becoming the state strategy, the Universal Health International adhered to the conception of cross-border marketing of "Global Purchasing and Selling", the Group established the global universal health management and operation platform integrating cross-border e-commerce, international trade, social network, O2O platform, operation training and capital operation, through which realized the overall layout of universal health industry.

**Chain Retail Business**

Under the downward pressure situation of the domestic economy, the Company's strategic layout to emphasis on "Internet + Universal Health" and "Future Store" business, as well as the characteristic of the universal health industry, during the Reporting Period, the Company stopped expanding the retail business to reinforce the internal improvement, enrich the brands of universal health and diversify the types of products, carry out "Royal Competition" and other internal development innovation methods, enhance the quality of service and explore the potentiality of the internal growth; while, in the meantime improve the competitiveness by leveraging the impact of high altitude advertising profile, so as to prevent the slide of the gross profit and obtain a well development. During the Reporting Period, the Group operated in a total of 954 self-operated stores after an additional store opened in Tonghua city, Jilin province, which made the Group rank in the top ten of the retail chain pharmacy in the PRC. In the second half of the Reporting Period, in line with the change to the new strategy, the Group separated its 954 self-operated stores into two groups: strategic stores (675) and non-strategic stores (279), and managed and allocated resources in different ways between the two groups.

**Nationwide Distribution Business**

In the face of the fierce competition in the distribution market, the Company strengthened the construction of its distribution team, perfected the services provided to the high-quality customers, increased the advertising and promotion efforts and enhanced the impact of branded products; controlled the decrease in sales by updating customers' information and making adjustment in marketing strategy.

# Management Discussion and Analysis

During the Reporting Period, the Group put more efforts in upgrading and construction of the logistics centers in Shijiazhuang of Hebei, Shenyang of Liaoning, Changchun of Jilin, Harbin and Jiamusi of Heilongjiang, etc., for the purpose of complying with the requirements under the Good Supplying Practice of the PRC and playing a better role of radiation and distribution.

**Direct supply and sales model**

The Group's direct supply model effectively eliminated and reduced the traditionally heavily overlapped sales process, as well as simplified the supply chain to improve the sales efficiency and profitability and provide a higher profit margin than the industry average level for the Group. During the Reporting Period, the Group's management intensified efforts in the direct supply of branded products.

**Branded Products Business**

The Group established the sustainable development plan for Yushi Brand, and positioned the brand as "the Royal Gift", classified the target beneficiaries into middle and old ages, youngster, and children according to the demand on the market, and further classified into wines, teas, ginsengs, beverages, snacks and specialties. On the basis of elements of royal culture, the Group built the high-end and distinguished image for its products, and satisfied the market demand of respecting the elder, friendship and health care.

**E-commerce Business**

Under the support of favourable national policies and in line with the "Cross-border and Cross-industry Integration Strategy" of the Group, since June 2015, the Group has been committed to taking a proactive approach to developing cross-border e-commerce business, increase the sale channels for the goods of the Group, cooperate with a number of third party cross-border e-commerce platforms and establish a comprehensive cross-border logistic network, with a view of establishing its cross-border e-commerce network featuring "Introducing Products to and from the Global Market".

**International Trade**

During the Reporting Period, the Group actively implemented the strategy of "Diversified Product Lines, Cross-border Development and Integrated O2O Platforms", which means cross-border, cross-industry, integration of online and offline business, so as to speed up the expansion of the global business, and boost the expansion of its core business into the international arena of universal health. In addition, the Group also took an active approach to recruiting managerial talents across the globe, including local purchasing and marketing elites in Singapore, Macau and Hong Kong, who are expected to make their efforts in carrying out negotiations on the distribution rights in the Greater China region. Current negotiations cover a wide range of products, including maternity and baby products, dietary supplements, cosmeceutical, daily chemical and healthcare devices. Through these initiatives, the Group intended to implement its strategy of "Introducing Products to and from the Global Market", thus generating more commercial profits.

# Management Discussion and Analysis

**Institute Training**

In order to take full advantage of the Chinese Business Institute, the Group expanded the service scope of the institute from mainly training customers of direct-supplied branded products to providing professional skills trainings for the people who has such kind of requirement, and provided with many value-added services, thus to build a talent growth and mobile platform.

**Caring Activities**

During the Reporting Period, the Caring China organized 355 caring activities and presented love to disadvantaged groups as caring volunteers, and attracted the attention of about 100,000 people. Caring China Schooling Support Project focused on teenagers and initiated the appreciation and inspirational touring presentation for China Schooling Support, which freely presented 314 presentations, and about 50,000 teenagers are benefited from it. The medical assistance activities of Caring China supported Tibet together with many pharmaceutical enterprises and donated medicines with total value of RMB1 million and solved the Tibet problem of shortage for doctors and medicines. Later, together with famous traditional Chinese medicine doctors, the Group went to Hubei and offered free consultation and medicines with total value of RMB100,000.

## Financial Review

During the Reporting Period, the Group recorded revenue of RMB4,805.9 million, representing an increase of 10.3% as compared with RMB4,355.8 million last year. Profit attributable to owners of the Company was RMB31.2 million, representing a decrease of 93.4% as compared with RMB472.7 million last year. The decrease in profit attributable to owners of the Company was mainly due to the increase of selling and marketing expenses of the Group during the Reporting Period, provision for impairment of goodwill and the one-off share based payment as a result of the granting of the share incentives during the Reporting Period. Earnings per share for the Reporting Period was RMB1.57 cents (2014: RMB23.77 cents).

**Revenue**

During the Reporting Period, the Group recorded revenue of RMB4,805.9 million, representing an increase of RMB450.1 million or 10.3% as compared with RMB4,355.8 million last year. The increase was mainly attributable to the stable growth in Retails I (as defined hereinafter) and distribution businesses.

# Management Discussion and Analysis

*Analysis of revenue by business segment*

| | Revenue (RMB million) | | | % of total revenue | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | Change *(%)* | **2015** | 2014 | Change *(%)* |
| Retails I | **1,986.7** | 1,671.3 | +18.9 | **41.3** | 38.4 | +2.9 |
| Retails II | **349.5** | 336.7 | +3.8 | **7.3** | 7.7 | -0.4 |
| | **2,336.2** | 2,008.0 | +16.3 | **48.6** | 46.1 | +2.5 |
| Distributions | **2,469.7** | 2,347.8 | +5.2 | **51.4** | 53.9 | -2.5 |
| | **4,805.9** | 4,355.8 | | **100.0** | 100.0 | |

*Retail Business Segment*

In the second half of the year 2015, in order to respond to the change in economic environment in the areas where the Group operates, the Group has adjusted the mid-long strategic plan for its operations and development. In prior period, management operated and monitored the retail business as a single operating segment. Following the change to the new strategy, the retail business was divided into two groups of operating segments according to certain similar economic characteristics that enable the Group to optimise its resources allocation among the two operating segments for their operation and growth. As a result, the Group separates the original segment of retails into two separate reportable segments: retails with strategic stores ("**Retails I**") and retails consisting of non-strategic stores ("**Retails II**"). Retails I are retail business with higher future development potential and strategic focus by the Group when allocating the resources, while Retails II are retail business located in remote areas without strategic importance and high growth potential. For the Reporting Period, the composition of reportable segments in accordance with IFRS 8 "Operating Segment" has changed to four segments, the distributions, Retails I, Retails II and others. The Group also re-presented its corresponding information for the year ended 31 December 2014 accordingly.

The increase in the overall retails business was mainly due to increase of revenue from outlets of strategic stores in Retails I and the sales volume from the retail stores acquired in 2014. During the Reporting Period, the Group continued its growth of Retails I 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. As at 31 December 2015, the Group had 954 (2014: 953) retail pharmacies in total, of which 688 (2014: 688) located in Heilongjiang, 168 (2014: 168) in Liaoning, 94 (2014: 93) in Jilin and 4 (2014: 4) self-operated retail pharmacies in Hong Kong. Among them, 675 retail pharmacies are strategic stores and 279 (2014: 279) are non-strategic stores. In addition, the Group had 16 (2014: 16) supermarkets in Shenyang as at 31 December 2015, mainly selling healthcare products and consumer goods. The performance of all the supermarkets are monitored in Retails I.

# Management Discussion and Analysis

*Distribution Business Segment*

The steady increase in the distribution business was due to the sales during the Reporting Period from distribution companies acquired in 2014. During the Reporting Period, the Group continued its growth of distribution business through providing more specific value-added service to key customers and intensifying efforts to explore new quality customers.

As at 31 December 2015, the Group had a nationwide distribution network covering approximately 5,800 active customers (2014: 6,500), including approximately 4,000 pharmaceutical retailers, hospitals and clinics (2014: 4,300) and approximately 1,800 distributors (2014: 2,200).

**Gross profit**

Gross profit of the Group for the Reporting Period was approximately RMB1,340.6 million, representing an increase of RMB73.1 million or 5.8% as compared with RMB1,267.5 million last year.

*Analysis of gross profit by business segment*

| | Gross profit (RMB million) | | | Gross profit margin (%) | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | Changes *(%)* | **2015** | 2014 | Changes *(%)* |
| Retails I | **744.9** | 663.4 | +12.3 | **37.5** | 39.7 | -2.2 |
| Retails II | **135.7** | 133.4 | +1.7 | **38.8** | 39.6 | -0.8 |
| | **880.6** | 796.8 | +10.5 | **37.7** | 39.7 | -2.0 |
| Distributions | **460.0** | 470.7 | -2.3 | **18.6** | 20.0 | -1.4 |
| | **1,340.6** | 1,267.5 | | | | |

The overall gross profit margin was adjusted from 29.1% to 27.9% mainly due to the change of products mix for the Reporting Period. During the Reporting Period, gross profit margin of the Group's high-margin products increased from 45.9% to 47.1%, but the revenue of the high-margin products decreased by 4.0% over last year. The Group's high-margin products consist of licensed products and products with exclusive distribution rights. As at 31 December 2015, the Group had 360 (2014: 360) types of licensed products and 2,386 (2014: 2,392) types of products with exclusive distribution rights.

**Selling and marketing expenses**

Selling and marketing expenses for the Reporting Period was RMB986.4 million, representing an increase of RMB483.9 million or 96.3% over last year and accounted for 20.5% (2014: 11.5%) of the Group's revenue. The Group's marketing and advertising fees increased during the Reporting Period as the Group injected more resources in TV, network and vehicle advertisement for the purpose of promoting the Yushi brand and held large membership promotion activities and brand promotion activities.

# Management Discussion and Analysis

**Administrative expenses**

Administrative expenses for the Reporting Period was RMB148.1 million, representing an increase of RMB58.7 million or 65.7% over last year and accounted for 3.1% (2014: 2.1%) of the Group's revenue. The increase was mainly due to the one-off payment of share incentives.

**Impairment of goodwill**

Management reviewed the business performance based on types of businesses. The Group's goodwill were attributed to the acquisitions in distribution and retail business in prior years. Accordingly, goodwill were allocated to distribution and retail segments. In prior years, the retail segment was operated and managed as a single operating segment and the corresponding business entities were benefited from the synergies from the integration and support of shared resources. In the second half of the year 2015, the retails business was divided into two reportable operating segments, Retails I and the Retails II according to their similar economic characteristics. As a result, goodwill of retails were allocated to respective operating segments and monitored by the management at the operating segment level. Based on the result of impairment test at the operating segment level, the Group made a provision for goodwill impairment in Retails II of RMB108.9 million, accounted for 2.3% of the revenue of the Group. In the year 2014, the Group made a provision of goodwill impairment amounting to RMB304,000 for one subsidiary suspended business.

**Finance income – net**

Net finance income for the Reporting Period was RMB8.6 million, representing an increase of RMB4.1 million or 89.1%. The increase was primarily due to foreign exchange gains generated during the Reporting Period.

**Income tax expense**

Income tax expense for the Reporting Period was RMB73.0 million, representing a decrease of RMB105.8 million or 59.2% over last year. The effective income tax rate for the Reporting Period was 68.3% (2014: 26.2%). The increase of effective income tax rate was mainly due to the significant increase of non-deductible expenses during the Reporting Period.

## 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.

# Management Discussion and Analysis

As at 31 December 2015, the Group's unpledged cash and cash equivalents totalled approximately RMB1,333.3 million (2014: RMB1,349.2 million), and the Group's net current assets were approximately RMB1,859.2 million (2014: RMB1,731.2 million).

During the Reporting Period, net cash flows generated from operating activities amounted to approximately RMB46.3 million, as compared to approximately RMB592.0 million last year. The decrease of net cash flows was mainly due to the increase of sales and operating expenses made during the Reporting Period.

During the Reporting Period, the Group had capital expenditure of approximately RMB23.3 million (2014: RMB437.6 million). Having considered the cash flow from operating activities, existing financial gearing and banking facilities available to the Group, the management believes that the Group's financial resources are sufficient to fund its debt payments, day-to-day operations, capital expenditures and prospective business development projects.

The Group mainly operates in the PRC, with most of its transactions denominated and settled in RMB. The Group's currency risk mainly arises from certain bank deposits that are denominated in Hong Kong dollars. As at 31 December 2015, the Group had approximately RMB1,333.3 million in cash and bank balances of which the equivalent of approximately RMB6.6 million was denominated in Hong Kong dollars. During the Reporting Period, 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 Reporting Period.

## Capital Structure

There was no movement in the Company's share capital and share options during the Reporting Period.

As at 31 December 2015, the Group had certain interest-bearing bank borrowings of approximately RMB166.9 million (2014: RMB295.5 million). Bank borrowings carried annual interest rates at approximately 3.6% (2014: 2.9%). All of the bank borrowings are denominated in Renminbi.

The gearing ratio of the Group as at 31 December 2015, calculated as net debt divided by sum of total equity and net debt, was N/A (2014: N/A).

# Management Discussion and Analysis

## Contingent Liabilities and Pledge of Assets

As at 31 December 2015, the Group has no significant contingent liabilities (2014: Nil).

As at 31 December 2015, 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 RMB227.4 million. As at 31 December 2014, the notes payable by the Group were secured by the time deposits of the Group with net aggregate booking value of approximately RMB382.8 million.

## Human Resources

As at 31 December 2015, the Group had 6,220 (2014: 6,272) full-time employees in Hong Kong and the PRC with total employee benefit expenses amounted to approximately RMB332.5 million (2014: RMB229.9 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 qualification.

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.

# Management Discussion and Analysis

## Future Plan

The Group plans to launch “Future Store”, which means the highly integration of real business and virtual channel on the backdrop of internet age through O2O model, thus to form the trinity structure (multi-framework cloud e-mall) with “E-mall”, “Industry O2O” and “Micro-Marketing”, which integrated the shopping terminal comprising online and offline communication, including site experience, online selecting and purchasing, mobile payment, store pick-up or logistics and post-delivery. In simple terms, the future store (the “**Future Store**”) is a display screen installed in a specific part of a real store, where you can view all commodities. A foreground input device is set below the screen to select and purchase commodities, and main products are displayed in the surrounding cases and even taste area may be equipped, all of these form “the multi-framework cloud e-mall”. The Future Store is with advantages of light asset, low cost, excellent experience and low inventory.

In future, on the basis of original business development, the Group will establish domestic universal health industry fund, and build marketing network of capital market through merge and acquisition of fund. The Group also plans to build international universal health industry fund, with an aim to further establish and consolidate the leading position of the Group in the universal health industry.

# Report of the Directors

The Board is pleased to present the Report of the Directors and the audited consolidated financial statements of the Group for the Reporting Period.

## Change in Company Name

By a special resolution passed in the annual general meeting of the Company held on 16 June 2015, the Company changed the company name to "Universal Health International Group Holding Limited 大健康國際集團控股有限公司".

## 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 Reporting Period is set out in the note 9 to the consolidated financial statements.

## Results

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of comprehensive income on pages 68 to 69 of this annual report.

## Key Financial Performance Indicators

The key financial performance indicators of the Group for the Reporting Period is set out in the sections of "Financial Summary" and "Financial Highlights" of this annual report.

## Relationship with stakeholders

During the Reporting Period, the Group have maintained a good relationship with its stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

## Principal Risk and Uncertainties Facing the Group

The principal risk and uncertainties facing the Group are set out in the sections of "Chairman's Statement", "Management Discussion and Analysis" and note 3 to the consolidated financial statements of this annual report.

## Final Dividend

The Board does not recommend distribution of a final dividend for the year ended 31 December 2015 (2014: HK3.2 cents per share).

The Board declared an interim dividend of HK1.5 cents per share in cash for 2015 (2014: HK2.8 cents per share) and total distribution for the Reporting Period will be HK1.5 cents per share.

# Report of the Directors

## Business Review and Outlook

The business review and outlook of the Group for the Reporting Period is set out in the sections of "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

## Environmental Policies and Performance

The fundamental task of senior management of the Group is always leading the management to concern environmental protection, perform social responsibility as an enterprise citizen, strengthen corporate governance, promote healthy and orderly development of the Group, and create more economic value and social utility for stakeholders such as consumers, upstream suppliers, downstream distributors, Shareholders, potential investors, management, employees, communities and even the environment.

## Compliance with Laws and Regulations

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

## Closure of the Register of Members

The register of members of the Company will be closed from Tuesday, 14 June 2016 to Thursday, 16 June 2016, 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 2016. 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 Monday, 13 June 2016.

## Summary of Financial Information

A summary of the results and of the assets and liabilities of the Group for the last five financial years are set out on page 140 of this annual report. This summary does not form part of the audited consolidated financial statements.

## Use of Proceeds from Share Offer

The shares of the Company (the "**Shares**") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 December 2013 (the "**Listing Date**"). The total net proceeds amounted to approximately RMB868.1 million (equivalent to approximately HK$1,101.6 million). As at 31 December 2015, the net proceeds from the initial public offering were used for

# Report of the Directors

purposes which were consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 2 December 2013 (the "**Prospectus**") and as set out below:

| | | *RMB million* | |
|---|---|---|---|
| **Use of proceeds** | **Net Proceeds** | **Proceeds used** | **Proceeds unused** |
| For acquisitive expansion | 347.2 | (347.2) | – |
| For organic growth | 260.4 | (81.2) | 179.2 |
| For brand promotion | 173.6 | (173.6) | – |
| For working capital | 86.9 | (72.0) | 14.9 |
| Total | 868.1 | (674.0) | 194.1 |

As at 31 December 2015, the unused net proceeds were placed with banks in the PRC by the Company 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 11.7% of the total costs and the sale to the Group's five largest customers contributed 0.9% of the total revenue.

Save as disclosed below, none of the Directors or any of their respective close associates or, so far as the Directors were aware, any Shareholder who owned more than 5% of the number of issued Shares as at 31 December 2015, had any interest in any of the five largest suppliers or customers of the Group in 2014 and 2015.

Heilongjiang Baitai Pharmaceutical Company Limited ("**Heilongjiang Baitai**") was one of the five largest suppliers of the Group in 2014 and 2015. Ms. Liu Shuxia (劉樹霞), Mr. Jin Dongtao's cousin-in-law, acquired 100% of the equity interest in Heilongjiang Baitai on 28 April 2012, and disposed of her equity interest in Heilongjiang Baitai with effect from 1 March 2015. As such, Heilongjiang Baitai is no longer a related party to the Group since then.

The Group's total purchases from Heilongjiang Baitai (licensed products) amounted to RMB83.8 million and RMB76.9 million in 2014 and 2015 respectively. During the same periods, purchases from Heilongjiang Baitai accounted for 2.7% and 2.2% of the Group's total purchases respectively. Heilongjiang Baitai was the Group's second largest supplier for the years ended 31 December 2014 and 31 December 2015 respectively.

# Report of the Directors

## Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 6 to the consolidated financial statements.

## Share Capital

Details of movements in the share capital of the Company during the Reporting Period 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 Reporting Period are set out in note 33 and note 18 to the consolidated financial statements.

## Distributable Reserves

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law of the Cayman Islands, amounted to approximately RMB647.6 million (as at 31 December 2014: RMB755.2 million).

## Bank Loans and Other Borrowings

Details of bank loans and other borrowings as at 31 December 2015 and 31 December 2014 are set out in note 20 to the consolidated financial statements.

## Directors

The Directors during the year ended 31 December 2015 and up to the date of this annual report were:

**Executive Directors:**

Mr. Jin Dongtao *(Chairman)*
Mr. Jin Dongkun *(Vice Chairman)*
Mr. Chu Chuanfu *(Chief Executive Officer)*
Mr. Zhao Zehua (appointed on 16 June 2015)
Mr. Yang Jiacheng (resigned on 16 June 2015)

**Independent non-executive Directors:**

Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie
Ms. Hao Jia (appointed on 16 June 2015)
Mr. Chen Xiao (resigned on 16 June 2015)

# Report of the Directors

Mr. Zhao Zehua and Ms. Hao Jia were appointed by the Board as Directors with effect from 16 June 2015. In accordance with Article 16.2 of the articles of association of the Company (the "**Articles of Association**"), Mr. Zhao Zehua and Ms. Hao Jia shall hold office until the next following annual general meeting of the Company. They shall retire from office as Directors and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting. In accordance with Article 16.18 of the Articles of Association, Mr. Jin Dongkun and Ms. Chiang Su Hui Susie will retire by rotation and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Mr. Chen Xiao and Mr. Yang Jiacheng intended to focus on their academic profession which requires full time commitment, and to comply with certain guidelines implemented in the PRC. Mr. Chen and Mr. Yang needed to resign from all non-academic positions. With effect from 16 June 2015, Mr. Chen resigned as an independent non-executive Director and chairman of the audit committee of the Company; Mr. Yang resigned as an executive Director and chief operating officer of the Company.

## Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 55 to 63 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 are independent.

Ms. Hao Jia has been appointed as the independent non-executive Director on 16 June 2015. Before her appointment, the Company has received a confirmation letter of independence from her.

## 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. Zhao Zhehua has entered into an appointment letter with the Company for a term of three years commencing from 16 June 2015. All of the appointment letters of the executive Directors may be renewable subject to both parties' agreement.

**Independent non-executive Directors**

Each of Mr. Cheng Sheung Hing and Ms. Chiang Su Hui Susie has signed an appointment letter with the Company for a term of three years commencing on 18 November 2013. Ms. Hao Jia has entered into an appointment letter with the Company for a term of three years commencing from 16 June 2015. All of the appointment letters of the independent non-executive Directors may be renewable subject to both parties' agreement.

# Report of the Directors

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 Reporting Period.

For the Reporting Period, none of the Company or any of its subsidiaries has entered into any contract of significance for the provision of services by any controlling Shareholder or any of its subsidiaries.

## Directors' Interests in Transactions, Arrangements or Contracts of Significance

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party or were parties and in which a Director of the Company or any entities connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Reporting Period.

## 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 Reporting Period.

## 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 32 and note 24 to the consolidated financial statements.

No director has waived or has agreed to waive any emolument during the Reporting Period.

## Changes in Information of Directors

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

Mr. Yang Jiacheng resigned as an executive Director with effect from 16 June 2015. Following his resignation, he also ceased to be the chief operating officer and authorised representative of the Company.

# Report of the Directors

Mr. Zhao Zehua was appointed an executive Director and authorised representative of the Company with effect from 16 June 2015. Biographical details of Mr. Zhao Zehua are set out on page 58 of this annual report.

Mr. Chen Xiao resigned as an independent non-executive Director with effect from 16 June 2015. Following his resignation, he also ceased to be the chairman of the audit committee of the Company.

Ms. Hao Jia was appointed as independent non-executive Director and the chairman of the audit committee of the Company with effect from 16 June 2015. Biographical details of Ms. Hao Jia are set out on page 61 of this annual report.

Save as disclosed above, during the Reporting Period, none of the Directors had a change in any of the information required to be disclosed 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 2015, the interests and short positions of the Directors and the chief executive of the Company (the "**Chief Executive**") in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

| Name of director | Nature of interest | Number and class of shares | Approximate percentage of shareholding |
|---|---|---|---|
| Jin Dongtao | Founder of a discretionary trust *(Note 1)* | 1,033,272,135 (Long Position) | 51.66% |
| | Beneficial owner | 3,368,000 (Long Position) | 0.17% |
| | Interest of spouse *(Note 2)* | 1,434,000 (Long Position) | 0.07% |
| Jin Dongkun | Interest in a controlled corporation *(Note 3)* | 40,943,135 (Long Position) | 2.05% |
| | Beneficial owner | 1,434,000 (Long Position) | 0.07% |
| Chu Chuanfu | Beneficial owner | 1,434,000 (Long Position) | 0.07% |
| Zhao Zehua | Beneficial owner | 1,434,000 (Long Position) | 0.07% |

# Report of the Directors

*Notes:*

(1) Mr. Jin Dongtao is the settlor, protector and a beneficiary of a discretionary trust pursuant to a trust deed dated 6 November 2013 with Credit Suisse Trust Limited acting as trustee (the "**Family Trust**"), which holds the entire issued share capital of Global Health Century International Group Limited ("**Global Health Century**") through 1969 JT Limited. Global Health Century holds the entire issued share capital of Asia Health Century International Inc., which holds 1,033,272,135 Shares in the Company.

(2) Such 1,434,000 Shares were held by Ms. Chen Xiaoyan, the spouse of Mr. Jin Dongtao. Accordingly, Mr. Jin Dongtao was deemed to be interested in such 1,434,000 Shares.

(3) 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 2015, none of the Directors and the Chief Executive had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Share Option Scheme

The Company's existing share option scheme (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 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 Listing Date unless the Company seeks the approval of the Shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating 10% limit.

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:

# Report of the Directors

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. As at 31 December 2015, the remaining life of the Share Option Scheme is approximately 7 years and 11 months. The Company may by ordinary resolution in general meeting, or the Board may at any time 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 for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

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

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

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

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

The total number of new Shares 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 as at the date of this annual report.

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

Any grant of an option to any Director, Chief Executive or substantial Shareholder, 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).

No options were granted under the Share Option Scheme since the Listing Date.

# 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 or 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.

On 28 December 2015, an aggregate of 16,993,000 Shares were granted without consideration to an aggregate of 13 grantees. As at 31 December 2015, the trustee of the Share Award Plan did not hold any Shares under the Share Award Plan.

## Equity-linked Agreements

Save for "Share Option Scheme and Share Award Plan", no equity-linked agreements were entered by the Company or existed during the Reporting Period.

## Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, at no time during the Reporting Period were rights to acquire benefits by means of the acquisition of Shares 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 2015, to the best knowledge of the Directors, the following persons (not being a Director or Chief Executive) 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 | Interest of a spouse *(Notes 1, 2 and 3)* | 1,036,640,135 (Long Position) | 51.83% |
| | Beneficial owner | 1,434,000 (Long Position) | 0.07% |
| Asia Health Century International Inc. | Beneficial owner *(Notes 1 and 2)* | 1,033,272,135 (Long Position) | 51.66% |
| Global Health Century International Group Limited | Interest in a controlled corporation *(Notes 1 and 2)* | 1,033,272,135 (Long Position) | 51.66% |
| 1969 JT Limited | Interest in a controlled corporation *(Notes 1 and 2)* | 1,033,272,135 (Long Position) | 51.66% |
| Tenby Nominees Limited | Nominee *(Notes 1 and 2)* | 1,033,272,135 (Long Position) | 51.66% |
| Brock Nominees Limited | Nominee *(Notes 1 and 2)* | 1,033,272,135 (Long Position) | 51.66% |
| Credit Suisse Trust Limited | Trustee *(Notes 1 and 2)* | 1,033,272,135 (Long Position) | 51.66% |
| JPMorgan Chase & Co. | Beneficial owner and custodian corporation/ approved lending agent *(Note 4)* | 121,735,567 (Long Position) | 6.08% |
| | Beneficial owner | 20,470,000 (Short Position) | 1.02% |
| | Custodian corporation/approved lending agent *(Note 4)* | 71,465,567 (Lending Pool) | 3.57% |
| LSV Asset Management | Investment manager | 100,182,000 (Long position) | 5.01% |

# Report of the Directors

*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 1,033,272,135 shares in the Company.

(2) These 1,033,272,135 Shares belong to the same group of Shares.

(3) Ms. Chen Xiaoyan is the spouse of Mr. Jin Dongtao. Under the SFO, Ms. Chen Xiaoyan is taken to be interested in the same number of shares in which Mr. Jin Dongtao is interested.

(4) Such 71,465,567 Shares were allocated from 121,735,567 of lending pool beneficially held by JPMorgan Chase & Co..

Save as disclosed above, as at 31 December 2015, the Directors were not aware of any persons (who were not Directors or Chief Executive) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

## Purchase, Sale or Redemption of Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries 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 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 the controlling Shareholders has confirmed to the Company of his/her/its compliance with the non-competition undertakings provided to the Company under a deed of non-competition (the "**Deed of Non-Competition**").

# Report of the Directors

Pursuant to the Deed of Non-Competition, the independent non-executive Directors are responsible for reviewing and considering whether exercising any option and/or pre-emptive right (where applicable), as well as entitled to conduct annual review of implementation of the Deed of Non-Competition on behalf of the Company. The controlling Shareholders have confirmed in writing to the Company of their compliance with the Deed of Non-Competition for disclosure in this annual report for the Reporting Period. During the Reporting Period, the independent non-executive Directors have also reviewed the implementation of the Deed of Non-Competition, and confirmed that the controlling Shareholders have fully abided by the Deed of Non-Competition without any breach of the Deed of Non-Competition.

## Directors' Interest in Competing Business

Save as disclosed in this annual 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, either directly or indirectly, with the businesses of the Group.

## Connected Transactions

**Fully Exempt Connected Transaction**

Rental payments to Aixin Chuanbo (Beijing) Wenhua Fazhan Zhongxin* (愛心傳播(北京)文化發展中心) pursuant to the rental agreement dated 1 July 2015 at an annual rental fee of RMB3 million in respect of Suite 20B, 18th Floor, Office Tower I, 48 Dongzhimen Wai Avenue, Dongcheng Qu, Beijing, PRC for a term of one year commencing on 1 July 2015. As all the percentage ratios (other than profit ratio) are less than 0.1%, this connected transaction is fully exempt under Chapter 14A of the Listing Rules.

## Continuing Connected Transactions

During the year, the Group had the following continuing connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules:

**Non-Exempt Continuing Connected Transactions**

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

Pursuant to a national sales and use of trademark agreement dated 1 January 2012 and three supplemental agreements, dated 10 January 2012, 30 June 2013 and 25 November 2013 respectively (together the "**Heilongjiang Baitai National Sales and Trademark Agreement**") entered into between Heilongjiang Province Jintian Aixin Medicine Distribution Co., Ltd. ("**Jintian Aixin Co.**") and Heilongjiang Baitai Pharmaceutical Company Limited ("**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

# Report of the Directors

(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 were paid in three approximately equal instalments. The first instalment of RMB2.91 million was paid in November 2013; the second instalment of RMB2.92 million was paid in October 2014; and the third instalment of RMB2.92 million was paid in November 2015.

Heilongjiang Baitai was wholly-owned by Ms. Liu Shuxia (劉樹霞), cousin-in-law of Mr. Jin Dongtao, our Controlling Shareholder, Chairman and executive Director. As such, Heilongjiang Baitai was 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 during the year ended 31 December 2015 were RMB100.0 million (2014: RMB84.0 million). And the annual cap in respect of the use of the "Kangyisheng" (康醫生) trademark by the Group for the year ended 31 December 2015 were RMB2.92 million (2014: RMB2.92 million).

During the period from 1 January 2015 to 28 February 2015, the aggregate value of purchase of pharmaceutical products from Heilongjiang Baitai by the Group was RMB15.6 million and the payment for use the "Kangyisheng" (康醫生) trademark was RMB0.5 million.

Effective from 1 March 2015, Heilongjiany Baitai is no longer a core connected person of the Company and the above transactions ceased to be continuing connected transactions of the Company.

## 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 during the year ended 31 December 2015 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 or better; 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.

# Report of the Directors

The auditors of the Company (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 2015.

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 31 to the consolidated financial statements.

## Charitable Donations

During the Reporting Period, the Group made a indication donation with a value of approximately RMB1 million.

During the Reporting Period, the Group continued to perform its social responsibility by constantly organizing innovative caring projects, such as Caring China Charity Award Ceremony, Charity In Action, Caring China Medical Support, Caring China Education Aid Program and Caring China Square Dance, so as to enhance its recognition and reputation through charity activities.

## Significant Legal Proceedings

During the Reporting Period, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

# Report of the Directors

## Permitted Indemnity Provision

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. The Company has arranged appropriate insurance cover for the Directors for their liabilities arising out of corporate activities.

## Audit Committee

The audit committee of the Company (the "**Audit Committee**") is comprised of three Directors, namely Ms. Hao Jia (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 Group, and overseeing the Group's financial reporting system, risk management and internal control systems. The Audit Committee had reviewed the audited annual results of the Group for the Reporting Period.

## Code of Conduct Regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct throughout the year ended 31 December 2015.

## Corporate Governance

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules throughout the Reporting Period. 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 42 to 54 of this annual report.

# Report of the Directors

## 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 number of issued shares, 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 annual report.

## Auditor

The financial statements of the Group for the year ended 31 December 2015 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
31 March 2016

# 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 2015.

## Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the CG Code during the Reporting Period. 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 (Chairman), Mr. Jin Dongkun (Vice Chairman), Mr. Chu Chuanfu and Mr. Zhao Zehua, and three independent non-executive Directors, namely Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Ms. Hao Jia. The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

For the Reporting Period, 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 and the Chief Executive.

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.

**Internal Control and Risk Management**

During the Reporting Period, the Board reviewed all material internal controls, including financial, operational and compliance control and risk management functions. It also reviewed, with the Audit Committee the effectiveness of the Group's internal control system, adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and satisfied that they were effective and in compliance with our policies.

During the Reporting Period, based on its management experience, the Group further strengthened the establishment of internal audit system, outlined the internal control functions and enhanced risk management. The Group also formulated the "General Outline of Regulations on Internal Control and Risk Management" (《內部控制及風險管理規範大綱》). In addition, two senior management personnel have obtained the Certified Internal Control Specialist qualification from the Internal Control Institute.

**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.

# Corporate Governance Report

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the Reporting Period, 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 and Mr. Tam Tsang Ngai, the joint company secretaries, from time to time updates and provides written training materials relating to the roles, functions and duties of a Director and all aforesaid Directors had studied such materials.

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

| | **Training received** *(Notes)* |
|---|---|
| **Executive Directors** | |
| Mr. Jin Dongtao | 1 |
| Mr. Jin Dongkun | 1 |
| Mr. Chu Chuanfu | 1 |
| Mr. Yang Jiacheng (resigned on 16 June 2015) | 1 |
| Mr. Zhao Zehua (appointed on 16 June 2015) | 2 |
| **Independent Non-executive Directors** | |
| Mr. Cheng Sheung Hing | 1 |
| Ms. Chiang Su Hui Susie | 1 |
| Mr. Chen Xiao (resigned on 16 June 2015) | 1 |
| Ms. Hao Jia (appointed on 16 June 2015) | 2 |

*Notes:*

1. The roles, functions and duties of a listed company's director
   (a) Presentations and briefings provided by the Company's external lawyers
   (b) Reading materials prepared by the Company's external lawyers
2. Reading materials of the roles, functions and duties of a listed company's director prepared by Mr. Ge Junming, one of the joint company secretaries of the Company

### Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

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. Zhao Zehua, 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.

Mr. Zhao Zehua has entered into an appointment letter with the Company for a term of three years commencing from 16 June 2015, and may be terminated in accordance with the terms of the appointment letter.

Save for Ms. Hao Jia, 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.

Ms. Hao Jia has entered into an appointment letter with the Company for a term of three years commencing on 16 June 2015, and may be terminated in accordance with the terms of the appointment letter.

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 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 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.

# Corporate Governance Report

**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.

For the Reporting Period, 6 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)* | 6/6 | 1/1 |
| Mr. Jin Dongkun | 6/6 | 1/1 |
| Mr. Chu Chuanfu | 6/6 | 1/1 |
| Mr. Yang Jiacheng (resigned as an executive Director on 16 June 2015) | 2/2 | 1/1 |
| Mr. Zhao Zehua (appointed as an executive Director on 16 June 2015) | 5/5 | 1/1 |
| **Independent Non-Executive Directors** | | |
| Mr. Cheng Sheung Hing | 6/6 | 1/1 |
| Ms. Chiang Su Hui Susie | 6/6 | 1/1 |
| Mr. Chen Xiao (resigned as an independent non-executive Director on 16 June 2015) | 2/2 | 1/1 |
| Ms. Hao Jia (appointed as an independent non-executive Director on 16 June 2015) | 5/5 | 1/1 |

During the Reporting Period, the Chairman held one meeting with the independent non-executive Directors without the other executive Directors.

# Corporate Governance Report

**Model Code for Securities Transactions**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made with all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code for the Reporting Period.

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

**Delegation by the Board**

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

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;

# Corporate Governance Report

(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 Reporting Period, 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.

## Board Committees

**Nomination Committee**

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

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.

# Corporate Governance Report

During the Reporting Period, 2 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 | 2/2 |
| Mr. Cheng Sheung Hing | 2/2 |
| Ms. Chiang Su Hui Susie | 2/2 |

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.

## 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 currently comprises three members, namely Mr. Cheng Sheung Hing (independent non-executive Director), Ms. Chiang Su Hui Susie (independent non-executive Director) and Mr. Chu Chuanfu (executive Director), the majority of them are independent non-executive Directors. Mr. Cheng Sheung Hing serves as the chairman.

# Corporate Governance Report

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.

During the Reporting Period, 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. Chiang Su Hui Susie | 2/2 |
| Mr. Chu Chuanfu | 2/2 |

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 2016. The Board has adopted the recommendation from the Remuneration Committee and resolved to approve the aforesaid adjustment.

The remuneration of the 2 members of the senior management of the Company, whose biographies are set out on pages 62 to 63 of this annual report, by band for the Reporting Period is set out below:

| **Remuneration band (RMB'000)** | **Number of persons** |
|---|---|
| 500-1,000 | 1 |
| 3,500-4,000 | 1 |

# Corporate Governance Report

**Audit Committee**

The Audit Committee currently comprises three members, namely Ms. Hao Jia, Mr. Cheng Sheung Hing and Ms. Chiang Su Hui Susie, all of them are independent non-executive Directors. Ms. Hao Jia has been appointed as the chairman and member of the Audit Committee on 16 June 2015, in place of Mr. Chen Xiao who has ceased to be a chairman and member of the Audit Committee with effect form 16 June 2015. 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

During the Reporting Period, 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 |
|---|---|
| Ms. Hao Jia (appointed as chairman and member of Audit Committee on 16 June 2015) | 2/2 |
| Mr. Chen Xiao (ceased as chairman and member of Audit Committee on 16 June 2015) | 1/1 |
| 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.

# Corporate Governance Report

They also reviewed the final results of the Company and its subsidiaries for the financial year as well as the audit report prepared by the Auditors 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 risk management 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 2015 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 64 to 65 of this annual report.

## Internal Control and Risk Management

The Board acknowledges that it is the responsibility of the Board to maintain an adequate internal control and risk management system to safeguard Shareholders' investments and Company's 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 and risk management systems of the Group and considered the internal control and risk management systems to be effective and adequate.

# Corporate Governance Report

## Auditor's Remuneration

During the Reporting Period, the Company engaged PricewaterhouseCoopers as auditor. The professional fee paid or payable to the auditor for services rendered as set out below:

| | **Fee paid/payable** *(RMB'000)* |
|---|---|
| Audit services | 4,800 |
| Non-audit services | 796 |
| Total | 5,596 |

## Company Secretaries

Mr. Ge Junming and Mr. Tam Tsang Ngai, the joint company secretaries of the Company, are 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.

During the Reporting Period, Mr. Ge Junming and Mr. Tam Tsang Ngai 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 meetings of the Company (the "**AGM(s)**") provide opportunity for Shareholders to communicate directly with the Directors. The Chairman of the Company, the chairmen of the Board Committees will attend the AGMs to answer Shareholders' questions. The external auditor 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 Shareholders and maintains a website at www.uhighl.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.

# Corporate Governance Report

## 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.

### Convening of extraordinary general meeting and putting forward proposals

Under the Articles of Association, 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 Room No. 907B, 9th Floor, Empire Centre, 68 Mody Road, Kowloon, Hong Kong for the attention of the joint company secretaries.

(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 Room No. 907B, 9th Floor, Empire Centre, 68 Mody Road, Kowloon, Hong Kong or to email address: ir@uhi-group.com.

## Change in Constitutional Documents

During the Reporting Period, 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 47, was appointed as the Chairman of the Board and an executive Director on 12 March 2012. Mr. Jin is one of the co-founders of the Group and has been chairman of the 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 the Group.

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

Other experience:

- 2010 – September 2014: chairman of the Heilongjiang Alliance of Pharmaceutical Retailers (黑龍江藥店聯盟)

- 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.

Mr. Jin Dongtao is the elder brother of Mr. Jin Dongkun, an executive Director and vice chairman of the Company.

# Directors and Senior Management

**Mr. JIN Dongkun (金東昆)**, aged 42, was appointed as the Vice Chairman of the Board and an executive Director on 12 March 2012. He is one of the co-founders of the Group and has served as business manager, general manager and vice president of the Group since June 1998. He is responsible for overseeing the 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:

- 2010 – September 2014: vice chairman of the Heilongjiang Alliance of Pharmaceutical Retailers (黑龍江藥店聯盟)
- 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. Mr. Jin Dongtao is the ultimate controlling shareholder, executive Director and chairman of the Board.

# Directors and Senior Management

**Mr. CHU Chuanfu (初川富)**, aged 45, was appointed as the Chief Executive Officer in January 2011 and was appointed as an executive Director on 12 March 2012. He is responsible for the operations of the 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 the 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:

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

- November 2015 - present: honorary president of Central North Medical Union (中北醫藥聯盟); honorary president of the North Branch of China College of Pharmacy Management (中國藥店管理學院北方分院)

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

- September 2014: graduated from a Master's programme run by the Scandinavian Art and Business Institute

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

# Directors and Senior Management

**Mr. ZHAO Zehua** (**趙澤華**), aged 47, was appointed as the general manager of finance of the Group in October 2011 and was appointed as an executive Director on 16 June 2015. He joined the 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 other publicly listed company over the past three years.

# Directors and Senior Management

## Independent non-executive Directors

**Mr. CHENG Sheung Hing** (**鄭雙慶**), aged 68, was appointed as an independent non-executive Director on 18 November 2013. Mr. Cheng is a senior economist of People's Bank of China 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) (now known as ZH International Holdings Ltd.), 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 other 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 69, was appointed as an independent non-executive Director 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)
- 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)

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 other publicly listed company over the past three years.

# Directors and Senior Management

**Ms. HAO Jia** (郝嘉), aged 36, was appointed as an independent non-executive Director on 16 June 2015. Ms. Hao is a visiting scholar in Finance at the University of Michigan. For the past 8 years, she has been teaching and conducting academic research in finance. Ms. Hao has extensive experience in finance and has published a number of articles in academic journals on the topics such as “Ex Dividend Arbitrage in Option Markets” and “Computerization of the Equity, Foreign Exchange, Derivatives and Fixed- Income Markets”.

Other experience:

- August 2007 – May 2014: Assistant Professor of Finance, Wayne State University

Education:

- 2007: graduated from University of Utah, Ph.D. in Finance
- 2001: graduated from Shenzhen University, B.S. in Finance and Economics

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

# Directors and Senior Management

## Senior Management

**Mr. GE Junming (葛俊明)**, aged 47, was appointed as company secretary of the Company on 18 November 2013 and is currently one of the joint company secretaries of the Company. He joined the Group in 1998. Mr. Ge has worked in various other capacities in the 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 the 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 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 is a Certified Internal Auditor, and has obtained qualification of practice in securities and funds.

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. TAM Tsang Ngai (譚錚毅)**, aged 41, was appointed as financial controller of the Company 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) (now known as Peace Map Holding Limited), 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 Universal Health International Group Holding Limited**
*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Universal Health International Group Holding Limited (the "Company") and its subsidiaries set out on pages 66 to 139, which comprise the consolidated balance sheets as at 31 December 2015, 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.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*Tel: +852 2289 8888, Fax: +852 2289 9888, www.pwchk.com*

# Independent Auditor's Report

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Other Matters

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

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 31 March 2016

# Consolidated Balance Sheet

| | Note | As at 31 December 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 103,167 | 120,870 |
| Land use rights | 7 | 3,713 | 3,807 |
| Intangible assets | 8 | 672,055 | 799,509 |
| Investments in joint ventures | 10 | 7,520 | 6,454 |
| Prepayment for intangible assets | | – | 2,103 |
| Deferred income tax assets | 11 | 19,297 | 11,953 |
| **Total non-current assets** | | 805,752 | 944,696 |
| **Current assets** | | | |
| Trade and other receivables | 13 | 442,853 | 374,155 |
| Inventories | 14 | 398,605 | 362,940 |
| Restricted cash | 15 | 227,414 | 382,843 |
| Cash and cash equivalents | 16 | 1,333,320 | 1,349,231 |
| **Total current assets** | | 2,402,192 | 2,469,169 |
| **Total assets** | | 3,207,944 | 3,413,865 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 17 | 12,259 | 12,259 |
| Reserves | 18 | 1,319,669 | 1,355,464 |
| Retained earnings | | 1,256,722 | 1,230,436 |
| | | 2,588,650 | 2,598,159 |
| **Non-controlling interests** | | 29,720 | 27,009 |
| **Total equity** | | 2,618,370 | 2,625,168 |

# Consolidated Balance Sheet

| | Note | As at 31 December 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 11 | **46,585** | 50,698 |
| **Current liabilities** | | | |
| Borrowings | 20 | **166,920** | 295,500 |
| Trade and other payables | 21 | **373,464** | 380,936 |
| Current income tax liabilities | | **2,605** | 61,563 |
| **Total current liabilities** | | **542,989** | 737,999 |
| **Total liabilities** | | **589,574** | 788,697 |
| **Total equity and liabilities** | | **3,207,944** | 3,413,865 |

The notes on pages 72 to 139 are an integral part of these consolidated financial statements.

The financial statements on pages 66 to 139 were approved by the Board of Directors on 31 March 2016 and were signed on its behalf.

| | |
|---|---|
| Jin Dongtao | Zhao Zehua |
| *Director* | *Director* |

# Consolidated Statement of Comprehensive Income

| | Note | Year ended 31 December 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Revenue** | 5 | **4,805,855** | 4,355,842 |
| Cost of sales | 23 | **(3,465,280)** | (3,088,382) |
| **Gross profit** | | **1,340,575** | 1,267,460 |
| Selling and marketing expenses | 23 | **(986,418)** | (502,472) |
| Administrative expenses | 23 | **(148,108)** | (89,356) |
| Goodwill impairment | 8, 23 | **(108,899)** | (304) |
| Other income | | **678** | 455 |
| Other (losses)/gains – net | 22 | **(643)** | 550 |
| **Operating profit** | | **97,185** | 676,333 |
| Finance income | 25 | **15,476** | 16,146 |
| Finance costs | 25 | **(6,876)** | (11,599) |
| Finance income – net | 25 | **8,600** | 4,547 |
| Share of profit of joint ventures | 10 | **1,066** | 1,205 |
| **Profit before income tax** | | **106,851** | 682,085 |
| Income tax expenses | 26 | **(72,977)** | (178,744) |
| **Profit for the year** | | **33,874** | 503,341 |
| **Profit attributable to:** | | | |
| – Owners of the Company | | **31,163** | 472,724 |
| – Non-controlling interests | | **2,711** | 30,617 |
| | | **33,874** | 503,341 |

# Consolidated Statement of Comprehensive Income

| | Note | Year ended 31 December 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Earnings per share attributable to owners of the Company for the year *(RMB cents)*** | | | |
| – Basic and diluted | 27 | **1.57** | 23.77 |
| **Other comprehensive loss** | | | |
| *Item that may be reclassified to profit or loss* | | | |
| Currency translation differences | | **(5,551)** | – |
| **Total comprehensive income for the year** | | **28,323** | 503,341 |
| **Total comprehensive income attributable to:** | | | |
| – Owners of the Company | | **25,612** | 472,724 |
| – Non-controlling interests | | **2,711** | 30,617 |
| | | **28,323** | 503,341 |

The notes on pages 72 to 139 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* | Other reserves *RMB'000* | Retained earnings *RMB'000* | Total *RMB'000* | Non-controlling interests *RMB'000* | Total equity *RMB'000* |
| **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 |
| **Comprehensive income** | | | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | – | 472,724 | 472,724 | 30,617 | 503,341 |
| **Total comprehensive income** | | 12,259 | 1,524,825 | (8,939) | 35,056 | – | 8,853 | – | 1,255,562 | 2,827,616 | 131,501 | 2,959,117 |
| **Transactions with owners in their capacity as owners** | | | | | | | | | | | | |
| Profit appropriation to statutory reserves | 18(b) | – | – | – | 25,126 | – | – | – | (25,126) | – | – | – |
| Shares purchase for Share Award Plan | 19(b) | – | – | – | – | (39,780) | – | – | – | (39,780) | – | (39,780) |
| Dividends distribution | 28 | – | (44,169) | – | – | – | – | – | – | (44,169) | – | (44,169) |
| Purchase of non-controlling interests | 18(a) | – | – | (145,508) | – | – | – | – | – | (145,508) | (104,492) | (250,000) |
| **Total transactions with owners in their capacity as owners** | | – | (44,169) | (145,508) | 25,126 | (39,780) | – | – | (25,126) | (229,457) | (104,492) | (333,949) |
| **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 |
| **Balance at 1 January 2015** | | 12,259 | 1,480,656 | (154,447) | 60,182 | (39,780) | 8,853 | – | 1,230,436 | 2,598,159 | 27,009 | 2,625,168 |
| **Comprehensive income** | | | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | – | 31,163 | 31,163 | 2,711 | 33,874 |
| **Other comprehensive income** | | | | | | | | | | | | |
| Currency translation differences | | – | – | – | – | – | – | (5,551) | – | (5,551) | – | (5,551) |
| **Total comprehensive income** | | 12,259 | 1,480,656 | (154,447) | 60,182 | (39,780) | 8,853 | (5,551) | 1,261,599 | 2,623,771 | 29,720 | 2,653,491 |
| **Transactions with owners in their capacity as owners** | | | | | | | | | | | | |
| Profit appropriation to statutory reserves | 18(b) | – | – | – | 4,877 | – | – | – | (4,877) | – | – | – |
| Grant of awarded shares | 19(b) | – | – | – | – | 39,780 | 25 | – | – | 39,805 | – | 39,805 |
| Dividends distribution | 28 | – | (74,926) | – | – | – | – | – | – | (74,926) | – | (74,926) |
| **Total transactions with owners in their capacity as owners** | | – | (74,926) | – | 4,877 | 39,780 | 25 | – | (4,877) | (35,121) | – | (35,121) |
| **Balance at 31 December 2015** | | 12,259 | 1,405,730 | (154,447) | 65,059 | – | 8,878 | (5,551) | 1,256,722 | 2,588,650 | 29,720 | 2,618,370 |

The notes on pages 72 to 139 are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

| | Note | Year ended 31 December<br>2015<br>*RMB'000* | <br>2014<br>*RMB'000* |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash generated from operations | 29 | **240,550** | 768,182 |
| Interest paid | 25 | **(6,144)** | (5,527) |
| Bank charges paid | 25 | **(732)** | (465) |
| Income tax paid | | **(187,411)** | (170,175) |
| Net cash generated from operating activities | | **46,263** | 592,015 |
| **Cash flows from investing activities:** | | | |
| Change in restricted cash | | **155,429** | (374,200) |
| Interest received | | **8,594** | 16,316 |
| Proceeds from disposal of property, plant and equipment | 29 | **51** | 53 |
| Purchase of intangible assets | 8 | **(1,645)** | (19) |
| Purchase of land use rights | | **–** | (3,870) |
| Purchase of property, plant and equipment | 6 | **(6,114)** | (64,362) |
| Acquisition of subsidiaries and business net of cash required | | **(15,500)** | (369,310) |
| Net cash generated from/(used in) investing activities | | **140,815** | (795,392) |
| **Cash flows from financing activities:** | | | |
| Proceeds from IPO hold by the sponsor | | **–** | 25,879 |
| Borrowings from banks | 20 | **166,920** | 295,500 |
| Repayments of borrowings | 20 | **(295,500)** | – |
| Purchase of non-controlling interests | 18(a) | **–** | (250,000) |
| Purchase of shares for Share Award Plan | 19(b) | **–** | (39,780) |
| Dividends paid | 28 | **(74,926)** | (44,169) |
| Net cash used in financing activities | | **(203,506)** | (12,570) |
| Net decrease in cash and cash equivalents | | **(16,428)** | (215,947) |
| Cash and cash equivalents at beginning of the year | | **1,349,231** | 1,564,248 |
| Exchange gains on cash | | **517** | 930 |
| **Cash and cash equivalents at end of the year** | 16 | **1,333,320** | 1,349,231 |

The notes on pages 72 to 139 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1. General information

Universal Health International Group Holding Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the distribution and retail of drugs, healthcare products and other pharmaceutical products in the northeastern region of the People's Republic of China (the "PRC").

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 Internaltional Inc. (the "Parent Company"), a company which was incorporated in the Cayman Islands. The ultimate shareholder of the Group is Mr. Jin Dongtao.

The Company's shares are listed on the main board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 31 March 2016.

## 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 2015.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention.

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 2015:

| | |
|---|---|
| Amendment to IAS 19 | Defined Benefit Plans: Employee Contributions |
| Annual Improvements Project | Annual Improvements 2010-2012 cycle |
| Annual Improvements Project | Annual Improvements 2011-2013 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 Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) 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 2015, 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] |
| IFRS 16 | Leases[4] |
| Amendment to IAS 1 | Presentation of Financial Statement[5] |
| Amendment to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[5] |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[5] |
| 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[6] |
| 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)*

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

[1] Effective for annual period 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 2018, earlier application is permitted.

[4] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted, if IFRS 15 is also applied.

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

[6] Effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be 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.

## 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.

# 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)*

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.

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 unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

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

(c) Disposal of subsidiaries

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

# Notes to the Consolidated Financial Statements

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

### 2.2 Subsidiaries *(continued)*

*2.2.2 Separate financial statements*

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

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

### 2.3 Joint arrangements

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

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

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

### 2.4 Segment reporting

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

# Notes to the Consolidated Financial Statements

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

### 2.5 Foreign currency translation

*(a) Functional and presentation currency*

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

*(b) Transactions and balances*

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

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

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

*(c) Group companies*

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

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

# Notes to the Consolidated Financial Statements

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

### 2.6 Property, plant and equipment

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

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

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

| | |
|---|---|
| – 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, licenses and brand loyalty*

Separately acquired trademarks, licenses and brand loyalty are shown at historical cost. Trademarks, licenses and brand loyalty acquired in a business combination are recognised at fair value at the acquisition date. Trademarks, licenses 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, licenses and brand loyalty over their estimated useful lives of 5 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" and "cash and cash equivalents" 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 recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference the proceeds (net of transaction costs) and the redemption value is recognized 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.

All borrowing costs are recognised in consolidated statement of comprehensive income in the period in which they are incurred.

### 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.

# Notes to the Consolidated Financial Statements

## 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 Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

*(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.

# Notes to the Consolidated Financial Statements

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

### 2.20 Employee benefits *(continued)*

*(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.

Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. The total expense is recognized 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 recognizes 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.

# Notes to the Consolidated Financial Statements

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

### 2.20 Employee benefits *(continued)*

*(c) Share-based payments (continued)*

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.

### 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.

# Notes to the Consolidated Financial Statements

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

### 2.21 Provisions and contingent liabilities *(continued)*

*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.

(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.

# Notes to the Consolidated Financial Statements

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

### 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.

## 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 2015, 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 2015 would have been RMB574,000 (2014: RMB1,266,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and bank deposits.

# Notes to the Consolidated Financial Statements

## 3. Financial risk management *(continued)*

### 3.1 Financial risk factors *(continued)*

*(a) Foreign exchange risk (continued)*

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 2015, 63.0% (2014: 56.6%) 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.

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 2015, the exposure to the top 15 customers did not exceed 29% of the gross trade receivables, with the exposure to the largest customer representing less than 7%.

# Notes to the Consolidated Financial Statements

## 3. Financial risk management *(continued)*

### 3.1 Financial risk factors *(continued)*

*(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 2015 the Group held cash of RMB1,333,320,000 (2014: RMB1,349,231,000) (Note 16) and trade receivables of RMB248,676,000 (2014: RMB266,459,000) (Note 13), that are expected to readily generate cash inflows for managing liquidity risk.

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

| | **Less than 1 year** *RMB'000* |
|---|---|
| **As at 31 December 2015** | |
| Borrowings | 170,483 |
| Trade and other payables | 298,913 |
| **As at 31 December 2014** | |
| Borrowings | 295,500 |
| Trade and other payables | 380,936 |

# Notes to the Consolidated Financial Statements

## 3. Financial risk management *(continued)*

### 3.1 Financial risk factors *(continued)*

*(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 2015, 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 RMB7,714,000 (2014: RMB7,177,000) 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.

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%.

# Notes to the Consolidated Financial Statements

## 3. Financial risk management *(continued)*

### 3.2 Capital risk management *(continued)*

The gearing ratios at 31 December 2015 and 2014 were as follows:

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Borrowings *(Note 20)* | **166,920** | 295,500 |
| Less: cash and cash equivalents *(Note 16)* | **1,333,320** | 1,349,231 |
| Less: restricted cash in association of the borrowings *(Note 15)* | **150,000** | 300,000 |
| Net cash | **(1,316,400)** | (1,353,731) |
| Total equity | **2,618,370** | 2,625,168 |
| Total capital | **1,301,970** | 1,271,437 |
| 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 2015 and 2014.

# 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 recognizes 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.

# Notes to the Consolidated Financial Statements

## 4. Critical accounting estimates and judgments *(continued)*

### (c) Estimated useful life of trademarks, licenses and brand loyalty

The Group's management determined that the useful life of trademarks, licenses and brand loyalty are 5 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, licenses 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.

### (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. In prior years, separate individual financial information for distributions, retails and others were presented to the Board of Directors who reviewed the internal reports in order to assess performance and allocate resources. Due to the differences in economic characters, such as customers, etc., for distributions, retails and others respectively, the distributions, retails and others were considered to be three segments in accordance with IFRS 8 "Operating Segment". The "others" segment mainly comprises investment companies.

# Notes to the Consolidated Financial Statements

## 5. Revenue and segment information *(continued)*

In the second half of year 2015, in order to respond to the change in economic environment in the areas where the Group operates, the Group has adjusted the mid-long strategic plan for its operations and development. In prior period, management operated and monitored the retail business as a single operating segment. Following the change to the new strategy in the second half of 2015, the operation and management of the retail business was divided into two groups according to their economic characteristics under the new strategy that enable the Group to execute their new strategy and do the resource allocation accordingly. As a result, the Group separates the original segment of retails into two separate segments: retails I – strategic stores ("Retails I") and retails II – non-strategic stores ("Retails II"). Retails I segment are retail business with higher future development potential and strategic focus by the Group when allocating the resources, while Retails II segment are retail business located in the areas without strategic importance and high growth potential. Individual financial information and management report of the Retails I segment, Retails II segment, distributions and others are presented to the Board of Directors to assess their performance and for making respective business decisions. Accordingly, for the year ended 31 December 2015, the composition of reportable segments in accordance with IFRS 8 “Operating Segment” has changed to four segments, the distributions, Retails I, Retails II and others. The Group also re-presented its corresponding information for the year ended 31 December 2014 accordingly.

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 2015 and 2014. 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 assesses the performance of the operating segments based on a measure of adjusted earnings before interests, tax, depreciation and amortization (“Adjusted EBITDA”). The measurement basis of Adjusted EBITDA excludes the effect of share of profit of joint ventures, share base payment expenses and goodwill impairment.

# Notes to the Consolidated Financial Statements

## 5. Revenue and segment information *(continued)*

The segment information for the year ended 31 December 2015 and as at 31 December 2015 is as follows:

| | Year ended 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | Distributions *RMB'000* | Retails I *RMB'000* | Retails II *RMB'000* | Others *RMB'000* | Total *RMB'000* |
| Segment revenue | 3,477,557 | 2,025,678 | 350,787 | – | 5,854,022 |
| Inter-segment revenue | (1,007,935) | (38,960) | (1,272) | – | (1,048,167) |
| Revenue from external customers | 2,469,622 | 1,986,718 | 349,515 | – | 4,805,855 |
| Adjusted EBITDA | 53,314 | 241,386 | 19,299 | (24,440) | 289,559 |
| Depreciation and amortisation | (14,451) | (27,996) | (1,101) | (122) | (43,670) |
| Finance income | 4,721 | 3,240 | 223 | 7,292 | 15,476 |
| Finance costs | (1,975) | (4,337) | (517) | (47) | (6,876) |
| Share of profit of joint ventures | – | 1,066 | – | – | 1,066 |
| Share base payment expenses | – | – | – | (39,805) | (39,805) |
| Goodwill impairment *(Note 8)* | – | – | (108,899) | – | (108,899) |
| Income tax expenses | (12,762) | (55,193) | (5,022) | – | (72,977) |
| Profit for the year | 28,847 | 158,166 | (96,017) | (57,122) | 33,874 |
| Additions of non-current assets | 3,196 | 5,603 | – | 26 | 8,825 |

| | As at 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | Distributions *RMB'000* | Retails I *RMB'000* | Retails II *RMB'000* | Others *RMB'000* | Total *RMB'000* |
| Total assets before eliminations | 2,029,389 | 1,901,592 | 170,782 | 1,349,148 | 5,450,911 |
| Inter-segment assets | (614,231) | (415,816) | (21,061) | (1,191,859) | (2,242,967) |
| Total assets | 1,415,158 | 1,485,776 | 149,721 | 157,289 | 3,207,944 |
| Total liabilities before eliminations | 785,785 | 711,540 | 49,006 | 48,691 | 1,595,022 |
| Inter-segment liabilities | (415,605) | (507,798) | (39,569) | (42,476) | (1,005,448) |
| Total liabilities | 370,180 | 203,742 | 9,437 | 6,215 | 589,574 |

# 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 (Note*) | | | | |
|---|---|---|---|---|---|
| | Distributions | Retails I | Retails II | Others | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue | 3,170,056 | 1,692,401 | 337,500 | – | 5,199,957 |
| Inter-segment revenue | (822,215) | (21,083) | (817) | – | (844,115) |
| Revenue from external customers | 2,347,841 | 1,671,318 | 336,683 | – | 4,355,842 |
| Adjusted EBITDA | 270,527 | 408,011 | 59,775 | (25,137) | 713,176 |
| Depreciation and amortisation | (8,604) | (26,144) | (1,721) | (70) | (36,539) |
| Finance income | 3,563 | 2,217 | 328 | 10,038 | 16,146 |
| Finance costs | (2,336) | (3,266) | (866) | (5,131) | (11,599) |
| Share of profit of joint ventures | – | 1,205 | – | – | 1,205 |
| Goodwill impairment *(Note 8)* | – | (304) | – | – | (304) |
| Income tax expenses | (69,184) | (93,900) | (15,660) | – | (178,744) |
| Profit for the year | 193,966 | 287,819 | 41,856 | (20,300) | 503,341 |
| Additions of non-current assets | 146,764 | 295,470 | 407 | 405 | 443,046 |

| | As at 31 December 2014 (Note*) | | | | |
|---|---|---|---|---|---|
| | Distributions | Retails I | Retails II | Others | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Total assets before eliminations | 2,085,108 | 1,524,722 | 255,478 | 1,287,491 | 5,152,799 |
| Inter-segment assets | (618,916) | (242,637) | (10,149) | (867,232) | (1,738,934) |
| Total assets | 1,466,192 | 1,282,085 | 245,329 | 420,259 | 3,413,865 |
| Total liabilities before eliminations | 872,562 | 506,224 | 68,193 | 16,946 | 1,463,925 |
| Inter-segment liabilities | (467,519) | (149,741) | (45,448) | (12,520) | (675,228) |
| Total liabilities | 405,043 | 356,483 | 22,745 | 4,426 | 788,697 |

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.

*Note*:*

The composition of reportable segments for the year ended 31 December 2015 has changed to four segments in accordance with IFRS 8 "Operating Segment": the distributions, Retails I, Retails II and others. Accordingly, the Group also re-presented its corresponding information for the year ended 31 December 2014 on a consistent basis.

# Notes to the Consolidated Financial Statements

## 6. Property, plant and equipment

| | 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* |
| **As at 1 January 2014** | | | | | | |
| 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 | – | 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 | (1,232) | (1,590) | (7,170) | (13,882) | – | (23,874) |
| Closing net book amount | 54,635 | 6,903 | 17,648 | 41,684 | – | 120,870 |
| **As 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 |
| **Year ended 31 December 2015** | | | | | | |
| Opening net book amount | 54,635 | 6,903 | 17,648 | 41,684 | – | 120,870 |
| Additions | – | 771 | 4,205 | 1,138 | – | 6,114 |
| Disposals | – | (97) | (136) | (208) | – | (441) |
| Depreciation | (2,675) | (1,595) | (5,186) | (13,920) | – | (23,376) |
| Closing net book amount | 51,960 | 5,982 | 16,531 | 28,694 | – | 103,167 |
| **As at 31 December 2015** | | | | | | |
| Cost | 56,323 | 14,194 | 46,477 | 71,669 | – | 188,663 |
| Accumulated depreciation | (4,363) | (8,212) | (29,946) | (42,975) | – | (85,496) |
| Net book amount | 51,960 | 5,982 | 16,531 | 28,694 | – | 103,167 |

# Notes to the Consolidated Financial Statements

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Administrative expenses | **3,036** | 3,447 |
| Selling and marketing expenses | **20,340** | 20,427 |
| | **23,376** | 23,874 |

(b) Lease rentals amounting to RMB103,444,000 (2014: RMB84,865,000) for the year ended 31 December 2015 related to the lease of property are included in the consolidated statement of comprehensive income.

(c) As at 31 December 2015, bank borrowings are secured on buildings for the carrying amount of RMB42,238,000 (2014: nil) (Note 20(a)(ii)).

# Notes to the Consolidated Financial Statements

## 7. Land use rights

| | *RMB'000* |
|---|---|
| **Year ended 31 December 2014** | |
| Opening net book amount | – |
| Additions | 3,870 |
| Amortisation *(Note 23)* | (63) |
| Closing net book amount | 3,807 |
| **As at 31 December 2014** | |
| Cost | 3,870 |
| Accumulated amortisation | (63) |
| Net book amount | 3,807 |
| **Year ended 31 December 2015** | |
| Opening net book amount | **3,807** |
| Amortisation *(Note 23)* | **(94)** |
| Closing net book amount | **3,713** |
| **As at 31 December 2015** | |
| Cost | **3,870** |
| Accumulated amortisation | **(157)** |
| Net book amount | **3,713** |

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 RMB94,000 (2014: RMB63,000) in the consolidated statement of comprehensive income.

As at 31 December 2015, bank borrowings are secured on land use rights for the carrying amount of RMB3,713,000 (2014:nil) (Note 20(a)(ii)).

# Notes to the Consolidated Financial Statements

## 8. Intangible assets

| | Goodwill RMB'000 | Trademarks, licenses and brand loyalty RMB'000 | Contractual supplier relationships RMB'000 | Computer software licences RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **As at 1 January 2014** | | | | | |
| 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 | 235,126 | 89,800 | 43,736 | – | 368,662 |
| Additions | – | – | – | 19 | 19 |
| Amortisation charge | – | (7,320) | (5,155) | (127) | (12,602) |
| Impairment | (304) | – | – | – | (304) |
| Closing net book amount | 582,258 | 172,180 | 43,233 | 1,838 | 799,509 |
| **As 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 |
| **Year ended 31 December 2015** | | | | | |
| Opening net book amount | 582,258 | 172,180 | 43,233 | 1,838 | 799,509 |
| Additions | – | 1,616 | – | 29 | 1,645 |
| Amortisation charge | – | (10,528) | (9,529) | (143) | (20,200) |
| Impairment | (108,899) | – | – | – | (108,899) |
| Closing net book amount | 473,359 | 163,268 | 33,704 | 1,724 | 672,055 |
| **As at 31 December 2015** | | | | | |
| Cost | 582,562 | 190,432 | 53,511 | 2,181 | 828,686 |
| Accumulated amortisation | – | (27,164) | (19,807) | (457) | (47,428) |
| Impairment | (109,203) | – | – | – | (109,203) |
| Net book amount | 473,359 | 163,268 | 33,704 | 1,724 | 672,055 |

# Notes to the Consolidated Financial Statements

## 8. Intangible assets *(continued)*

**(a)** Amortisations of the Group's intangible assets for the years ended 31 December 2015 amounting to RMB20,200,000 (2014: RMB12,602,000) have been charged to the consolidated statement of comprehensive income as administrative expenses.

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

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

| **2015** | **Opening** *RMB'000* | **Addition** *RMB'000* | **Impairment** *RMB'000* | **Closing** *RMB'000* |
|---|---|---|---|---|
| Distributions | **58,114** | **–** | **–** | **58,114** |
| Retails I | **415,245** | **–** | **–** | **415,245** |
| Retails II | **108,899** | **–** | **(108,899)** | **–** |
| | **582,258** | **–** | **(108,899)** | **473,359** |

| 2014 | Opening *RMB'000* | Addition *RMB'000* | Impairment *RMB'000* | Closing *RMB'000* |
|---|---|---|---|---|
| Distributions | 17,440 | 40,674 | – | 58,114 |
| Retails I | 221,097 | 194,452 | (304) | 415,245 |
| Retails II | 108,899 | – | – | 108,899 |
| | 347,436 | 235,126 | (304) | 582,258 |

Management reviews the business performance and monitors the goodwill for each operating segment. The Group's goodwill was from the acquisitions in distribution and retail business in prior years and accordingly, goodwill were allocated to distribution and retail segments and monitored at these two operating segments' level. In prior years, the retail segment was operated and managed as a single operating segment and the corresponding business entities benefited the synergies from the integration and support of shared resources. As set out in note 5, in the second half of year 2015, the retail business was divided into Retails I and Retails II as a result of change in operation and management structure following the new mid-long term strategy plan (Note 5) and accordingly, management's monitor of the goodwill is now performed for the Retails I and Retails II separately. As a result, goodwill attributable to the retail segment previously, were reallocated to the respective operating segments for Retails I and Retails II.

# Notes to the Consolidated Financial Statements

## 8. Intangible assets *(continued)*

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

The recoverable amount of all CGUs is determined based on value-in-use calculations. These calculations use 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 2015 are as follow:

| | Distributions | Retails I | Retails II |
|---|---|---|---|
| Gross margin | 18.7% | 38.0% | 38.0% |
| Growth rate | 3.0% | 3.0% | 0.0% |
| Discount rate | 15.0% | 15.0% | 15.0% |

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% |

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

In 2015, the impairment charge of RMB108,899,000 arose in the CGU of Retails II following the decision of the Group in the second half of the year to adjust its mid-long strategic planning and the consequent changes in focus and strategy for resources allocation, as a result, less resources and focus will be put in Retails II business onward. Following this decision, the Group also reassessed the depreciation policies of its property, plant and equipment and estimated that their useful lives would not be affected. No other class of asset other than goodwill was impaired.

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 I segment.

# Notes to the Consolidated Financial Statements

## 8. Intangible assets *(continued)*

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

As at 31 December 2015, in distributions and Retails I, the recoverable amount of the CGUs 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 RMB172,274,000, RMB54,378,000 and RMB80,840,000, to RMB152,891,000, RMB270,787,000, and RMB244,325,000 respectively; In Retails I, 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 RMB132,270,000, RMB113,502,000 and RMB174,013,000, to RMB821,425,000, RMB840,193,000 and RMB779,682,000, respectively, the recoverable amount is still significantly higher than carrying amount.

## 9. Subsidiaries

The Company has the following principal subsidiaries at 31 December 2015:

| Name of company | Country/place and date of incorporation | Principal activities | Particulars of issued share | Effective interest held (%) 2015 | 2014 |
|---|---|---|---|---|---|
| **Directly owned:** | | | | | |
| Gaoya Investments Limited | BVI/ 9 June 2015 | Investments holding | USD1 | **100.00** | NA |
| Hong Kong Health Century International Group Limited | Hong Kong/ 15 September 2010 | Investments holding and retailing drugs and other pharmaceutical products | HKD1,000/ HKD10,000 | **100.00** | 100.00 |
| Jilin Jintian Aixin Health Pharmaceutical Co.,Ltd. | PRC/ 25 May 2009 | Retailing drugs and other pharmaceutical products | RMB2,000,000 | **100.00** | 100.00 |
| Junfeng Global Limited | BVI/ 12 September 2014 | Investments holding | USD1 | **100.00** | 100.00 |
| Neo Century Holdings Limited | BVI/ 20 May 2014 | Investments holding | USD1 | **100.00** | 100.00 |

# Notes to the Consolidated Financial Statements

## 9. Subsidiaries *(continued)*

| Name of company | Country/place and date of incorporation | Principal activities | Particulars of issued share | Effective interest held (%) 2015 | 2014 |
|---|---|---|---|---|---|
| **Indirectly owned:** | | | | | |
| Anshan Jintian Aixin Pharmacy Chain Co.,Ltd [a] | PRC/ 20 November 2009 | Retailing drugs and other pharmaceutical products | RMB2,000,000 | **100.00** | 100.00 |
| 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 |
| Gerrards Agents (Macao Commercial Offshore) Limited | Macao/ 15 April 2004 | Off-shore business | MOP100,000 | **100.00** | NA |
| 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 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** | 100.00 |
| Health Century Muying Aixin Medicine Limited | Hong Kong/ 14 April 2014 | Retailing drugs and other pharmaceutical products | HKD10,000 | **100.00** | 100.00 |
| Health Century Jintian Aixin Pharmaceutical Group Limited | Hong Kong/ 24 April 2013 | Investments holding and wholesaling drugs and other pharmaceutical products | HKD100,000 | **100.00** | 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 |

# Notes to the Consolidated Financial Statements

## 9. Subsidiaries *(continued)*

| Name of company | Country/place and date of incorporation | Principal activities | Particulars of issued share | Effective interest held (%) 2015 | 2014 |
|---|---|---|---|---|---|
| **Indirectly owned:** | | | | | |
| 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 Aixin Pharmaceutical Chain Co., Ltd. | 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 Universal Health Cross-border Platform Company Limited | Hong Kong/ 5 August 2015 | E-commerce and trading of health-care products | HKD1 | **100.00** | NA |
| Hong Kong Wing Ming Medical Limited | Hong Kong/ 25 July 2014 | Trading of health-care product and chinese patent medicines | HKD1 | **100.00** | 100.00 |
| Hong Kong Yushi Holdings Limited | Hong Kong/ 4 December 2014 | Investments holding | HKD10,000 | **100.00** | 100.00 |
| Jiamusi Jintian Aixin Pharmaceutical Co., Ltd. | PRC/ 15 July 1998 | Wholesaling drugs and other pharmaceutical products | RMB15,000,000 | **100.00** | 100.00 |
| Jiamusi Jintian Aixin Pharmaceutical Chain Co., Ltd. | PRC/ 14 April 2004 | Retailing drugs and other pharmaceutical products | RMB5,000,000 | **100.00** | 100.00 |
| Jilin Jintian Aixin Pharmaceutical Distribution Co., Ltd. | 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. | PRC/ 29 October 2001 | Retailing drugs and other pharmaceutical products | RMB500,000 | **100.00** | 100.00 |

# Notes to the Consolidated Financial Statements

## 9. Subsidiaries *(continued)*

| Name of company | Country/place and date of incorporation | Principal activities | Particulars of issued share | Effective interest held (%) 2015 | Effective interest held (%) 2014 |
|---|---|---|---|---|---|
| **Indirectly owned:** | | | | | |
| Jilin Jintian Aixin Pharmacy Chain Co., Ltd. ("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** | 100.00 |
| Jintian Pharmaceutical Group Limited | Hong Kong/ 16 November 2015 | Investments holding | HKD100 | **100.00** | NA |
| Jinzhou Jintian Aixin Pharmacy Chain Co.,Ltd [b] ("Tian Kang") | PRC/ 16 January 2012 | Retailing drugs and other pharmaceutical products | RMB500,000 | **100.00** | 100.00 |
| Liaoning Jintian Aixin Supermarket Chain Co., Ltd. | PRC/ 6 December 2012 | Commercial retail | RMB3,000,000 | **100.00** | 100.00 |
| 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 | BVI/ 11 June 2014 | Investments holding | USD1 | **100.00** | 100.00 |
| Shenyang Jintian Aixin Pharmacy Chain Co,.Ltd [c] ("Hong Mian") | PRC/ 12 November 2012 | Retailing drugs and other pharmaceutical products | RMB480,000 | **100.00** | 100.00 |

# Notes to the Consolidated Financial Statements

## 9. Subsidiaries *(continued)*

| Name of company | Country/place and date of incorporation | Principal activities | Particulars of issued share | Effective interest held (%) 2015 | 2014 |
|---|---|---|---|---|---|
| **Indirectly owned:** | | | | | |
| Shenyang Shengshi Pharmacy Chain Co., Ltd. ("Sheng Shi") | PRC/ 28 May 2008 | Retailing drugs and other pharmaceutical products | RMB300,000 | **100.00** | 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** | 100.00 |
| Shenyang Weishi Pharmaceutical Co., Ltd. | PRC/ 27 October 2013 | Wholesaling drugs and other pharmaceutical products | RMB5,000,000 | **100.00** | 100.00 |
| Shenzhen Jintian Health Brand Management Co.,Ltd | PRC/ 6 November 2014 | Consulting, designing, retailing and trading, e-business, advertising service, etc. | RMB1,000,000 | **100.00** | 100.00 |
| Suihua Jintian Aixin Pharmaceutical Mall Chain Co., Ltd. ("Sui Hua") | 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** | 100.00 |
| Universal Health International (Hong Kong) Investments Holdings Limited | Hong Kong/ 16 November 2015 | Investments holding | HKD100 | **100.00** | NA |

[a] Liaoning Deren Drug Store Co., Ltd. was renamed as Anshan Jintian Aixin Pharmacy Chain Co., Ltd. in November 2015.

[b] Jinzhou Tiankang Pharmacy Chain Co., Ltd. ("Tian Kang") was renamed as Jinzhou Jintian Aixin Pharmacy Chain Co., Ltd. in January 2016.

[c] Shenyang Hongmian Jianzhen Drug Store Chain Co., Ltd. was renamed as Shenyang Jintian Aixin Pharmacy Chain Co., Ltd. in May 2015.

There were no material transactions with non-controlling interests in 2015.

# Notes to the Consolidated Financial Statements

## 10. Investments in joint ventures

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| At beginning of the year | **6,454** | 5,249 |
| Share of profits | **1,066** | 1,205 |
| At end of the year | **7,520** | 6,454 |

As at 31 December 2015 and 2014, the Group had equity interests in these joint ventures:

| Name of entity | Place of business/ country of incorporation | Date of acquisition | Nature of the relationship | % of ownership interest 2015 | % of ownership interest 2014 | 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 *(continued)*

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

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Non-current assets | **452** | 457 |
| Current assets | **7,283** | 6,212 |
| | **7,735** | 6,669 |
| **Liabilities** | | |
| Current liabilities | **(215)** | (215) |
| Net assets | **7,520** | 6,454 |

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Revenue | **4,279** | 4,579 |
| Expenses | **(3,213)** | (3,374) |
| Profit after income tax | **1,066** | 1,205 |

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

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

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| | *RMB'000* | *RMB'000* |
| **Deferred tax assets:** | | |
| – Deferred tax assets to be recovered within 12 months | 19,297 | 11,953 |
| **Deferred tax liabilities:** | | |
| – Deferred tax liabilities to be recovered after more than 12 months | (41,287) | (45,868) |
| – Deferred tax liabilities to be recovered within 12 months | (5,298) | (4,830) |
| | (46,585) | (50,698) |

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* | Deferred advertising expenses *RMB'000* | Provision *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **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 |
| **At 1 January 2015** | 10,769 | 1,184 | – | – | 11,953 |
| Credited to the consolidated statement of comprehensive income | 3,304 | 160 | 3,531 | 349 | 7,344 |
| **At 31 December 2015** | 14,073 | 1,344 | 3,531 | 349 | 19,297 |

# Notes to the Consolidated Financial Statements

## 11. Deferred income tax *(continued)*

| **Deferred tax liabilities** | **Deferred tax liabilities arising from business combination** *RMB'000* |
|---|---|
| **At 1 January 2014** | (23,011) |
| Acquisition of subsidiaries | (30,962) |
| Credited to the consolidated statement of comprehensive income | 3,275 |
| **At 31 December 2014** | (50,698) |
| **At 1 January 2015** | **(50,698)** |
| Credited to the consolidated statement of comprehensive income | **4,113** |
| **At 31 December 2015** | **(46,585)** |

As at 31 December 2015, deferred income tax assets of RMB12,795,000 (2014: RMB7,706,000) have not been recognised in respect of the tax losses amounting to RMB94,721,000 (2014: RMB43,884,000) 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 2015, no provision for withholding tax has been made (2014: nil), as unremitted earnings of those subsidiaries in mainland China are not expected to be distributed in the foreseeable future. Unremitted earnings amounted to RMB1,425,713,000 (2014: RMB1,319,296,000) as at 31 December 2015.

# Notes to the Consolidated Financial Statements

## 12. Financial instruments by category

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| **Loans and receivables** | | |
| Trade and other receivables excluding prepayments | **333,332** | 283,793 |
| Restricted cash | **227,414** | 382,843 |
| Cash and cash equivalents | **1,333,320** | 1,349,231 |
| | **1,894,066** | 2,015,867 |

| | | |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Financial liabilities at amortized cost** | | |
| Trade and other payables | **373,464** | 380,936 |
| Borrowings | **166,920** | 295,500 |
| | **540,384** | 676,436 |

# Notes to the Consolidated Financial Statements

## 13. Trade and other receivables

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| | *RMB'000* | *RMB'000* |
| Trade receivables (a) | | |
| – Due from third parties | 248,207 | 265,988 |
| – Due from related parties *(Note 31)* | 469 | 471 |
| | 248,676 | 266,459 |
| Prepayments | | |
| – Prepayments to third parties | 56,776 | 69,468 |
| – Tax input credits | 51,245 | 14,802 |
| – Prepayments to related parties *(Note 31)* | 1,500 | 6,092 |
| | 109,521 | 90,362 |
| Other receivables | | |
| – Due from related parties *(Note 31)* | 67,517 | – |
| – Deposits | 10,907 | 11,122 |
| – Others | 8,006 | 7,986 |
| | 86,430 | 19,108 |
| Trade and other receivables | 444,627 | 375,929 |
| Less: Provision for impairment (c) | (1,774) | (1,774) |
| Trade and other receivables – net | 442,853 | 374,155 |

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

# Notes to the Consolidated Financial Statements

## 13. Trade and other receivables *(continued)*

(a) Retail sales at the Group's pharmacies are usually made in cash or debit or credit cards. For distribution sales, there is no concentration of credit risk with respect to trade receivables, as the majority of the Group's sales are settled 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 | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Up to 3 months | **229,920** | 247,037 |
| 4 to 6 months | **5,813** | 12,355 |
| 7 to 12 months | **12,943** | 7,067 |
| | **248,676** | 266,459 |

As at 31 December 2015 and 2014, the trade receivables of RMB18,756,000 and RMB19,422,000 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 | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Past due up to 3 months | **5,813** | 12,355 |
| Past due 4 to 9 months | **12,943** | 7,067 |
| | **18,756** | 19,422 |

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

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **429,733** | 360,322 |
| HKD | **13,120** | 13,673 |
| USD | **–** | 160 |
| | **442,853** | 374,155 |

# Notes to the Consolidated Financial Statements

## 13. Trade and other receivables *(continued)*

(c) As of 31 December 2015, other receivables of RMB1,774,000 (2014: RMB1,774,000) were impaired. Movements on the Group's allowance for impairment of other receivables are as follows:

| | 2015<br>*RMB'000* | 2014<br>*RMB'000* |
|---|---|---|
| As at 1 January | **1,774** | – |
| Provision for other receivables | **–** | 1,774 |
| As at 31 December | **1,774** | 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.

## 14. Inventories

| | As at 31 December | |
|---|---|---|
| | 2015<br>*RMB'000* | 2014<br>*RMB'000* |
| Goods | **398,605** | 362,940 |

The cost of inventories recognised as expense and included in cost of sales amounted to RMB 3,442,104,000 (2014:RMB3,063,079,000), which included inventory write-down of RMB 2,675,000 (2014: nil).

As at 31 December 2015, a batch of goods with cost of RMB9,532,000 was considered as slow-moving. A provision of RMB 2,675,000 was made due to the cost is higher than the net realisable value as at 31 December 2015 (2014: nil).

# Notes to the Consolidated Financial Statements

## 15. Restricted cash

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Restricted cash | **227,414** | 382,843 |

The balance of the restricted cash was secured for bank borrowings and notes payable. As at 31 December 2015, the amount of trade finance facilities utilised by the Group for bank borrowings amounting to RMB150,000,000 (2014: RMB300,000,000) (Note 20) and issuing notes payable to its suppliers amounting to RMB77,414,000 (2014: RMB82,843,000) (Note 21 (b)), respectively.

All of the restricted cash was denominated in RMB.

The ranges of interest rates on restricted cash, with mature days within one year, were 1.30% to 2.74% (2014: 0.39% to 4.60%) per annum as at 31 December 2015.

## 16. Cash and cash equivalents

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Cash on hand | **1,025** | 1,271 |
| Cash at bank | **1,332,295** | 1,347,960 |
| Total | **1,333,320** | 1,349,231 |

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

As at 31 December 2015 and 2014, the cash and bank denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **1,326,605** | 1,326,860 |
| HKD | **6,562** | 21,407 |
| USD | **152** | 964 |
| MOP | **1** | – |
| Total | **1,333,320** | 1,349,231 |

# Notes to the Consolidated Financial Statements

## 17. Share capital

| | Number of ordinary shares | Nominal value of ordinary shares *USD* |
|---|---|---|
| **Authorised:** | | |
| Ordinary shares of USD 0.001 each | | |
| As at 31 December 2015 and 2014 | 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* |
|---|---|---|---|
| As at 1 January 2014, 31 December 2014 and 2015 | 2,000,000,000 | 2,000,000 | 12,259 |

# Notes to the Consolidated Financial Statements

## 18. Reserves

| | 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 19(b)) RMB'000 | Other reserves RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2014 | | 1,524,825 | (8,939) | 35,056 | – | 8,853 | – | 1,559,795 |
| Purchase of non-controlling interests | (a) | – | (145,508) | – | – | – | – | (145,508) |
| Dividends distribution | 28 | (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 |
| Balance at 1 January 2015 | | 1,480,656 | (154,447) | 60,182 | (39,780) | 8,853 | – | 1,355,464 |
| Dividends distribution | 28 | (74,926) | – | – | – | – | – | (74,926) |
| Shares granted for Share Award Plan | 19(b) | – | – | – | 39,780 | 25 | – | 39,805 |
| Profit appropriation to statutory reserves | (b) | – | – | 4,877 | – | – | – | 4,877 |
| Currency translation difference | | – | – | – | – | – | (5,551) | (5,551) |
| Balance at 31 December 2015 | | 1,405,730 | (154,447) | 65,059 | – | 8,878 | (5,551) | 1,319,669 |

*Notes:*

(a) Capital reserves

On 27 August 2014, a subsidiary of the Company acquired 36% equity interests 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 "Jiamusi Jintian Aixin Pharmaceutical Chain Co., Ltd." and "Heilongjiang Jintian Aixin Pharmaceutical Chain Co., Ltd." have reached 50% of the registered capital as at 31 December 2008. "Jiamusi Jintian Aixin Pharmaceutical Co., Ltd.", "Aixin Health", "Ji Shi Tang" and "Jilin Jintian Aixin Pharmaceutical Distribution Co., Ltd." 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. "Tian Kang", "Jin Feng", "Hong Mian", and "Aixin Pharmacy Chain" have reached 50% of the registered capital as at 31 December 2015. According to the relevant PRC laws and regulations, there is no statutory requirement for these fourteen companies to appropriate statutory reserve any more.

# 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 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. 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 controls and thus consolidates the trust.

During the year of 2014, 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).

On 28 December 2015, the Company granted an aggregate of 16,993,000 shares to an aggregate of 13 grantees without consideration. Based on the closing price of the Company as at the date of the grant, the market value of all the awarded shares in aggregate is approximately RMB39,805,000. The difference of RMB25,000 with the amount of shares held in trust were charged to share-based compensation reserves. As of 31 December 2015, no remaining shares is held by the trust for the purpose of the Share Award Plan.

# Notes to the Consolidated Financial Statements

## 20. Borrowings

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| **Current** | | |
| Short-term secured bank borrowings | 166,920 | 295,500 |

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

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| Group's assets | | |
| – Restricted cash (i) | 150,000 | 300,000 |
| – Buildings and land use rights (ii) | 45,951 | – |
| Related party's assets | | |
| – Buildings and land use rights (iii) | 7,260 | – |
| | 203,211 | 300,000 |

(i) As at 31 December 2015, bank borrowings amounting to RMB150,000,000 (2014: RMB295,500,000) are secured by restricted cash of RMB150,000,000 (2014: RMB300,000,000) (Note 15).

(ii) As at 31 December 2015, bank borrowings amounting to RMB11,870,000 (2014: nil) are secured by Group's buildings and land use rights of RMB45,951,000 (Note 6 & 7).

(iii) As at 31 December 2015, bank borrowings amounting to RMB5,050,000 (2014: nil) are secured by the buildings and land use rights of a related party for the value of RMB7,260,000 (Note 31 (d)).

# Notes to the Consolidated Financial Statements

## 20. Borrowings *(continued)*

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

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **166,920** | 295,500 |

(c) As at 31 December 2015 and 2014, there is no undrawn borrowing facilities of the Group.

(d) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date was as follows:

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Bank borrowings | | |
| – fixed rates | **150,000** | 295,500 |
| – floating rates | **16,920** | – |
| | **166,920** | 295,500 |

The weighted average effective interest rates (per annum) at the balance sheet date are set out as follows:

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Bank borrowings | **3.57%** | 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

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Trade payables (a) | | |
| – Due to third parties | **184,541** | 187,948 |
| – Due to a related party *(Note 31(b))* | **–** | 68 |
| | **184,541** | 188,016 |
| Notes payable (b) | **94,662** | 82,843 |
| Other payables (c) | **94,261** | 110,077 |
| Total | **373,464** | 380,936 |

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

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Up to 3 months | **183,468** | 182,031 |
| 4 to 6 months | **1,051** | 5,378 |
| 7 to 12 months | **1** | 477 |
| 1 year to 2 years | **21** | 130 |
| | **184,541** | 188,016 |

(b) As at 31 December 2015, the entire balance of notes payable was secured by restricted cash of RMB77,414,000 (2014: RMB82,843,000) (Note 15).

# Notes to the Consolidated Financial Statements

## 21. Trade and other payables *(continued)*

(c) Details of other payables are as follows:

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Salary and welfare payable | **67,480** | 50,220 |
| Sales commissions and marketing expenses | **12,593** | 11,307 |
| Other taxes | **5,048** | 24,805 |
| Consideration payable | **–** | 15,500 |
| Others | **9,140** | 8,245 |
| Total | **94,261** | 110,077 |

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

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **365,114** | 370,045 |
| HKD | **7,606** | 10,190 |
| USD | **744** | 701 |
| | **373,464** | 380,936 |

## 22. Other (losses)/gains – Net

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Loss on disposals of property, plant and equipment | **(390)** | (397) |
| Excess of the fair value of net assets of a subsidiary acquired over acquisition cost | **–** | 989 |
| Others | **(253)** | (42) |
| | **(643)** | 550 |

# Notes to the Consolidated Financial Statements

## 23. Expenses by nature

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Changes in inventories *(Note 14)* | **3,439,429** | 3,063,079 |
| Advertising and other marketing expenses | **502,640** | 107,450 |
| Employee benefit expenses *(Note 24)* | **332,513** | 229,944 |
| Provision for impairment of goodwill *(Note 8)* | **108,899** | 304 |
| Rental expenses *(Note 6)* | **103,444** | 84,865 |
| Transportation and related charges | **91,461** | 79,503 |
| Other tax expenses | **25,692** | 29,762 |
| Depreciation of property, plant and equipment *(Note 6)* | **23,376** | 23,874 |
| Amortisation of intangible assets *(Note 8)* | **20,200** | 12,602 |
| Office and communication expenses | **13,142** | 11,286 |
| Professional fees | **9,183** | 8,339 |
| License fee of trademarks | **6,500** | 6,490 |
| Training fee | **6,330** | 187 |
| Electricity and other utility fees | **5,841** | 3,454 |
| Auditors' remuneration | | |
| – Audit services | **4,800** | 4,800 |
| – Non-audit services | **796** | – |
| Provision for impairment of inventories *(Note 14)* | **2,675** | – |
| Travelling and meeting expenses | **1,713** | 3,495 |
| Amortisation of land use rights *(Note 7)* | **94** | 63 |
| Provision for impairment of other receivables *(Note 13)* | **–** | 1,774 |
| Other expenses | **9,977** | 9,243 |
| | **4,708,705** | 3,680,514 |

# Notes to the Consolidated Financial Statements

## 24. Employee benefit expenses

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Salaries and wages | **212,886** | 168,429 |
| Contributions to pension plans | **71,369** | 57,242 |
| Share based payment expenses | **39,805** | – |
| Other benefits | **8,453** | 4,273 |
| | **332,513** | 229,944 |

**(a) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2014: four) directors whose emoluments are reflected in the analysis presented in Note 32. The emoluments payable to the remaining one (2014: one) individual during the year are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Salaries and allowance | **439** | 974 |
| Contributions to pension plans | **25** | 13 |
| Awarded shares expenses | **3,359** | – |
| | **3,823** | 987 |

The emolument paid to the above individual fell between RMB3,500,000 and RMB4,000,000 (2014: between RMB500,000 and RMB1,000,000).

During the year of 2015, no director or the five highest paid individuals received any emolument from the Group as an inducement to joint, upon joining the Group, leave the Group or as compensation for loss of office (2014: nil).

# Notes to the Consolidated Financial Statements

## 25. Finance income and costs

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| **Finance income** | | |
| Exchange gains | **7,096** | – |
| Interest income on bank deposits | **8,380** | 16,146 |
| | **15,476** | 16,146 |
| **Finance costs** | | |
| Exchange losses | **–** | (5,607) |
| Interest expense on loans | **(6,144)** | (5,527) |
| Other charges | **(732)** | (465) |
| | **(6,876)** | (11,599) |
| Finance income – net | **8,600** | 4,547 |

## 26. Income tax expenses

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax – PRC corporate income tax | **84,434** | 183,175 |
| Deferred income tax credit *(Note11)* | **(11,457)** | (4,431) |
| Total income tax expenses | **72,977** | 178,744 |

# Notes to the Consolidated Financial Statements

## 26. Income tax expenses *(continued)*

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **106,851** | 682,085 |
| Tax calculated at a PRC statutory tax rate of 25% | **26,713** | 170,521 |
| Tax effects of: | | |
| – Expenses not deductible for tax purpose *(Note)* | **31,281** | 1,962 |
| – Income not subject to tax | **–** | (1,001) |
| – Tax losses for which no deferred income tax asset was recognised | **5,089** | 2,281 |
| – Effect of different applicable tax rates for certain subsidiaries | **10,161** | 5,282 |
| – Results of joint ventures reported net of tax | **(267)** | (301) |
| Income tax expenses | **72,977** | 178,744 |

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 2015. The subsidiaries of the Group in PRC are subject to corporate income tax at a rate of 25% on its taxable income or deemed profit method as determined in accordance with the relevant PRC income tax rules and regulations.

*Note:*

Expenses not deductible for tax purpose for the year ended 31 December 2015 are mainly related to goodwill impairment.

# Notes to the Consolidated Financial Statements

## 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 | |
|---|---|---|
| | **2015** | 2014 |
| Profit attributable to owners of the Company *(RMB'000)* | **31,163** | 472,724 |
| Weighted average number of ordinary shares in issue *(thousands)* | **1,983,193** | 1,988,903 |
| Basic earnings per share *(RMB cents)* | **1.57** | 23.77 |

**(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 2015 and 2014, the diluted earnings per share for the years is equal to basic earnings per share.

## 28. Dividends

The final dividends paid in 2015 and 2014 were RMB50,333,000 (HK3.2 cents per share) and nil, which excluded the dividends of RMB 431,000 and nil related to the shares held for the purpose of the Share Award Plan, in respect of the year ended 31 December 2014 and the year ended 31 December 2013 respectively. The interim dividends paid in 2015 and 2014 were RMB24,593,000 (HK1.5 cents per share) and RMB44,169,000 (HK2.8 cents per share), which excluded the dividends of RMB 211,000 and 379,000 related to the shares held for the purpose of the Share Award Plan, in respect of six months ended 30 June 2015 and six months ended 30 June 2014 respectively. The Board of Directors does not recommend any final dividend for the year ended 31 December 2015.

| | Year ended 31 December | |
|---|---|---|
| | **2015** *RMB'000* | 2014 *RMB'000* |
| Interim dividend paid of HK1.5 cents (2014:HK2.8 cents) per ordinary share | **24,593** | 44,169 |
| Proposed final dividend of nil (2014:HK3.2 cents) per ordinary share | **–** | 50,333 |
| | **24,593** | 94,502 |

# Notes to the Consolidated Financial Statements

## 29. Cash generated from operations

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Profit for the year | **33,874** | 503,341 |
| Adjustments for: | | |
| – Income tax expenses | **72,977** | 178,744 |
| – Depreciation of property, plant and equipment *(Note 6)* | **23,376** | 23,874 |
| – Amortisation of land use rights *(Note 7)* | **94** | 63 |
| – Amortisation of intangible assets *(Note 8)* | **20,200** | 12,602 |
| – Loss on disposals of property, plant and equipment *(Note 22)* | **390** | 397 |
| – Share-based payments | **39,805** | – |
| – Excess of the fair value of net assets of a subsidiary acquired over acquisition cost *(Note 22)* | **–** | (989) |
| – Impairment of goodwill *(Note 23)* | **108,899** | 304 |
| – Impairment of inventories *(Note14)* | **2,675** | – |
| – Impairment of prepayment for intangible assets | **2,103** | – |
| – Impairment of other receivable *(Note 23)* | **–** | 1,774 |
| – Finance income – net *(Note 25)* | **(8,600)** | (4,547) |
| – Share of profits of joint ventures *(Note 10)* | **(1,066)** | (1,205) |
| Changes in working capital: | | |
| – Increase in inventories | **(38,340)** | (64,391) |
| – Increase in trade and other receivables | **(17,918)** | (44,686) |
| – Increase in trade and other payables | **2,081** | 162,901 |
| Cash generated from operations | **240,550** | 768,182 |

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Net book amount *(Note 6)* | **441** | 450 |
| Loss on disposals of property, plant and equipment *(Note 22)* | **(390)** | (397) |
| Proceeds from disposal of property, plant and equipment | **51** | 53 |

# Notes to the Consolidated Financial Statements

## 30. 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:

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| No later than 1 year | **56,531** | 64,379 |
| Later than 1 year and no later than 5 years | **30,631** | 46,082 |
| More than 5 years | **130** | 230 |
| | **87,292** | 110,691 |

### (b) Capital commitments

The Group did not have any significant capital commitments as at 31 December 2015 and 2014.

## 31. 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.

# Notes to the Consolidated Financial Statements

## 31. Related-party transactions *(continued)*

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

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Purchases of goods | **15,648** | 156,251 |
| Purchases of services | **117** | 113 |
| Use of trademarks | **474** | 4,373 |
| Consulting services fee | **–** | 314 |
| Sales of goods | **5,641** | 4,717 |
| Operating lease | **1,500** | – |

**(b) Balances with related parties:**

| | As at 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Trade receivables *(Note 13)* | **469** | 471 |
| Other receivables *(Note)* | **67,517** | – |
| Prepayment of rental expenses *(Note 13)* | **1,500** | – |
| Prepayments of goods *(Note 13)* | **–** | 4,559 |
| Prepayments of the fees for the use of trademark *(Note 13)* | **–** | 1,533 |
| Trade payables *(Note 21)* | **–** | 68 |

*Note:*

Other receivables from related parties were unsecured in nature and bear no interest. The other receivables were subsequently repaid in February 2016.

# Notes to the Consolidated Financial Statements

## 31. Related-party transactions *(continued)*

### (c) Key management compensation

Key management includes directors (executive and non-executive), members of the Executive Committee, the Company Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services is shown below:

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Salaries and other short-term employee benefits | **6,039** | 5,591 |
| Post-employment benefits | **158** | 152 |
| Share-based payments | **21,327** | – |
| | **27,524** | 5,743 |

### (d) Related-party collateral

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* |
| Shareholder's buildings and land use rights *(Note 20(a)(iii))* | **7,260** | – |

# Notes to the Consolidated Financial Statements

## 32. Benefits and interests of directors

Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2015

Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:

| Name of Director | Fees | Salaries and allowances | Discretionary bonuses | Awarded Shares expenses | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Mr. Jin Dongtao | 813 | 497 | – | 7,890 | 15 | 9,215 |
| Mr. Chu Chuanfu** | 813 | 191 | 500 | 3,359 | 15 | 4,878 |
| Mr. Jin Dongkun | 813 | 196 | 100 | 3,359 | 15 | 4,483 |
| Mr. Zhao Zehua (iv) | 114 | 136 | 100 | 3,359 | – | 3,709 |
| Mr. Yang Jiacheng (ii) | 98 | 69 | – | – | 4 | 171 |
| Mr. Cheng Sheung Hing* | 195 | – | – | – | – | 195 |
| Ms. Chiang Su Hui Susie* | 195 | – | – | – | – | 195 |
| Ms. Hao Jia* (v) | 106 | – | – | – | – | 106 |
| Mr. Chen Xiao* (vi) | 98 | – | – | – | – | 98 |
| | 3,245 | 1,089 | 700 | 17,967 | 49 | 23,050 |

# Notes to the Consolidated Financial Statements

## 32. Benefits and interests of directors *(continued)*

For the year ended 31 December 2014

Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:

| Name of Director | Fees | Salaries and allowances | Discretionary bonuses | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Mr. Jin Dongtao | 788 | 498 | – | 5 | 1,291 |
| Mr. Chu Chuanfu** | 788 | 196 | – | 5 | 989 |
| Mr. Jin Dongkun | 788 | 197 | – | 5 | 990 |
| Ms. Wu Qiong (iii) | 512 | 180 | – | – | 692 |
| Ms. Chen Xiaoyan (i) | 354 | 197 | – | 3 | 554 |
| Mr. Yang Jiacheng (ii) | 67 | 136 | – | – | 203 |
| Mr. Cheng Sheung Hing* | 189 | – | – | – | 189 |
| Ms. Chiang Su Hui Susie* | 189 | – | – | – | 189 |
| Mr. Chen Xiao* (vi) | 189 | – | – | – | 189 |
| | 3,864 | 1,404 | – | 18 | 5,286 |

* represent the independent non-executive directors.

** Mr. Chu Chuanfu is the chief executive and an executive director of the Group.

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

(ii) Mr. Yang Jiacheng resigned as the an executive directors from 16 June 2015.

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

(iv) Mr. Zhao Zehua was appointed as an executive director from 16 June 2015.

(v) Ms. Hao Jia was appointed as the independent non-executive directors from 16 June 2015.

(vi) Mr. Chen Xiao resigned as the independent non-executive directors from 16 June 2015.

For the year ended 31 December 2015 and 2014, no housing allowance, estimated money value of other benefits, remunerations paid or receivable in respect of accepting office as director, emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking were provided by the Group to directors or chief executive.

# Notes to the Consolidated Financial Statements

## 33. Balance sheet and reserve movement of the Company

**Balance sheet of the Company**

| | Note | As at 31 December 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | | 58,533 | 58,533 |
| Loans to subsidiaries | | 130,190 | 174,033 |
| **Total non-current assets** | | 188,723 | 232,566 |
| **Current assets** | | | |
| Other receivables | | 501,711 | 511,502 |
| Cash and cash equivalents | | 2,381 | 14,270 |
| **Total current assets** | | 504,092 | 525,772 |
| **Total assets** | | 692,815 | 758,338 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | 12,259 | 12,259 |
| Reserves | | 770,511 | 805,632 |
| Accumulated losses | a | (107,494) | (74,773) |
| | | 675,276 | 743,118 |
| **Total equity** | | 675,276 | 743,118 |
| **Current liability** | | | |
| Other payables | | 17,539 | 15,220 |
| **Total liabilities** | | 17,539 | 15,220 |
| **Total equity and liabilities** | | 692,815 | 758,338 |

The balance sheet of the Company was approved by the Board of Directors on 31 March 2016 and was signed on its behalf.

| | |
|---|---|
| Jin Dongtao | Zhao Zehua |
| *Director* | *Director* |

# Notes to the Consolidated Financial Statements

## 33. Balance sheet and reserve movement of the Company *(continued)*

### Balance sheet of the Company *(continued)*

Note (a): Reserve movement of the Company

| | Share premium RMB'000 | Shares held for Share Award Plan RMB'000 | Share-based compensation reserves RMB'000 | Capital reserves RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2014** | 874,167 | – | – | 15,414 | (26,268) | 863,313 |
| Loss for the year | – | – | – | – | (48,505) | (48,505) |
| Shares purchase for Share Award Plan | – | (39,780) | – | – | – | (39,780) |
| Dividends distribution | (44,169) | – | – | – | – | (44,169) |
| **Balance at 31 December 2014** | 829,998 | (39,780) | – | 15,414 | (74,773) | 730,859 |
| **Balance at 1 January 2015** | **829,998** | **(39,780)** | **–** | **15,414** | **(74,773)** | **730,859** |
| Loss for the year | **–** | **–** | **–** | **–** | **(32,721)** | **(32,721)** |
| Dividends distribution | **(74,926)** | **–** | **–** | **–** | **–** | **(74,926)** |
| Grant of Awarded Shares | **–** | **39,780** | **25** | **–** | **–** | **39,805** |
| **Balance at 31 December 2015** | **755,072** | **–** | **25** | **15,414** | **(107,494)** | **663,017** |

# 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 | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | **4,805,855** | 4,355,842 | 3,323,499 | 2,326,292 | 1,473,902 |
| Gross profit | **1,340,575** | 1,267,460 | 936,418 | 545,769 | 378,144 |
| Profit before income tax | **106,851** | 682,085 | 519,846 | 305,880 | 251,223 |
| Income tax expenses | **(72,977)** | (178,744) | (134,786) | (78,517) | (62,377) |
| Profit for the year | **33,874** | 503,341 | 385,060 | 227,363 | 188,846 |
| Attributable to: | | | | | |
| Owners of the Company | **31,163** | 472,724 | 355,103 | 213,760 | 180,117 |
| Non-controlling interests | **2,711** | 30,617 | 29,957 | 13,603 | 8,729 |
| | **33,874** | 503,341 | 385,060 | 227,363 | 188,846 |

## Assets, Liabilities And Non-controlling Interests

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Total assets | **3,207,944** | 3,413,865 | 2,744,231 | 1,515,146 | 1,232,769 |
| Total liabilities | **(589,574)** | (788,697) | (288,455) | (886,988) | (831,525) |
| Non-controlling interests | **(29,720)** | (27,009) | (100,884) | (79,377) | (38,787) |
| Equity attributable to owners of the Company | **2,588,650** | 2,598,159 | 2,354,892 | 548,781 | 362,457 |