UNIVERSAL HEALTH

UNIVERSAL HEALTH INTERNATIONAL GROUP HOLDING LIMITED
大健康國際集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2211

2016
ANNUAL REPORT

CONTENTS

Company Profile

Universal Health International Group Holding Limited (Stock code: 2211) (the "**Universal Health International**" or the "**Company**") and its subsidiaries (the "**Group**") aims at huge market opportunities in the universal health industry, strives to create international brand operator of universal health and become leading practitioner of the strategy of "Internet + Universal Health" as well as pioneer of the development of ecology in the industry chain by the way of finance and capital.

Universal Health International is one of the leading pharmaceutical retailers and distributors in the Northeast of the People's Republic of China (the "**PRC**" or "**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. As of the date of this annual report, the Group operated 937 retail pharmacies in the Northeast China, and had 3 retail pharmacies located in Hong Kong. Meanwhile, the Group has approximately 6,400 active distributors.

The Group will continue leveraging on the core advantages of branded products, expanding the scope of cooperation on branded products such as Yushi (御室), leveraging on Institute training, and providing more value-added service to employees, customers and consumers. The Group also enriches the product mix by introducing more health care products based on the expertise in pharmaceutical retail and distribution, so as to promote the concept of the universal health industry.

The Group actively explore online pharmacies, cross-border e-commerce and other "Internet+" areas, put "Industry Chain of Traditional Chinese Medicine" into the strategic scope, plan "Universal Health Industry Fund" and introduce the development concept of "Platform". Furthermore, the Group maintains upstream and downstream ecosystem leveraging on finance and capital to cope with the situation of "New Norm" in real economy, and takes the lead in upgrading and transforming the industry.

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Mr. Jin Dongtao
(Chairman and Chief Executive Officer)
Mr. Jin Dongkun *(Vice Chairman)*
Mr. Zhao Zehua
Mr. Sun Libo

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. Jin Dongkun

NOMINATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Zhao Zehua
Mr. Leung Yi Kok

JOINT COMPANY SECRETARIES

Mr. Ge Junming
Mr. Leung Yi Kok

REGISTERED OFFICE

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
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Grand Cayman KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
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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

ir@uhi-group.com

COMPANY'S WEBSITE

www.uhighl.com

Financial Highlights

	Year ended 31 December		
	2016	2015	Change
	RMB Million	*RMB Million*	*(%)*
	(Audited)	*(Audited)*	
Revenue	**3,378.7**	4,805.9	-29.7
Gross profit	**874.1**	1,340.6	-34.8
Operating (loss)/profit	**(79.9)**	97.2	-182.2
(Loss)/profit for the year	**(87.3)**	33.9	-357.8
EBITDA[(1)]	**96.2**	289.6	-66.8
Basic (loss)/earnings per share – RMB cents[(2)]	**(3.92)**	1.57	-349.7
Gross margin (%)	**25.9**	27.9	-2.0pp
Operating (loss)/profit margin (%)	**(2.4)**	2.0	-4.4pp
Net (loss)/profit margin (%)	**(2.6)**	0.7	-3.3pp

	As at 31 December		
	2016	2015	Change
	(Audited)	*(Audited)*	
Current ratio (times)[(3)]	**4.3**	4.4	-0.1
Trade receivables turnover (days)[(4)]	**22.4**	19.6	+2.8
Inventory turnover (days)[(5)]	**57.7**	40.1	+17.6
Trade payables turnover (days)[(6)]	**25.5**	19.6	+5.9
Return on equity (%)[(7)]	**(3.2)**	1.2	-4.4pp
Return on total assets (%)[(8)]	**(2.6)**	1.1	-3.7pp
Interest coverage (times)[(9)]	**18.9**	47.1	-28.2

Financial Highlights

Notes:

1. EBITDA is calculated by adjusting earnings before interests, tax, depreciation and amortisation, excluding the effect of share of post-tax profits of joint ventures, share of post-tax profit of an associate, 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 2016 was 2,242,623,000, versus 1,983,193,000 for the year ended 31 December 2015).

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 (loss)/profit attributable to owners of the Company by equity attributable to owners of the Company.

8. Return on total assets is calculated by dividing (loss)/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

Dear Shareholders:

Firstly, I, on behalf of the directors (the "**Director(s)**") of the board (the "**Board**") of the Company, am glad to express my sincere gratitude to the shareholders of the Company (the "**Shareholder(s)**") and all who give strong support, understanding and encouragement to the Company. I am also taking this opportunity to present the annual report of the Group for the year ended 31 December 2016 (the "**Period**").

ANNUAL REPORT 2016

Standing Healthy and Stable Foundation

Enhancing Upgrades through Diversified Cooperation

Chairman's Statement

Macro Environment

In 2016, the international community experienced a number of "Black Swan" events. Both the economic and financial markets domestically and abroad were affected, resulting in corresponding fluctuations. The national management of China actively coped with the situations by vigorously promoting supply-side structural reform, adapting and guiding the new norm of economic development, as well as keeping the economy within a proper range.

In 2017, China will continue to adhere to the economic policy of "Address Overcapacity, Reduce Inventory, Deleverage, Lower Costs and Bolster Areas of Weakness", implement the national strategies of "One Belt, One Road" and "Mass Entrepreneurship and Innovation", comprehensively deepening reform, innovation-driven development, speeding up the transformation of economic development mode and economic structure adjustment, and also foster new drivers, so as to provide new impetus for global economic growth and economic governance.

Business Review

During the Period, the revenue of the Group amounted to RMB3,378.7 million, representing a decrease of 29.7% year-on-year. Loss attributable to equity owners of the Company amounted to RMB87.8 million as compared to the profit of RMB31.2 million last year, which was caused by the strategic transformation and the impairment of goodwill arising from acquisitions of retail business and distribution business in previous years during the Period.

Affected by macro and micro economic factors, the Company upheld the concept of "pursuing progress while maintaining stable development" in 2016. During the Period, firstly, in respect of the physical operation, the Group continued to conduct appropriate member interaction and large-scale self-owned brand promotion activities, implement the idea of platform co-building, promote the diversification of operation varieties, allot appropriate input in promotion, and actively restrain the diminishing rate in retail and distribution. Meanwhile, the Group continued to explore the combination of the "Internet +" with the real economy, expand domestic and overseas markets, strengthen cooperation with Hong Kong Cross-Border E-commerce Association and other industrial platforms, pay attention to the Southeast Asian markets, with an aim to explore the opportunity of international cooperation in universal health industry.

During the Period, the Group actively expanded the longitudinal business areas. In May 2016, the Group completed acquisition of Jilin Wenhui Capsules Limited (吉林文輝膠囊有限公司) ("**Jilin Wenhui**"), a high-tech company owning patent for new plant capsule. This represented the Group's integration of resources from upstream areas to help to stabilize and reduce the cost of Original Equipment Manufacturers ("**OEM**") of the branded products, meanwhile, strengthen the connection and interaction with the upstream pharmaceutical and health care products manufacturers, which was conducive to the establishment of harmonious business ecosystem.

During the Period, the Group continued to actively carry out charity activities and business school training activities, and be committed to enhancing the influence of the public welfare brand "Love China" in the hope to build a good social reputation of the Group.

Chairman's Statement

Outlook and Strategies

In 2017, given the uncertainties in the global economy, China's economic development will still mainly be making progress in stability, reform of the supply side, comprehensive stabilization on economic growth, promoting reforms, adjusting structures, benefiting the people and risk prevention. The fiscal policy is expected to be still accounted for the majority of the steady growth. It is expected that the fiscal policy will maintain its importance in fostering stable growth by tax reduction and increasing subsidies, and spending on education, health care and poverty alleviation and other public expenditure.

The introduction of Chinese Medicine Law of the People's Republic of China (《中華人民共和國中醫藥法》) and a new round of implementation of the national strategy of "Revitalizing Old Industrial Bases in Northeastern China" by the Chinese government, as well as the relaxation of the two-child policy, medical reforms and biased expectations of public expenditures will bring new opportunities to the universal health industry.

As we enter into the new year, the Group will undertake the historical opportunity and stay in a positive and aggressive attitude and adjust the structures. The overall strategy is, on one hand, to stabilize the operation of the traditional physical stores, and on the other hand, to promote transformation and upgrading from the perspectives of "Internet + Universal Health + Finance + Capital". Specifically, the Group will strengthen member interaction, introduce multi-functional platform project cooperation, restrain downward in the retail and distribution, start mobile internet marketing business, and layout universal health industry fund, to promote an organic combination of industry, internet and capital, achieve capital utilization efficiency, specialization in merger and acquisition business, and ecologicalization of upstream and downstream resources; thus, helping the Group to develop in the brand and the international markets, actively expand overseas merger and acquisition business, and seek more cooperation opportunities.

Environmental, Social and Governance

The fundamental task of senior management of the Group is always leading the management to concern environmental protection, be enthusiastic about charity, 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 staffs, employees, communities and even the environment.

Development Belief

The Group will strive to seize the preemptive opportunities arising from the huge market potential in the universal health industry, take opportunities to exploit bravely, promote industrial transformation and upgrading, stabilize the physical operation ecosystem leveraging the capital, 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.

Indeed, with the impact from such macro situation, the Group will face much pressure and challenges on the transformation and upgrading of the business. 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 efforts and contribution last year.

Jin Dongtao
Chairman

Hong Kong
23 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

Industry Overview

The frequent emergence of "Black Swan" events, such as Britain leaving the European Union and Donald Trump was elected as the president of the United States, complicated the global economy in 2016. Amid global political and economic vulnerability, the economy remained stable and healthy growth in China with the overall characteristics of stability and moving forward steadily, maintaining its GDP growth 6.5% above.

From the perspective of domestic demand, the active fiscal policy strength was enhanced and the real estate and infrastructure investment growth was accelerated; private investment remained weak. From the perspective of external demand, international organizations lowered global economic growth forecast for several times. China's foreign trade growth rate was significantly lower than expected. Moreover, under the government of Donald Trump in the United States, China's exports may continue to face downward pressure.

As to the pharmaceutical industry, 2016 was a year full of opportunities and challenges and the starting year for China to implement the "13th Five-Year" strategic planning nationwide. In 2016, the new national medical reform entered into its critical stage of the merging of pharmaceuticals, medical treatment and medical insurance. It is also a critical year for Chinese drug circulation enterprises to enter into a new stage of transformation and upgrading.

Management Discussion and Analysis

On the one hand, industry policies were implemented intensively and the brand promotion environment increasingly fragmented; on the other hand, science and technology was subverting the pharmaceutical industry, fans and internet celebrity economics emerged, bringing revolutionary influence on all of the pharmaceutical industry chains. Thus, the pharmaceutical industry was making adjustments around the interests of consumers.

According to China's National Bureau of Statistics, from January 2016 to November 2016, the national industrial enterprises above designated size achieved a total profit of RMB6,033.41 billion, representing a year-on-year increase of 9.4%, and an increase of 0.8 percentage point of the growth rate compared with January 2016 to October 2016. Among them, the pharmaceutical manufacturing industry achieved an operation income of RMB2,506.87 billion (representing a year-on-year increase of 9.7%) and a total profit of RMB265.13 billion (representing a year-on-year increase of 15.3%).

In the first three quarters of 2016, the size of the drug circulation market experienced a steady growing, with slight rebounds. Data showed that from the first quarter to the third quarter, the total sales of national seven major types of pharmaceutical products reached RMB1,368.6 billion (including tax), if net of non-comparable factors, representing a year-on-year increase of 10.7% and an increase of 0.3 percentage point of growth rate, of which, the total sales for the pharmaceutical retail market reached RMB280.6 billion, representing an increase of 8.9% and an increase of 0.7 percentage point of growth rate.

Management Discussion and Analysis

Among them, in the first three quarters, direct reporting drug circulation enterprises (1,100 enterprises) achieved an operation income of RMB985.1 billion (excluding tax), if net of non-comparable factors, representing a year-on-year increase of 11.6%, with a growth rate remained unchanged from the same period last year and a profit of RMB16.5 billion, if net of non-comparable factors, representing a year-on-year increase of 11.0% and an increase of 1.7 percentage points of growth rate, with an average profit rate of 1.7%, slightly increased compared with the growth recorded in the same period of last year; with an average gross margin of 6.9%, representing a year-on-year increase of 0.1 percentage point; and with an average cost rate of 5.6%, representing a year-on-year increase of 0.3 percentage point.

In terms of policy, in February 2016, the government issued the "Outlines of the Strategic Planning of Development of Traditional Chinese Medicine in 2016 – 2030" and put forward to improve the ability of traditional Chinese medicine treatment services, vigorously develop the services of traditional Chinese medicine based health care, push on the inheritance of the traditional Chinese medicine in a down-to-earth manner, make efforts to drive the innovation of traditional Chinese medicine, comprehensively enhance the development level of traditional Chinese medicine industry, vigorously carry forward the culture of traditional Chinese medicine, and actively advance overseas development of traditional Chinese medicine.

On 20 February 2016, China Food and Drug Administration (the "**CFDA**") released the Announcement on Moratorium of the Implementation of the No. 1 Announcement of 2015 on the Relevant Provisions of the Electronic Drug Supervision and decided to suspend the implementation of the relevant provisions of drug electronic supervision provided in the "Announcement on the Full Implementation of Related Electronic Drug Supervision Matters by Pharmaceutical Production and Operation Enterprises (2015 No. 1)" released by the CFDA.

Management Discussion and Analysis

On 26 April 2016, the General Office of the State Council published the "Working Priorities for Deepening Pharmaceuticals and Health System Reform in 2016" to make it clear that the provinces chosen to be the comprehensive medical reform pilots were required to carry out the "Two Invoices System" within the provinces, and encourage hospitals to directly make settlements of drug payments with drug production enterprises, while the drug production enterprises making settlements of the distribution costs with the distribution companies, for the purpose of reducing the circulation links of drugs and achieving transparency of the prices added in between to further abate the speculation of drug and reduce the public medical burden.

On 25 October 2016, the State Council issued the "Outlines of Healthy China 2030 Planning", which highlighted three key elements. The first one was prevention. The second one was adjustment and optimization of the health service system. The third one was the "Construction and Sharing for Achieving Universal Health" as a strategic theme, so as to achieve universal health. The issue of "Healthy China" planning clearly pointed out the directions for the establishment of the pattern of the universal health. In the future, a social health consensus on prevention will be formed to replace the current medical approach which relies on treatment. At the same time, this will also have a significant impact on the pharmaceutical industry.

On 9 January 2017, the Medical Reform Office of the State Council along with the National Health and Family Planning Commission and other 8 departments jointly published the "Notice on the Opinions on Implementation of Advancement of "Two Invoices System" in the Drug Procurement of the Public Medical Institutions (Trial)", in which, the public medical institutions were required to advance "Two Invoices System" in drug procurement, namely, when the drugs were sold from the production enterprises to the circulation enterprises, only one instance of invoices needed to be issued; when the drugs were sold from the circulation enterprises to the medical institutions, only one instance of invoices needed to be issued. In this Notice, the provinces (districts, cities) chosen to be comprehensive medical reform pilots and the public medical institutions in cities chosen to be the public hospitals reform pilots were required to take the lead in the implementation of the "Two Invoices System" and other areas were encouraged to implement the "Two Invoices System". The implementation scope of the "Two Invoices System" will further expand in 2017. And efforts will be made to implement such "Two Invoices System" nationwide in 2018.

Management Discussion and Analysis

Currently, the State Council has published the "13th Five-Year" Deepening Pharmaceuticals and Health System Reform Planning (the "**Planning**") to deploy to accelerate the establishment of basic medical and health system in line with national conditions and advance the modernization of the pharmaceuticals and health governance system and governance capacity. In this Planning, improvement in the concentration of pharmaceutical industry circulation was mentioned for many times, and backbone enterprises of the drug circulation industry were encouraged to play a greater role in industrial integration.

2017 will not only be an important year for the implementation of the "13th Five-Year" planning, but also the year for deepening the structural reform of the supply side. The central economic work conferences pointed out that the general working guideline for progress while maintaining stability to establish and implement the new concept of development; and to adapt to, grasp on and lead the norm of new economic development, and promote stable and healthy economic development and harmonious and stable society.

2017 will also be the year for implementation of the pharmaceutical industry policy. It is expected that the government will continue to intensify the implementation and promotion of the "Two Invoices System" in drug procurement of the public medical institutions. In the process to further deepen the implementation of the policy, national and regional pharmaceutical circulation leading enterprises will usher in long-term sustainable development and further improve the industry concentration.

International Marketing Statistics Health ("IMS Health"), an international information consulting platform, tends to be cautious in its prediction of China's pharmaceutical market growth in the next few years. It is expected that, from 2016 to 2020, China's pharmaceutical market will grow 6.9%. But China's ageing population will intensify and obesity population increase. This will drive medical rigid demand to rise. By 2040, the proportion of China's population over the age of 60 is expected to reach 28% of the total national population. The annual medical expenses of the people over the age of 65 will be 3 times of that of the young adults. The aged society's demand for medical resources will be huge. The prospects of the development of universal health areas is still bright.

Management Discussion and Analysis

Business Review

During the Period, under the leadership of Mr. Jin Dongtao, the Chairman, and with the efforts from the management and all our employees, the Group solidly implemented the operation and management of traditional chain stores and distribution network and actively addressed the effect from the economic downturn on the Group's business. The Group has established upstream and downstream vertical ecosystem and universal health horizontal ecosystem through interaction and promotion of the "Internet + Universal Health" and mergers and acquisitions of capsules manufacturing companies. Leveraging on Chinese Medicine Law of the People's Republic of China and the benefit from "revitalizing old industrial bases in Northeastern China", the Group has put "Industry Chain of Traditional Chinese Medicine" into the strategic scope, actively prospected new industrial model, fostered increasing new drivers and built an international brand operator in the universal health industry.

The Golden Rules (王道哲學)

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

Nationwide Distribution Business

During the Period, the Company made appropriate promotion in its distribution system, and continued to select and safeguard distributors, providing training and follow-up work, fully implementing the policy of "Two Invoices System" and increasing interaction with distributors to seize historical opportunities and endeavor to mitigate the downward impact of the macro environment. During the Period, the Group held 7 associations in total with strategic cooperation of distribution system, but subject to the development environment of real economy, the Group's sale revenue of distribution business decreased by 30.3% as a whole from RMB2,469.7 million last year to RMB1,720.7 million for the Period.

Management Discussion and Analysis

Chain Retail Business

During the Period, the Group stepped up training efforts in developing salesman of the retail chain system, proactively transforming the mode of thinking, strengthening the development and assessment of incentive mechanisms, demonstrating enthusiasm, initiative and creativity in regional management, and at the same time, made appropriate input in promotion so as to restrain the downward impact arising from the real economy. The Group has continued to integrate with the "Internet +" mode and made intensive efforts to advance precise marketing and membership activities so as to enhance membership cohesion and maintain membership's loyalty. During the Period, the Group optimized management strategy, accelerated the upgrade of operation, continued to keep the division of strategic stores and non-strategic stores and close 17 strategic stores in due course so as to centralize its strengths and resources for accelerating the upgrade of strategic stores. As such, the Group had 937 stores in total including 658 strategic stores (2015: 675 strategic stores) at the end of the Period and 279 non-strategic stores (2015: 279 non-strategic stores) at the end of the Period. Meanwhile, affected by macro environment as a whole, sales revenue of retail business decreased by 29.0% as a whole from RMB2,336.2 million in 2015 to RMB1,658.0 million in 2016.

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 for the Group. At the same time, the model with primacy accorded to the management system of "Two Invoices System" carried out by the government and subject to minor effect of policy change. During the Period, the Group's management take all necessary actions to safeguard the direct supply of branded products.

Branded Products Operation

Branded products were important tool for the Group to defense the effect from operation efficiency downturn. During the Period, the Company continued to maintain original pattern of the operation of branded products and build a multi-layer upstream network consisting of OEM products, domestic brand products and international brand products. Apart from products under Yushi brand, there were other categories and brands of products, such as traditional Chinese medicine products, nutritional food, maternity and baby products, and products targeting different consumers including middle-aged and elderly people, children, female and male consumers as well as health and treatment products for different parts of the body. There were 2,672 branded products in total for the benefit of the Company's development in the operation, of which included 355 licensed products and 2,317 products that we had obtained exclusive distribution rights.

Management Discussion and Analysis

Brand Promotion

Brand promotion and marketing were powerful weapons to strengthen influence and enhance competitiveness of the Company. Three-dimensional promotional activities have been launched for product brands and enterprise brands by continuously leveraging on traditional media, including televisions, broadcasts, newspapers, vehicle advertisement, billboards and leaflets, along with new media platforms including internet, we media of WeChat as well as charity, taking advantage of the Group's resource and network. Therefore, appropriate promotional costs were invested in the operation to deal with uncertainties resulting from economic downturn.

Institute Training

Taken the lead in establishing business institute in the industry is an important characteristic that the Group develop rapidly and acquire high margin. During the Period, the Group continued to enhance its external and internal training activities. External training mainly focused on the continuous output of branded products, while the internal training focused on the extension of management concepts and employees' ideological education. These training activities were designed to enhance and transform the mode of thinking of employees in response to the economic downturn pressure, the range of policies issued in the PRC and the reform of transformation and upgrade of the Company's business, so as to match the business operation. During the Period, the Company held 108 internal trainings in total.

Membership Service

During the Period, branches of the Company worked to strengthen membership activities and offered continuous membership benefits or rewards during shops and holiday celebrations. Moreover, social value-added services were offered in various aspects. For example, the provision of shelters for the cold in winter and lost children, and order records facilitating the retrieval of individual member's consumption information so as to continue to enhance the membership cohesion and degree of voluntary consumption.

Industry Alliance

During the Period, the Company has enhanced the level of participation in industry alliance. Chief Executive Officer attended summits and forums of the alliance in person so as to master the industry information, promote branded products construction, strengthen the Company's interaction and exchange in industry alliance and enhance its influence. Meanwhile, the Company strengthened the interaction with the Hong Kong Cross-Border E-Commerce Association and promoted the diversification of product channels and the feasibility of the development of market in southeast Asia leveraging on the strategy of "One Belt One Road".

Management Discussion and Analysis

Strategic Mergers and Acquisitions

During the Period, the Company acquired 36.38% of equity interest of Jilin Wenhui through the issuance of 400,000,000 shares of the Company and partial payment in cash as consideration. As part of the Group's strategy, the realization of ecological mergers and acquisitions for upstream and downstream resources played a positive role in promoting enterprise competitiveness, improving the bargaining power of OEM of branded products, increasing the level of gross margin, improving the overall interests of the Group and underpinning the "Internet +" and internationalization strategy. The mergers and acquisitions help integrating commercial and production resources of the Group and give full play to advantages of pharmaceutical industry in northeast China across the country in developing an upstream capsule industrial park base, so as to bring new momentum for the Group's future development.

Warehouse Construction

In order to further strengthen the foundation of chain-store operation and respond to the local government's call for industrial development, the Group invested approximately RMB201.2 million in Jiamusi, Heilongjiang Province by the end of August 2016 with the effort from the executive Directors, thus to establish a large-scale logistic warehouse center covering the eastern area of Heilongjiang province, with more than 50% of works completed and progressed smoothly, it is expected that the completion acceptance of this project would be obtained by the end of 2017. After completion, this project will become a diversified and intensified logistic warehouse center integrated with "Business, Logistics and Information" and plays an important role in optimizing distribution system of the Group.

Management Discussion and Analysis

Financial Review

During the Period, the Group recorded revenue of RMB3,378.7 million, representing a decrease of 29.7% as compared with RMB4,805.9 million last year. Loss attributable to owners of the Company was RMB87.8 million, as compared with a profit attributable to owners of the Company of RMB31.2 million last year. Loss attributable to owners of the Company was arisen mainly due to a decrease in sales volume of the Group and the provision for the impairment of goodwill amounted to RMB129.1 million which arose from acquiring retail businesses and distribution businesses in the previous years. Loss per share for the Period was RMB3.92 cents (2015: earnings per share RMB1.57 cents).

Revenue

For the Period, the Group recorded revenue of RMB3,378.7 million, representing a decrease of RMB1,427.2 million or 29.7% as compared with RMB4,805.9 million last year. The decrease in revenue of the domestic retail and distribution businesses for the Period was mainly due to the market remains weak as a result of the continuous downturn of the real economy.

Analysis of revenue by business segment

	Revenue (RMB million)			**Percentage (%) of total revenue**		
	2016	2015	Changes (%)	**2016**	2015	Changes
Retails I	**1,398.5**	1,986.7	-29.6	**41.4**	41.3	+0.1pp
Retails II	**259.5**	349.5	-25.8	**7.7**	7.3	+0.4pp
	1,658.0	2,336.2	-29.0	**49.1**	48.6	+0.5pp
Distributions	**1,720.7**	2,469.7	-30.3	**50.9**	51.4	-0.5pp
	3,378.7	4,805.9		**100.0**	100.0	

Management Discussion and Analysis

Retail Business Segment

The Group operates two retails 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. The decrease in revenue in the retail business was mainly due to the decline of the people's purchasing power in the north-east China and more intense competition with the competitors resulted in the price adjustments during the Period. As at 31 December 2016, the Group had 937 (2015: 954) retail pharmacies in total, of which 688 (2015: 688) located in Heilongjiang, 160 (2015: 168) in Liaoning, 86 (2015: 94) in Jilin and 3 (2015: 4) self-operated retail pharmacies in Hong Kong. Among them, 658 (2015: 675) retail pharmacies were strategic stores and 279 (2015: 279) were non-strategic stores. In addition, the Group had 13 (2015: 16) supermarkets in Shenyang as at 31 December 2016, mainly selling healthcare products and consumer goods. The performance of all supermarkets are monitored in Retails I.

Distribution Business Segment

The sales in the distribution business decreased due to the Group continued to adopt a more prudent approach in running this business. The Group took appropriate actions to mitigate credit risks by strengthen the credit management of sales and minimising trade receivables in order to lower the risk of bad debts.

As at 31 December 2016, the Group had a nationwide distribution network covering approximately 6,400 active customers (2015: 5,800), including approximately 4,500 pharmaceutical retailers (2015: 4,000), hospitals and clinics and approximately 1,900 distributors (2015: 1,800).

Gross profit

Gross profit of the Group for the Period was RMB874.1 million, representing a decrease of RMB466.5 million or 34.8% as compared with RMB1,340.6 million last year. Overall gross profit margin decreased from 27.9% to 25.9%. The decrease in gross profit margin was mainly due to a change of product mix and an increase in inventory cost. During the Period, on one hand, the Group has applied various promotion measures and made price adjustments for some products to maintain relative competitiveness; on the other hand, upstream suppliers were in the peak period for the Certification of the Good Manufacture Practice of Medical Products, increasing the cost of purchase, which resulted in a decrease in the gross margin of the Group for the Period.

Management Discussion and Analysis

Analysis of gross profit by business segment

	Gross profit (RMB million)			Gross profit margin (%)		
	2016	2015	Changes (%)	**2016**	2015	Changes
Retails I	**502.0**	744.9	-32.6	**35.9**	37.5	-1.6pp
Retails II	**93.6**	135.7	-31.0	**36.1**	38.8	-2.7pp
	595.6	880.6	-32.4	**35.9**	37.7	-1.8pp
Distributions	**278.5**	460.0	-39.5	**16.2**	18.6	-2.4pp
	874.1	1,340.6				

The Group's high-margin products consists of licensed products and products with exclusive distribution rights. During the Period, revenue of the Group's high-margin products decreased by 35.6% over last year and the gross profit margin of these high-margin products decreased from 47.1% to 40.3%. As at 31 December 2016, the Group had 355 (2015: 360) types of licensed products and 2,317 (2015: 2,386) types of products with exclusive distribution rights.

Selling and marketing expenses

Selling and marketing expenses for the Period was RMB727.2 million, representing a decrease of RMB259.2 million or 26.3% as compared with RMB986.4 million last year and 21.5% (2015: 20.5%) of the Group's revenue. The decrease in selling and marketing expenses was mainly due to change of focus in marketing strategy. During the Period, the Group reduced the resources in TV advertising.

Administrative expenses

Administrative expenses for the Period was RMB91.6 million, representing a decrease of RMB56.5 million or 38.1% as compared with RMB148.1 million last year and 2.7% (2015: 3.1%) of the Group's revenue. The decrease in administrative expenses was mainly due to no share incentives during the Period while there was a one-off share-based payment in 2015.

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.

Management Discussion and Analysis

The Group will continue the prudent practice in the traditional retail and distribution businesses in order to hedge the impact of the macro economic environment. For this reason, the Group has made a provision for the impairment of goodwill arising from acquiring retail businesses and distribution businesses in the previous years. Based on the result of impairment test at the operating segment level, the Group made a provision for goodwill impairment in Retails I and Distributions of RMB103.7 million and of RMB25.4 million respectively, totally accounted for 3.8% of the revenue of the Group. In the year 2015, the Group made a provision of goodwill impairment amounted to RMB108.9 million and accounted for 2.3% of the revenue of the Group.

Finance income – net

Net finance income for the Period was RMB13.0 million, representing an increase of RMB4.4 million or 50.6% as compared with RMB8.6 million last year. The increase was due to the increase in exchange gains and the decrease in interest expenses for the Period.

Income tax expenses

Income tax expense for the Period was RMB24.6 million, representing a decrease of RMB48.4 million or 66.2% as compared with RMB73.0 million last year. The effective income tax rate for the Period was 39.3% (2015: 68.3%).

Acquisition of an associate

On 9 May 2016, the Company entered into an agreement with an independent third party, pursuant to which the Company acquired 36.38% of equity interest of Jilin Wenhui by a combination of cash and the issuance of 400,000,000 consideration shares. On 24 May 2016, issue of consideration shares was completed. Subsequent to the completion, Jilin Wenhui became an associate of the Group.

For further details, please refer to the announcement of the Company dated 9 May 2016.

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

As at 31 December 2016, the Group's unpledged cash and cash equivalents totaled RMB1,107.3 million (2015: RMB1,333.3 million), and the Group's net current assets were RMB1,733.6 million (2015: RMB1,859.2 million).

Management Discussion and Analysis

During the Period, net cash flows generated from operating activities amounted to RMB35.3 million, as compared to RMB46.3 million last year. The decrease was in line with the Group's operating performance.

During the Period, the Group had capital expenditure of RMB132.2 million (2015: RMB23.3 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 Renminbi. The Group's currency risk arises from certain bank deposits that are denominated in Hong Kong dollars and United States dollars. As at 31 December 2016, the Group had RMB1,107.3 million in cash and bank balances of which the equivalent of RMB7.2 million was denominated in Hong Kong dollars and United States dollars.

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

Capital Structure

As at 31 December 2016, the capital structure of the Company was constituted of 2,400,000,000 ordinary shares of USD0.001 each. Details of movements in the share capital of the Company during the Period are set out in note 19 to the consolidated financial information.

There was no movements in the Company's share options during the Period.

As at 31 December 2016, the Group had certain interest-bearing bank borrowings of RMB154.6 million (2015: RMB166.9 million). Bank borrowings carried annual interest rates at 2.8% (2015: 3.6%). All the bank borrowings were sourced from China and denominated in Renminbi.

The gearing ratio of the Group as at 31 December 2016, calculated as net debt divided by sum of total equity and net debt, was N/A (2015: N/A).

Contingent Liabilities and Pledge of Assets

As at 31 December 2016, the Group has no significant contingent liabilities (2015: Nil).

As at 31 December 2016, the bank borrowings and notes payable of the Group were secured by the time deposits of the Group with net aggregate booking value of RMB217.1 million (2015: RMB227.4 million). As at 31 December 2016, the notes payable by the Group were secured by the time deposits of the Group with net aggregate booking value of RMB67.1 million (2015: RMB77.4 million).

Management Discussion and Analysis

Human Resources

As at 31 December 2016, the Group had 6,226 (2015: 6,220) full-time employees in Hong Kong and the PRC with total employee benefit expenses amounted to RMB321.4 million (2015: RMB332.5 million). Employees are paid according to their positions, performance, experience and prevailing market practices, and are provided with management and professional training. The Group has implemented a number of initiatives to enhance the productivity of its employees. In particular, the Group conducts periodic performance reviews of most of the employees, and their compensation is tied to their performance. Further, the Group's compensation structure is designed to incentivise its employees to perform well by linking a portion of their compensation to their performance and the overall performance of the Group. The performance-based portion depends on the employee's job function and seniority. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of China. The Company has adopted a share option scheme and a share award plan for the purpose of providing incentives to participants for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Future Plan

The management of the Company will take the Golden Rules as its guidelines, follow the leadership of the Chairman in strategic plan, stabilize and optimize the existing retail chain network and distribution system and strive for breakthrough and integration advantages in the development of cross-border e-commerce, "Future Store" and universal health industry fund, respectively. During the transitional period of economic transformation lasting one to two years or even more, the Company has adopted the multilateral cooperation by employing the "Sharing Rule" and continues to take a leading position in Chinese medicine industry chain and industrial merger and acquisition. The details are as follow:

Reform the Institutional Mechanism and Promote Sharing Rule

Sharing Rule is a component of the Golden Rules, is an important clue that spans through each platform. In the phase of business repositioning, we should attach more importance to the value created by strategic cooperation. Internally, the management of "Profit Center" may be deemed as "Profit Creating Partners" and the management of "Expense Center" as "Economy Partners"; externally, take the "Projects Cooperation System" and "Company's Share Consolidation" as the cooperation basis with upstream suppliers, e-commerce providers and financial project providers. Taking the brand and network advantages of the Company and creating new profit growth point by developing dominate projects, the Company realized the transformation and upgrade of a new development mode – "Industry + Finance + Capital".

Management Discussion and Analysis

Aim at Industry Chain of Traditional Chinese Medicine (“TCM”), and Foster a New Industrial Ecosphere

By leveraging on the opportunity of TCM legislation and a new round of rejuvenation in the old industrial base in the northeast part of the PRC, development of under-forest economy in the northeast China was further advanced. In such case, planting typical traditional Chinese medicinal materials under forest in the northeast China was policy-supported by government at all levels. The Company will definitely seize this historical opportunity to develop the business of planting traditional Chinese medicinal materials under forest as and when appropriate, involving in extraction, processing and marketing by virtue of the Group’s own multi-layer network. The Group strives to join in or develop a future platform dealing with Chinese medicinal materials so as to explore new profit growth opportunity.

Promote the Construction of Future Store, and Cultivate New Business Model

The Company develops the “Future Store” network. The “Future Store” means the integration of real business and virtual channel on the backdrop of internet age through Online-to-Offline (“**O2O**”) model, thus to form the trinity structure (multi-framework cloud e-mall) with “E-mall”, “Industry O2O” and “WeChat-Marketing”, which integrates the shopping terminals comprising online and offline communication, including site experience, online selecting and purchasing, mobile payment, store pick-up or logistics and post-delivery. The features of “Future Store” are asset-light, low cost, focusing on experience, low inventory and high capacity. “Future Store” has more flexibility as it can use the existing chain store network and also develop the community network.

Plan for Universal Health Industry Fund, and Explore Financial and Capital Advantages

The Company strives to establish universal health industry fund to combining industry and finance. “Healthy China” has become the PRC’s state strategy, which renders the universal health industry an accelerated development phase supported by the following three engines: (1) domestic potential demand for health care and medical treatment increased due to ageing population and pollution; (2) the raising health awareness of the public increased health care expenditures; (3) the government policy promoted the construction of “Healthy China”. The establishment of the universal health industry fund, through professional operation to seek suitable universal health enterprises, could reserve high-quality objects for merger and acquisition for the Company and lay a foundation for the Company to further expand in the universal health field by investment and education.

Environmental, Social and Governance Report

With reference to its own experience, the Company primarily adopts the principles and basis of Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its standards, with an aim to establish a sound environmental, social and governance structure. As the first Environmental, Social and Governance Report published by the Company, this report is a review of its performance in environmental, social and governance areas, which sets out the Company's policies and practices in four aspects, namely (I) environmental protection, (II) working environment, (III) operational management, and (IV) community participation/public welfare. This report is designed to allow Shareholders, investors and the public to have a more comprehensive and profound understanding of the Company's corporate governance and culture. In the future, the Company will disclose the Environmental, Social and Governance Report periodically to provide the public an access to the Company's updates in these aspects.

I Environmental Protection

Emissions

The Group mainly engages in the business of retail and distribution of pharmaceutical products. We employ the Direct-supply Model in the sale and promotion of high gross margin products including licensed products and the products with exclusive distribution rights, which comprise 355 and 2,317 kinds of products, respectively. We employ OEM and do not directly participate in the production process, therefore, there is no emission of above waste and greenhouse gas, water and land pollution and the generation of hazardous and non-hazardous waste, etc. The only trace emissions are confined to business premises and office environment.

At present, the Group engages 5 manufacturers of pharmaceutical products and health care products (including Heilongjiang Baitai Pharmaceutical Company Limited* (黑龍江百泰醫藥有限公司), Chengde Yushi Jindan Pharmaceutical Company Limited* (承德御室金丹藥業有限公司), Yushi (Beijing) Group Tonghua Yushi Pharmaceutical Company Limited* (御室(北京)集團通化御室藥業股份有限公司), Anhui Jifeng Pharmaceutical Co., Limited* (安徽濟豐藥業有限公司) and Gaitianli Pharmaceutical Holding Group East China Pharmaceutical Company Limited* (蓋天力醫藥控股集團華東藥業有限公司), etc.) to manufacture our licensed products according to the design and packing requirements specified by us. Among which, all the manufacturers of the licensed products have obtained all necessary licenses, permits and certification, including Good Manufacturing Practice Certification (藥品生產品質監管規範認證).

The Group only sells and markets our licensed products under our Direct-supply Model. We believe that our Direct-supply Model enables us to streamline our distribution and supply chain by eliminating or reducing intermediaries and enhance distribution efficiency and profitability, as well as reduce environmental emissions in sale process.

* *For identification purpose only*

Environmental, Social and Governance Report

Resource Utilization

The Group does not directly participate in the manufacturing process, through our Direct-supply Model, we directly purchase most of the high gross margin products from manufacturers at competitive factory price and then sell such products to clients, hospitals, clinics and other medical retailers. Consequently, we are able to maintain simplified supply and distribution chain, to eliminate most of the promotion costs and distribution costs incurred by manufacturers resulting from traditional medicine value chain.

We also implement featured marketing measures under our Direct-supply Model, which include marketing through trade associations for pharmaceutical retailers and training programmes through Jintian Institute.

Therefore, there is no productive resource consumption for the Group. In respect of drug store, the Group abides by Good Supplying Practice ("**GSP**") as required by competent authority of China, the primary productive consumption is limited to the use of electricity. In terms of transportation, the Group mainly relies on third-party transportation agencies in the process of purchase and sale of products and a small portion of use of its own vehicles, which leads to minimal consumption of natural resources.

Environment and Natural Resources

As mentioned above, the Group does not directly participate in manufacturing drugs, there is no significant impact of production and operation on the environment and natural resources. Besides, only ordinary office work and storage and transportation business will involve usage and consumption of natural resources.

In terms of environmental protection, firstly, we actively advocate the ideology of "Green Environmental Protection and Energy Saving" creating a behavior culture in response to the national "Green Development and Sustainable Development" concept. Secondly, we take active measures to conserve electricity and water; for example, installment of energy-saving lamps and lanterns in office and business premises, tips on saving water and electricity marked in the office and related facilities and encouragement of saving water and electricity in the daily life of employees. Thirdly, we vigorously cut down the use of office vehicle and try to use public transport or non-motor vehicle so as to reduce emissions and realize green travel. In addition, we also actively save paper, reduce printing and use of paper and other office supplies in recycled manner.

II Working Environment

Employment and Labor Standards

As of 31 December 2016, the Group has 6,226 employees, of which 99.4% located in mainland China.

The Group is in strict compliance with relevant regulations of China labor law and the laws and regulations on prohibition of using child labor and forced labor, including but not limited to: Labor Law of the PRC, Labor Contract Law of the PRC, Law of the PRC on Protection of Minors, Regulations on Prohibiting Use of Child Labor (State Council Order No. 364) and Special Provisions on Labor Protection of Females (State Council Order No. 619):

1 labor wages, overtime pay and related benefits in compliance with the requirement of local minimum wage requirements;

2 holiday and legal holiday in compliance with the provisions of the state;

3 equal treatment to every employee, without influence of employee's nationality, race, nationality, gender, religion, age, sexual orientation, political parties, marital status and other social identity on employment, pay, promotion, etc; and

4 implementation of integrated computation man-hour in compliance with the requirements of labor law.

The working hours applied to the staff of the Group are in compliance with the relevant requirements of the Labor Law of the PRC and the Labor Contract Law of the PRC. Employment of child labor and forced or compulsory labour is prohibited for all the business of the Group. Currently, no significant risks of employing child labor and young workers to engage in dangerous work and forced or compulsory labour are detected in any business or suppliers. We perform strict examination in the process of recruitment to avoid hiring child labor in any workplace. Furthermore, we will hold regular meeting with management of all departments to review whether there exists forced labor and also understand the situation from the employees. Any detected employment of child labor or forced labor will be dealt with seriously, such as stopping the work of child labor, criticism and reduction of wages or bonus of the person in charge of the recruitment, as the case may be, with respect to related department and even dismissal in severe cases.

We have implemented a number of initiatives to enhance the productivity of our employees. In particular, the Group conducts periodic performance reviews of most of the employees, and their remuneration is tied to their performance. Further, the Group's remuneration structure is designed to incentivize its employees to perform well by linking a portion of their remuneration to their performance and the overall performance of the Group. The performance-based portion depends on the employee's job function and qualification.

Environmental, Social and Governance Report

Details of employees are set out in the following table:

Gender	Category	Age Group (years old)	2016	2015
Female	Management	50 or above	**31**	30
		40-49	**70**	68
		30-39	**85**	82
		18-29	**21**	25
	General staff	50 or above	**129**	94
		40-49	**1,313**	1,257
		30-39	**1,957**	1,933
		18-29	**1,525**	1,729
Male	Management	50 or above	**18**	15
		40-49	**64**	64
		30-39	**70**	67
		18-29	**25**	29
	General staff	50 or above	**22**	75
		40-49	**182**	178
		30-39	**360**	346
		18-29	**354**	278

Occupational Safety

The Group implements relevant national regulations on occupational safety and social insurance in management of employees and business.

In business premises and offices, the Group provides relevant staff with necessary labor protection resources, such as white gowns for salesperson and the necessary education on computer operation and water and electricity safety.

In terms of labor insurance, we purchase social insurance for employees, including employment injury insurance.

In terms of commercial insurance, Directors and senior management are insured of liability insurance.

Environmental, Social and Governance Report

Overall speaking, the existing insurances conform to industry standards, which are appropriate and sufficient. As of the date of this report, no work-related deaths occurred with respect to any employees within the Group.

Development and Training

We have implemented a number of initiatives to enhance the productivity of our employees. Among which, Jintian Institute is an internal training institution first set up in the industry, and subsequently get escalated by the introduction of Traditional Chinese Medicine Business Institute (中華醫藥商學院) ("**Business Institute**").

Jintian Institute

Jintian Institute is our in-house training and development centre, providing systematic and comprehensive training to our employees as well as our important distribution customers periodically. These courses focus on the promotion of employee's sales skills and deepening the understanding of enterprise culture of the Group.

We provide certain training programmes and courses covering various aspects of business operations of the Group, including but not limited to, medical and nutrition knowledge, store operations and procedures, sales and marketing techniques, customer interaction and service skills. We also provide training to our management team in areas such as business process and planning, leadership development, effective communication and management skills. Another key function of the Jintian Institute is to organise events and seminars to promote corporate values of the Group: persistence, goal-orientation, teamwork and collectivism.

Environmental, Social and Governance Report

Through these training programmes, our employees are able to master standard operating procedures of the Group, communicate effectively with customers and acquire a better understanding of customers' preferences. Jintian Institute also helps us to build an experienced, loyal and focused workforce. In addition, we are able to strengthen the talent pool of the Group at different levels of seniority, which is the foundation of our growth and expansion. These training programmes also encourage our employees to advance their careers with the Group. Jintian Institute played an important role in the Group's expansion and success in the past and allow us to stand out from our competitors.

In 2015 and 2016, we provided 153 and 108 sessions of training to employees through the Business Institute with up to 8,100 participants in 2016, with an aim to make active efforts for improving staff quality and management performance, and adapt to the new norm of the economic development.

Details for Employees Receiving Training from the Business Institutes

Category	**Participants in 2016**	Participants in 2015
Senior Management Personnel	**60**	45
Middle Management Personnel	**121**	85
Salesperson	**7,919**	7,295

Encouragement for External Learning

While conducting internal training actively, the Group also encourages its employees to participate in standardized test for external higher education and professional qualification. By sharing the resource of the Business Institute, we organize employees to participate in the exams of licensed pharmacists, undergraduate and postgraduate etc., encourage employees to promote themselves from different aspects, and improve business skills and comprehensive quality, etc.

III Operational Management

Supply Chain Management

We focus on simplifying supply chain to reduce the purchasing cost. Therefore, we purchase from manufacturer directly as much as possible. In case of infeasibility of direct purchase from manufacturers as a result of the exclusive distributorship of third parties, we will try our best to purchase from their authorized distributors. For example, we purchase directly from manufacturers all licensed products and the products with exclusive distribution rights.

Out of all our suppliers, 1,240 are manufacturers and 1,206 are distributors. In 2015 and 2016, 39.9% and 32.5% products were purchased directly from the manufacturers respectively.

Environmental, Social and Governance Report

We include quality assurance clause in the product supply agreement (or independent quality assurance agreement), in order to define suppliers' product liabilities.

Product Liability

At present, we engages several manufacturers of pharmaceutical products and health care products to manufacture our licensed products according to the design and packing requirements specified by us. All the manufacturers of the licensed products have obtained all necessary licenses, permits and certification, including Good Manufacturing Practice Certification. We also require suppliers to meet the national Good Manufacturing Practice ("**GMP**").

The Group strictly implements the national GSP in the storage and transportation of products, assigned special personnel to supervise temperature and humidity and established effective period warning mechanism for the purpose of strengthening quality control.

The Group strengthened the maintenance and protection of intellectual property rights. In the procurement procedures, we strictly follow the requirements of GSP and require suppliers to avoid infringement of intellectual property rights of third parties; otherwise, the liability for tort shall be borne by the relevant supplier. The Group also strengthened quality and acceptance management, and we will promptly notify the supplier of any breakage or other fault of products found during acceptance check and require relevant supplier or transportation operator to make compensation after distinguishing their respective liabilities. We strengthened the management of product circulation, in case quality issues with products were found, we will take down from shelves and recall those products in time according to the notice of competent authority and notify the supplier to make compensation as agreed. In addition, we strictly protect the privacy of consumer, all of the members and consumers data will be under computer encryption process. We also require allied unit of different industry (if any) to protect consumer privacy. In case of adverse drug reaction, we will report to competent authority of the industry upon receipt of any feedback from customers.

Anti-corruption

The Group has experienced and stable work team which grows together with the Group and often participate in the training plans provided through Jintian Institute. Our employees posses rich experiences in many aspects of Direct-supply Model, such as medical product manufacturing, purchasing and quality control, pharmacy operation and marketing. There are strict internal guidance within the Group which prohibit the employees' involvement in bribery, extortion, fraud and money laundering activities.

Given the Group's well-established anti-corruption mechanism, there is no corruption case reported during the Period.

Environmental, Social and Governance Report

To ensure that our employees comply with the requirements of different laws and maintain high ethical standards, all staff must attend the anti-bribery and anti-corruption training at the time of assuming office. Moreover, we have set up a reporting system and post guidelines and informant's telephone hotlines and e-mail to facilitate timely reporting of certain employees' malpractices upon discovery.

IV Community Participation/Public Welfare

The Group always attaches great importance to community construction and development through carried out a series of marketing and corporate social responsibility activities. On the one hand, we organize "Jintian Love Day" activities to persistently support the people in need, such as old Red Army man, retired veteran cadres, diseased students and children, etc. On the other hand, in response to national call for nationwide fitness programm, we made investment to popularize "Love Fitness Exercise – Square Dance" to actively fulfill corporate social responsibility.

We believe that these positive activities centering on community will be conducive to broaden our membership base, and we believe that relying on these activities, we will continue to promote a healthy lifestyle to the existing and potential customers and improve the Group's corporate image.

In order to expand membership base, we propagandize membership programm through a variety of marketing campaigns and also plans to strengthen the analysis of members' consumption patterns and preferences so as to optimize the retail marketing strategy. We will continue to provide members with diversified incremental services, for example, free drug delivery, and free consultation provided to community through the Business Institute, free testing provided to community residents by medical team, etc., and constantly improving the service level.

Member Activities

During the Period, the branches of the Group intensified member activities, including ongoing member discounts, awards during store celebration activities and festival activities, provision of cold shelters in winter, provision of shelter and other support for the lost child as well as other social value-added services, which further improved the cohesion of the members and their willingness to consume. As of 31 December 2016, we had more than 1,334,000 offline members, the average consumption of members reached RMB500 and the Group held 1,512 sessions of membership activities in total.

Environmental, Social and Governance Report

Love China Public Welfare Activities (愛心中國公益活動)

Love China public welfare activities "Love + Health" were launched in 2011, which was the nationwide fitness and Love program under the name of "Love" and composed of a series of commonweal undertakings, such as "Nationwide Fitness Programme" of bodybuilding exercise, "Support and Assist Students and Teachers Programme" caring for the next generation, and "Programme of Army Wife Employment Base" aim at supporting national defense, all of which were designed to pass on China's five thousand years of culture, carry forward the spirit of love Party and patriotism, advocate healthy philosophy of charity and spread healthy culture of caring others. Love China activities are committed to build the platform for the interaction and communication among government, media, enterprises and charities, through which we develop public welfare undertaking, converge love, promote physical and mental health in the society and forge Love China and Love World. The public welfare brand "Love China" constitutes the best platform for the Group to fulfill its social responsibility.

During the Period, the Group made a medication donation with a value of RMB663,000.

In conclusion, the Group has been always adhered to the environmental protection concept of environment caring and sustainable development; while the management strengthening corporate governance to achieve the best operating practices with the combination of governance and efficiency, actively assuming community responsibilities and building the public welfare brand "Love China" as the best platform for fulfillment of social responsibilities.

Report of the Directors

The Board has pleasure in presenting the Report of the Directors and the audited consolidated financial statements of the Group for the Period.

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

Results

The results of the Group for the Period are set out in the consolidated statement of comprehensive income on pages 87 to 88 of this annual report.

Key Financial Performance Indicators

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

Relationship with stakeholders

During the Period, the Group has 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 the payment of any final dividend for the year ended 31 December 2016 (2015: Nil).

Report of the Directors

Business Review and Outlook

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

Environmental Policies and Performance

Leading management attention to environmental protection has been a fundamental task for the senior management of the Group. The Group, as a corporate citizen, fulfills social responsibility, strengthens corporate governance and promotes healthy and orderly development of the Group, and further creates economic value and social benefits for clients, upstream suppliers, downstream distributors, Shareholders, potential investors, management, employees, communities and even the environment and other stakeholders.

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, 13 June 2017 to Friday, 16 June 2017, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming annual general meeting of the Company (the "**AGM**") to be held on Friday, 16 June 2017. 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, 12 June 2017.

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 160 of this annual report. This summary does not form part of the audited consolidated financial statements.

Report of the Directors

Use of Proceeds from Share Offer

The shares of the Company were listed on 12 December 2013 (the "**Listing Date**") on the Main Board of the Stock Exchange. The total net proceeds amounted to RMB868.1 million (equivalent approximately to HK$1,101.6 million). As at 31 December 2016, the net proceeds from the initial public offering were used for 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 for the following purposes:

Use of proceeds	**Net Proceeds**	**Proceeds used in**	**Proceeds unused**
		RMB million	
For acquisitive expansion	347.2	(347.2)	–
For organic growth	260.4	(212.3)	48.1
For brand promotion	173.6	(173.6)	–
For working capital	86.9	(82.1)	4.8
Total	868.1	(815.2)	52.9

As at 31 December 2016, the unused net proceeds were placed with banks in the PRC as short-term deposits or term deposits.

Major Customers and Suppliers

During the Period, the purchase from the Group's five largest suppliers contributed 11.0% of the total costs and the sale to the Group's five largest customers contributed 0.9% of the total revenue.

Save as disclosed hereinafter, none of the Directors or any of their respective close associates or, so far as our Directors were aware, any Shareholder who owned 5% of the number of issued share of the Company as at 31 December 2016, had any interest in any of our five largest suppliers or customers in 2015 and 2016.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the 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 Period are set out in note 19 to the consolidated financial statements.

Report of the Directors

Reserves

Details of movements in the reserves of the Company and the Group during the Period are set out in note 35 and note 20 to the consolidated financial statements respectively.

Distributable Reserves

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law of the Cayman Island, amounted to RMB868.1 million (2015: RMB663.0 million).

Bank Loans and Other Borrowings

Details of bank loans and other borrowings as at 31 December 2016 and 31 December 2015 are set out in note 22 to the consolidated financial statements.

Directors

The Directors during the Period and up to the date of this report were:

Executive Directors:

Mr. Jin Dongtao *(Chairman) (appointed as Chief Executive Officer on 23 March 2017)*
Mr. Jin Dongkun *(Vice Chairman)*
Mr. Chu Chuanfu *(resigned as executive Director and Chief Executive Officer on 23 March 2017)*
Mr. Zhao Zehua
Mr. Sun Libo *(appointed as executive Director on 23 March 2017)*

Independent non-executive Directors:

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

Mr. Sun Libo was appointed by the Board as executive Director with effect from 23 March 2017. In accordance with Article 16.2 of the articles of association of the Company (the "**Articles of Association**"), Mr. Sun Libo shall hold office until the next following AGM. He shall retire from office as a Director and being eligible, has offered himself for re-election as a Director at the forthcoming AGM. In accordance with Article 16.18 of the Articles of Association, Mr. Jin Dongtao and Mr. Cheng Sheung Hing have retire by rotation and being eligible, have offered themselves for re-election at the forthcoming AGM.

To restore his health, Mr. Chu Chuanfu has resigned as the Chief Executive Officer of the Company, an executive Director and a member of the remuneration committee of the Board (the "**Remuneration Committee**") with effect from 23 March 2017.

Report of the Directors

Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 68 to 76 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 Listing Rules from each of the independent non-executive Directors and the Company considers such Directors are independent.

Directors' Service Contracts and Letters of Appointment

Executive Directors

Each of the executive Directors, namely, Mr. Jin Dongtao, Mr. Jin Dongkun and Mr. Chu Chuanfu (who has resigned on 23 March 2017), has entered into an appointment letter with the Company for an initial term of three years commencing with effect from 18 November 2013. Mr. Zhao Zehua has entered into an appointment letter with the Company for an initial term of three years from 16 June 2015. Mr. Sun Libo has entered into an appointment letter with the Company for a term of three years commencing from 23 March 2017. The appointment letters continue after the initial terms until terminated by either party giving notice in writing to the other party.

Independent Non-executive Directors

Except Ms. Hao Jia, each of the independent non-executive Directors, namely, Mr. Cheng Sheung Hing and Ms. Chiang Su Hui Susie, has entered into a letter of appointment with the Company for an initial term of three years from 18 November 2013, which continues thereafter until terminated by either party giving notice in writing to the other party. Ms. Hao Jia has entered into an appointment letter with the Company on 16 June 2015 without a specific term.

Each of the Directors is subject to the provisions for retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association. Save as disclosed above, none of the Directors has service contract or letter of appointment which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Report of the Directors

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 Period.

For the 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 shareholders 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 or any entities connected with a Director had a material interest, whether directly or indirectly, subsisted at the end or at any time during the 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 Period.

Emolument Policy

The 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 34 and note 26 to the consolidated financial statements respectively.

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

Changes in Information of Directors

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

Report of the Directors

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

As at 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

Name of director	Nature of interest	Number and class of shares	Approximate percentage of shareholding
Jin Dongtao	Founder of a discretionary trust *(Notes 1 and 2)*	960,014,953 (Long Position)	40.00%
	Beneficial owner *(Note 3)*	3,368,000 (Long Position)	0.14%
	Interest of spouse *(Note 3)*	1,434,000 (Long Position)	0.06%
Zhao Zehua	Beneficial owner	1,434,000 (Long Position)	0.06%

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**") through 1969 JT Limited. Global Health holds the entire issued share capital of Asia Health Century International Inc. ("**Asia Health**"), which holds 960,014,953 shares in the Company.

(2) 398,000,000 shares out of the 960,014,953 shares are only rights of first refusal derived from the agreement in respect of a disposal of shares of the Company entered into between Zhongrong International Alternative Asset Management Limited as purchaser and Asia Health as vendor dated 28 January 2016.

(3) 1,434,000 shares are held by Ms. Chen Xiaoyan, the spouse of Mr. Jin Dongtao. Accordingly, Mr. Jin Dongtao is deemed to be interested in such shares and Mr. Jin is beneficially interested in 3,368,000 shares.

Report of the Directors

Save as disclosed above, as at 31 December 2016, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

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

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

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on the 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:

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 2016, the remaining life of the Share Option Scheme is approximately 6 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.

Report of the Directors

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

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

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

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

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

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

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 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. As at 31 December 2016, the remaining life of the Share Award Plan is approximately 7 years and 4 months.

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.

An aggregate of 16,993,000 shares has been granted without consideration to an aggregate of 13 grantees under the Share Award Plan since its inception. As at 31 December 2016, the trustee of the Share Award Plan did not hold any shares under the Share Award Plan, and no share has been granted during the Period.

Report of the Directors

Equity-linked Agreements

On 9 May 2016, the Company entered into an agreement with Ms. Di Hongying (邸洪英女士) ("**Ms. Di**"), a third party independent of the Company and its connected persons, pursuant to which the Company conditionally agreed to purchase, and Ms. Di agreed to, through Harbin Chuang Sheng Investment Management Limited (哈爾濱創盛投資管理有限公司) ("**Chuang Sheng**"), a company incorporated in the PRC and wholly-owned by Ms. Di, sell 36.38% of the entire registered capital of Jilin Wenhui, a company incorporated in the PRC with limited liability, at the consideration of RMB242.8 million (equivalent to HK$288.1 million). The consideration was settled by a combination of RMB27.0 million in cash and the issuance of 400,000,000 shares of the Company at HK$0.64 per share, pursuant to the general mandate granted to the Board by the independent Shareholders at the extraordinary general meeting of the Company held on 16 June 2015, upon completion of the transactions contemplated under the agreement.

Jilin Wenhui is well equipped with advanced technology. It jointly researched plant gelatin and plant capsule, manufactured by it with the Institute of Chemistry, the Chinese Academy of Sciences, and obtained the only patent for the utility models in the PRC and other patent for invention is under approval; meanwhile, it is also the first enterprise owns solar power station in capsule industry, becoming the pilot enterprises of "integration of photovoltaic power generation", supported by Ministry of Housing and Urban-Rural Development and Ministry of Finance, and the pioneer enterprise that has provincial technology center in the capsule industry in the PRC. Merger and acquisition of the enterprises in the industry, by leveraging the advantage of pharmaceutical industry of northeastern China in the PRC through integration of the Group's commercial resources and production resources and establishment of upstream capsule industrial park base would put new engine into the future development of the Group.

On the date of completion, i.e. 24 May 2016, 400,000,000 shares of the Company, representing 16.67% of the then issued share capital of the Company, were allotted and issued to Integrity Stars Limited, the entire issued share capital of which was held by Ms. Di; and 36.38% of the entire registered capital of Jilin Wenhui was held by the Company.

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

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, at no time during the 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 or 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 2016, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding
Chen Xiaoyan	Interest of spouse *(Notes 1 and 2)*	963,382,953 (Long Position)	40.14%
	Beneficial owner	1,434,000 (Long Position)	0.06%
Asia Health Century International Inc.	Beneficial owner *(Notes 1 and 2)*	960,014,953 (Long Position)	40.00%
1969 JT Limited	Interest of corporation controlled by the substantial shareholder *(Notes 1 and 2)*	960,014,953 (Long Position)	40.00%
Global Health Century International Group Limited	Interest of corporation controlled by the substantial shareholder *(Notes 1 and 2)*	960,014,953 (Long Position)	40.00%
Tenby Nominees Limited	Nominee *(Notes 1 and 2)*	960,014,953 (Long Position)	40.00%
Brock Nominees Limited	Nominee *(Notes 1 and 2)*	960,014,953 (Long Position)	40.00%
Credit Suisse Trust Limited	Trustee *(Notes 1 and 2)*	960,014,953 (Long Position)	40.00%
Di Hongying	Interest of corporation controlled by the substantial shareholder *(Note 3)*	275,000,000 (Long Position)	11.46%
Intergrity Stars Limited	Beneficial owner *(Note 3)*	275,000,000 (Long Position)	11.46%
Wu Qiaofeng	Interest of corporation controlled by the substantial shareholder *(Note 4)*	242,585,182 (Long Position)	10.11%
	Beneficial owner	1,516,000	0.06%
Dragon Ocean Development Ltd.	Interest of corporation controlled by the substantial shareholder *(Note 4)*	242,585,182 (Long Position)	10.11%

Report of the Directors

Name	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding
ZR International Holding Company Limited	Interest of corporation controlled by the substantial shareholder *(Note 4)*	242,585,182 (Long Position)	10.11%
Zhongrong International Alternative Asset Management Limited	Beneficial owner *(Note 4)*	242,585,182 (Long Position)	10.11%
BlackMarble Capital Limited	Person having a security interest in shares *(Note 5)*	148,529,000 (Long Position)	6.19%
Lerado Group (Holding) Company Limited	Interest of corporation controlled by the substantial shareholder *(Note 5)*	148,529,000 (Long Position)	6.19%
Lerado Group Limited	Interest of corporation controlled by the substantial shareholder *(Note 5)*	148,529,000 (Long Position)	6.19%
Wonder Time Holdings Limited	Interest of corporation controlled by the substantial shareholder *(Note 5)*	148,529,000 (Long Position)	6.19%

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 through 1969 JT Limited. Ms. Chen Xiaoyan, who is Mr. Jin Dongtao's spouse, is also a beneficiary of the Family Trust. Global Health holds the entire issued share capital of Asia Health, which holds 960,014,953 shares in the Company.

(2) 398,000,000 shares out of the 960,014,953 shares are only rights of first refusal derived from the agreement in respect of a disposal of shares of the Company entered into between Zhongrong International Alternative Asset Management Limited as purchaser and Asia Health as vendor dated 28 January 2016.

(3) Ms. Di Hongying holds entire issued share capital of Integrity Stars Limited, which holds 275,000,000 Shares in the Company.

(4) Mr. Wu Qiaofeng, ultimately holds 242,585,182 shares in the Company through Dragon Ocean Development Ltd., ZR International Holding Company Limited and Zhongrong International Alternative Asset Management Limited.

(5) Lerado Group (Holding) Company Limited, which holds entire issued share capital of Lerado Group Limited, which holds entire issued share capital of Wonder Time Holdings Limited, and in turn holds entire issued share capital of BlackMarble Capital Limited, which directly holds security interest in 148,529,000 shares in the Company.

Report of the Directors

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Purchase, Sale or Redemption of Listed Securities

During the Period, 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**").

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 Period. During the 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.

Report of the Directors

Directors' Interest in Competing Business

Save as disclosed in this report, none of the Directors or their respective 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 2016 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 2016. As all the percentage ratios (other than profit ratio) are less than 0.1%, this connected transaction is fully exempt under Rule 14A.76(1)(a) of the Listing Rules.

Save as disclosed herein, the Group had not entered into any other connected transactions or continuing connected transactions for the Period which are required to be disclosed in this annual report pursuant to the Listing Rules. A summary of significant related party transactions, which do not constitute connected transactions, made during the Period is disclosed in note 33 to the consolidated financial statements.

Charitable Donations

During the Period, the Group made a medication donation with a value of RMB663,000.

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

Significant Legal Proceedings

During the 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.

* *For identification purpose only*

Report of the Directors

Permitted Indemnity Provision

Pursuant to the Articles of Association, each 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.

Post Balance Sheet Events

The material post balance sheet events are disclosed in note 36 to the audited consolidated financial statements in this annual report.

Audit Committee

The Audit Committee of the Company 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 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 Period.

Corporate Governance

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules throughout the 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 53 to 67 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 issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public at all times as of the date of this report.

Auditor

The financial statements of the Group for the Period have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM of the Company.

Share Issued

During the Period, 400,000,000 shares were issued as part of consideration for the acquisition of equity interest in Jilin Wenhui, details of which are provided under the "Equity-Linked Agreements" as set out page 46.

Debentures Issued

During the Period, neither the Company nor any of its subsidiaries had issued any of the Company's listed securities.

On behalf of the Board

Mr. Jin Dongtao
Chairman

Hong Kong
23 March 2017

Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report of the Company for the Period.

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 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 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 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. Zhao Zehua and Mr. Sun Libo, 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 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 the identities of the public companies or organisations and the time involved, Directors have agreed to disclose such commitments (if any) to the Company in a timely manner.

Induction and Continuous Professional Development

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

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the 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 director of a listed company. All the Directors have received such training.

Corporate Governance Report

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

	Training provided by external lawyers
Executive Directors	
Mr. Jin Dongtao	✓
Mr. Jin Dongkun	✓
Mr. Chu Chuanfu (resigned on 23 March 2017)	✓
Mr. Zhao Zehua	✓
Independent Non-executive Directors	
Mr. Cheng Sheung Hing	✓
Ms. Chiang Su Hui Susie	✓
Ms. Hao Jia	✓

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 should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. During the Period, the Chairman of the Board and the Chief Executive Officer were two separate positions hold 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 operation of the Group.

On 23 March 2017, Mr. Chu Chuanfu resigned as the executive Director and chief executive officer of the Company. At the same date, Mr. Jin Dongtao has been appointed as the chief executive officer in place of Mr. Chu Chuanfu. Therefore, the Company has not compiled with code provision A.2.1 of the CG Code.

Although the responsibility of Chairman and the responsibility of the Chief Executive Officer of the Company are vested in Mr. Jin Dongtao, all major decisions are made in consultation with the other Directors and the senior management of the Company. The Board considers that there is sufficient balance of power and the said arrangement maintains a strong management position of the Company.

Appointment and Re-election of Directors

Save for Mr. Zhao Zehua and Mr. Sun Libo, 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 was renewed on 28 November 2016. Mr. Chu Chuanfu has tendered his resignation with effect on 23 March 2017.

Corporate Governance Report

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.

Mr. Sun Libo has entered into an appointment letter with the Company for a term of three years commencing from 23 March 2017, 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 was renewed on 28 November 2016.

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.

Board Meetings

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

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

Corporate Governance Report

For the Period, 8 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)*	8/8	1/1
Mr. Jin Dongkun	6/8	0/1
Mr. Chu Chuanfu (resigned on 23 March 2017)	8/8	0/1
Mr. Zhao Zehua	8/8	1/1
Independent Non-executive Directors		
Mr. Cheng Sheung Hing	8/8	1/1
Ms. Chiang Su Hui Susie	8/8	1/1
Ms. Hao Jia	8/8	0/1

Model Code for Securities Transactions

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

During the 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, risk management and internal control systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

Corporate Governance Report

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

Corporate Governance Function

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

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

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

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

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

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

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

For the 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.

Corporate Governance Report

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.

During the 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-election of the retiring Directors and reviewed the time commitment required from the independent non-executive Directors. The Nomination Committee has reviewed the board diversity policy to ensure its effectiveness and is of the view that the board diversity policy is appropriate.

Corporate Governance Report

Board Diversity Policy

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

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

Remuneration Committee

The Remuneration Committee currently comprises three members, namely Mr. Cheng Sheung Hing (independent non-executive Director), Ms. Chiang Su Hui Susie (independent non-executive Director) and Mr. Jin Dongkun (executive Director) (appointed on 23 March 2017), the majority of them are independent non-executive Directors. Mr. Cheng Sheung Hing serves as the chairman.

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 Period, 3 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	3/3
Ms. Chiang Su Hui Susie	3/3
Mr. Chu Chuanfu (resigned on 23 March 2017)	3/3

Corporate Governance Report

The Remuneration Committee discussed and reviewed the remuneration policy for Directors and senior management of the Company, and make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including adjustment on the remuneration of some senior management for the year 2017. 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 75 to 76 of this annual report, fall within the band from RMB0.5 million to RMB1.0 million for the Period.

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 serves as the chairman.

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, risk management and internal control systems 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, risk management and internal control systems

Corporate Governance Report

During the 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	3/3
Mr. Cheng Sheung Hing	3/3
Ms. Chiang Su Hui Susie	3/3

The Audit Committee reviewed the financial reporting system, compliance procedures, risk management and internal control systems (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function) 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.

The Audit Committee 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 Period 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 77 to 84 of this annual report.

Corporate Governance Report

Risk Management and Internal Controls

Goals and objectives

The Board acknowledges that it is the responsibility of the Board to maintain an adequate risk management and internal control systems to safeguard the Shareholders' investments and the Company's assets, and review the effectiveness of such systems on an ongoing basis. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Board has delegated its responsibilities (with relevant authorities) of risk management and internal controls to the Audit Committee. The Audit Committee, on behalf of the Board, oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management has provided a confirmation to the Audit Committee and the Board on the effectiveness of these systems for the Period.

Main features of the risk management and internal control systems

The Group's risk governance structure and the main responsibilities of each level of the structure are summarised below:

Board

- Determine the business strategies and objectives of the Group, and evaluate and determine the nature and extent of risks it is willing to take in achieving the Group's strategic objectives;
- Ensure that the Group establishes and maintains appropriate and effective risk management and internal control systems; and
- Oversee management in design, implementation and monitoring of the risk management and internal control systems.

Audit Committee

- Assist the Board to perform its responsibilities of risk management and internal control systems;
- Oversee the Group's risk management and internal control systems on an ongoing basis;
- Review the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance control;
- Ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions; and
- Consider major findings on risk management and internal control matters, and report and make recommendations to the Board.

Corporate Governance Report

Management

- Review the risk management and internal control policy and measures and submit them for Audit Committee's approval;
- Design, implement and maintain appropriate and effective risk management and internal control systems;
- Identify, evaluate and manage the risk that may potentially impact the major processes of the operations;
- Monitor risks and take measures to mitigate risks in day-to-day operations;
- Give prompt responses to and follow up the findings on risk management and internal control matters raised by the internal audit department; and
- Provide confirmation to the Board and Audit Committee on the effectiveness of the risk management and internal control systems.

Internal Audit Department

- Review the adequacy and effectiveness of the Group's risk management and internal control systems; and
- Report to Audit Committee the findings of the review and make recommendations to the Board and management to improve the material systems deficiencies or control weaknesses identified.

Process used to identify, evaluate and manage significant risks

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification

- Identify risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assess the risks identified by using the assessment criteria developed by the management; and
- Consider the impact on the business and the likelihood of their occurrence.

Risk Response

- Prioritise the risks by comparing the results of the risk assessment; and
- Determine the risk management strategies and internal control processes to prevent, avoid and mitigate the risks.

Corporate Governance Report

Risk Monitoring and Reporting

- Perform ongoing and periodic monitoring of the risk and ensure that appropriate internal control processes are in place;
- Revise the risk management strategies and internal control processes in case of any significant change of environment; and
- Report the results of risk monitoring to the management and the Board regularly.

During the Period, the Board, through the Audit Committee, reviewed all risk management functions and material internal controls, including financial, operational and compliance control. 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 "Guide on Internal Control and Risk Management – Hong Kong Branch" (《內部監控及風險管理手冊（香港分部）》) to continuously enhance the level of risk management and internal controls. The Board therefore considered that the risk management and internal control systems are effective and adequate during the Period. In addition, it has also reviewed and has satisfied with the adequacy of resources, staff qualification and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

Internal Audit Function

The Group's internal audit function is performed by the Group's internal audit department, which reports directly to the Audit Committee. The Group's internal audit department plays a major role in the assessment of the effectiveness of the risk management and internal control systems of the Group and reports directly to the Audit Committee on a regular basis.

The internal audit department conducts internal audit reviews on material controls and compliance with policies and procedures of the Group at both operational and corporate level. Plans and tools for corrective actions and control improvement are identified and communicated with operations management to address any issues, non-compliance or deficiencies identified. The internal audit department monitors the implementation of its recommendations by the operations management and reports the outcome to the Audit Committee.

Handling and dissemination of inside information

For the purpose of handling and disseminating inside information in accordance with the Listing Rules and the SFO, the Group has taken various procedures and measures, including arousing the awareness to preserve confidentiality of inside information with the Group, sending blackout period and securities dealing restrictions notification to the relevant directors and employees regularly, disseminating information to specified persons on a need-to-know basis and regarding closely to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

Corporate Governance Report

Auditor's Remuneration

During the 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	4,531
Non-audit services	–
Total	4,531

Company Secretaries

Mr. Ge Junming and Mr. Leung Yi Kok, 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 Period, Mr. Ge Junming and Mr. Leung Yi Kok 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 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 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 48, was appointed as the Chairman of the Board and an executive Director on 12 March 2012 and the Chief Executive Officer of the Company on 23 March 2017. 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 23 years of experience in the pharmaceutical distribution industry and 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 43, 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 18 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 executive Director, Chairman of the Board and Chief Executive Officer of the Company.

Directors and Senior Management

Mr. ZHAO Zehua (**趙澤華**), aged 48, 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 28 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

Mr. SUN Libo (孫立波), aged 44, has been the Deputy General Manager of the Group since 2011 and was appointed as an executive Director on 23 March 2017. He has extensive experience and qualifications in pharmacy.

Other experience:

- 1993 – 2005: Qiqihar Second Pharmaceutical Co., Ltd. (齊齊哈爾第二製藥有限公司) with the last position held as Department Head of Administration.

- 2006 – 2010: Heilongjiang Jintian Aixin Pharmaceutical Distribution Co., Ltd. (黑龍江省金天愛心醫藥經銷有限公司), a wholly-owned subsidiary of the Company, with the last position held as Deputy General Manager of the Administration Department.

Education:

- 1992 – 1995: graduated from Qiqihar Medical University in Pharmacy

- 2005: Qualified Medical Engineer issued by the then Heilongjiang Human Resources Bureau, the PRC.

Mr. Sun 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 69, 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. 正恒國際控股有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 00185)

- 2005 – 2013: independent non-executive 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 中國戶外媒體集團有限公司), 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 known as Capital University of Economics and Business 首都經濟貿易大學) with a major in Trading Economics

Directors and Senior Management

Ms. CHIANG Su Hui Susie (江素惠), aged 70, was appointed as an independent non-executive Director on 18 November 2013. Ms. Chiang has over 25 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 37, 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 9 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 48, 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.

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

Directors and Senior Management

Mr. LEUNG Yi Kok (梁怡珏), aged 36, our deputy financial controller and joint company secretary. Mr. Leung joined the Group in April 2014 as senior finance manager. He was promoted as the deputy financial controller of the Company in April 2015, responsible for financial management matters outside mainland China.

Mr. Leung is a fellow member of Hong Kong Institute of Certified Public Accountants and has over 12 years of experience in accounting and financial management. Before joining the Group, Mr. Leung worked in PricewaterhouseCoopers from October 2006 to April 2012 and acted as chief financial officer in a private company from May 2012 to January 2014.

Mr. Leung received a bachelor degree in business administration from the Chinese University of Hong Kong in December 2004 and obtained a Master degree of Corporate Governance from The Hong Kong Polytechnic University in September 2016.

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

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Universal Health International Group Holding Limited
(incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Universal Health International Group Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 85 to 159, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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Tel: +852 2289 8888, Fax: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- Allocation of purchase price in respect of the newly acquired investment in associate

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment Refer to note 8 to the consolidated financial statements. Goodwill arises on the acquisitions of distribution and retail businesses in prior years were allocated to the operating segments of Distributions and Retails I – strategic stores ("Retails I"), and were monitored at the respective operating segment levels. For the year ended 31 December 2016, impairment charges on goodwill of RMB25,426,000 and RMB103,713,000 were provided for goodwill in relation to Distributions segment and Retails I segment, respectively. As at 31 December 2016, goodwill of the Group relating to CGUs of Distributions and Retails I were amounted to RMB32,689,000 and RMB311,531,000, respectively.	In addressing this matter, we had performed the following procedures: • We performed procedures to understand the key processes and controls relating to the assessment of the recoverable amounts of CGUs supported by value-in-use calculations based on discounted cash flow model. • We compared the cash flow projections used in value-in-use calculations to the financial budgets approved by management covering a five-year period. • We compared the future growth rates beyond the five-year period used by management against the long-term average growth rate for the businesses in which the respective CGUs operate based on the available data from the market.

Key Audit Matter	How our audit addressed the Key Audit Matter
We identified this matter as a key audit matter because of the significance of the carrying amount of goodwill as at 31 December 2016, together with the use of judgments and estimates in assessing the impairment of the asset. These key estimates include forecast gross margin, forecast growth rates and discount rates adopted in the value-in-use calculations.	• We evaluated the achievability of budgeted gross margins based on the Group's past and current performance, the management's business strategy and the expected market development. • We evaluated the reasonableness of key parameters used for calculating discount rates, including the Group's cost of equity, gearing ratio and cost of debt. Such parameters were benchmarked against market available data. • We tested mathematical accuracy of the value-in-use calculations used by the management to determine the recoverable amounts of goodwill. Based on our work, we considered the key estimates and input data adopted by management were supported by available evidence and consistent with our understanding.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Allocation of purchase price in respect of the newly acquired investment in associate Refer to note 11 to the consolidated financial statements. On 24 May 2016, the Group acquired 36.38% equity interest of Jilin Wenhui Hollow Capsules Limited ("Jilin Wenhui"). The total cost of the investment was RMB243,076,000, consisting of: (1) RMB27,031,000 in cash; (2) the shares of the Company valued of RMB215,788,000 issued to the vendor; and (3) the transaction cost of RMB257,000. Upon completion of the acquisition (the "Acquisition"), Jilin Wenhui has become an associate of the Group. With the assistance of an external professional expert (the "Expert"), management performed the fair value assessment for the allocation of purchase price in respect of the investment in Jilin Wenhui at the acquisition date. Based on the assessment, the Group's investments in Jilin Wenhui include a goodwill of RMB199,868,000 identified from the acquisition, which was attributable to the synergy expected from the integration of the Group's commercial and production resources in the north-eastern region of the PRC. We identified this matter as a key audit matter because of the significance of the purchase consideration and management estimates used in the allocation of the purchase price for the investment. These estimates include key assumptions of Jilin Wenhui's forecast revenue growth, forecast gross margin and the discount rates adopted in the calculations.	In addressing this matter, we had performed the following procedures: • We obtained the sale and purchase agreement of the Acquisition to understand the details of the transaction, including the components of consideration, the conditions of completion, the rights and obligations of the Group upon and after the completion. We checked the payment of cash consideration and the issuance of Company's share as consideration to the relevant supporting documents, including the sale and purchase agreement of the Acquisition, bank statement, share issuance documents and the relevant share price quotation on the date of share issuance for the determination of share consideration. • We evaluated the competence, capability and objectivity of the Experts engaged by management in preparation of the fair value assessment. • We assessed the appropriateness of the valuation methodology and the underlying assumptions adopted by management in determining the fair value allocation. We checked the mathematical accuracy of the valuation models, and involved valuation specialists to assist our evaluation. • We assessed the fair value adjustments, such as the identification and valuation of elements of intangible assets during the allocation of the purchase price. We made the assessment based on our understanding of the business of Jilin Wenhui, and the management's business plan in respect of the Acquisition.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
	• We compared the forecasted future revenue used in the valuation model, which was prepared according to the management's business plan, with the long term sales orders under the strategic arrangements with certain customers. • We evaluated the achievability of the gross margins based on Jilin Wenhui's past and current performance and the market available data of the comparable companies in the industry. • We evaluated the reasonableness of key parameters used for calculating discount rates. Such parameters were benchmarked against the market available data. Based on our work, we considered that the key estimates and input data adopted by management were supported by the available evidence and consistent with our understanding.

Independent Auditor's Report

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheng Kwong On.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2017

Consolidated Balance Sheet

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**226,665**	103,167
Land use rights	7	**3,619**	3,713
Intangible assets	8	**517,681**	672,055
Investments in joint ventures	10	**8,211**	7,520
Investment in an associate	11	**246,624**	–
Prepayment for construction in progress	12	**25,426**	–
Deferred income tax assets	13	**12,862**	19,297
Total non-current assets		**1,041,088**	805,752
Current assets			
Trade and other receivables	15	**545,535**	442,853
Inventories	16	**391,756**	398,605
Restricted cash	17	**217,131**	227,414
Cash and cash equivalents	18	**1,107,329**	1,333,320
Total current assets		**2,261,751**	2,402,192
Total assets		**3,302,839**	3,207,944
EQUITY			
Equity attributable to owners of the Company			
Share capital	19	**14,878**	12,259
Reserves	20	**1,524,900**	1,319,669
Retained earnings		**1,168,911**	1,256,722
		2,708,689	2,588,650
Non-controlling interests		**24,761**	29,720
Total equity		**2,733,450**	2,618,370

Consolidated Balance Sheet

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	13	**41,282**	46,585
Current liabilities			
Borrowings	22	**154,550**	166,920
Trade and other payables	23	**371,926**	373,464
Current income tax liabilities		**1,631**	2,605
Total current liabilities		**528,107**	542,989
Total liabilities		**569,389**	589,574
Total equity and liabilities		**3,302,839**	3,207,944

The notes on pages 91 to 159 are an integral part of these consolidated financial statements.

The financial statements on pages 85 to 159 were approved by the Board of Directors on 23 March 2017 and were signed on its behalf.

Jin Dongtao	Zhao Zehua
Director	*Director*

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	**3,378,719**	4,805,855
Cost of sales	25	**(2,504,633)**	(3,465,280)
Gross profit		**874,086**	1,340,575
Selling and marketing expenses	25	**(727,197)**	(986,418)
Administrative expenses	25	**(91,620)**	(148,108)
Goodwill impairment	8,25	**(129,139)**	(108,899)
Other income		**2,641**	678
Other losses – net	24	**(8,643)**	(643)
Operating (loss)/profit		**(79,872)**	97,185
Finance income	27	**18,715**	15,476
Finance costs	27	**(5,762)**	(6,876)
Finance income – net	27	**12,953**	8,600
Share of post-tax profits of joint ventures	10	**691**	1,066
Share of post-tax profit of an associate	11	**3,548**	–
(Loss)/profit before income tax		**(62,680)**	106,851
Income tax expenses	28	**(24,638)**	(72,977)
(Loss)/profit for the year		**(87,318)**	33,874
(Loss)/profit attributable to:			
– Owners of the Company		**(87,811)**	31,163
– Non-controlling interests		**493**	2,711
		(87,318)	33,874

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
(Loss)/earnings per share attributable to owners of the Company for the year *(RMB cents)*			
– Basic and diluted	29	**(3.92)**	1.57
Other comprehensive income			
Item that may be reclassified to profit or loss			
Currency translation differences		**(7,938)**	(5,551)
Total comprehensive income for the year		**(95,256)**	28,323
Total comprehensive income attributable to:			
– Owners of the Company		**(95,749)**	25,612
– Non-controlling interests		**493**	2,711
		(95,256)	28,323

The notes on pages 91 to 159 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* *(Note19)*	Share premium *RMB'000* *(Note20)*	Capital reserves *RMB'000* *(Note20)*	Statutory reserves *RMB'000* *(Note20)*	Shares held for Share Award Plan *RMB'000* *(Note20)*	Share-based compensation reserves *RMB'000* *(Note20)*	Reserves *RMB'000* *(Note20)*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
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	20 (a)	–	–	–	4,877	–	–	–	(4,877)	–	–	–
Grant of awarded shares	21 (b)	–	–	–	–	39,780	25	–	–	39,805	–	39,805
Dividends distribution		–	(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
Balance at 1 January 2016		12,259	1,405,730	(154,447)	65,059	–	8,878	(5,551)	1,256,722	2,588,650	29,720	2,618,370
Comprehensive income												
(Loss)/profit for the year		–	–	–	–	–	–	–	(87,811)	(87,811)	493	(87,318)
Other comprehensive income												
Currency translation differences		–	–	–	–	–	–	(7,938)	–	(7,938)	–	(7,938)
Total comprehensive income		12,259	1,405,730	(154,447)	65,059	–	8,878	(13,489)	1,168,911	2,492,901	30,213	2,523,114
Transactions with owners in their capacity as owners												
Issuance of ordinary shares	19,20	2,619	213,169	–	–	–	–	–	–	215,788	–	215,788
Dividends relating to non-controlling interests	23 (c)	–	–	–	–	–	–	–	–	–	(5,452)	(5,452)
Total transactions with owners in their capacity as owners		2,619	213,169	–	–	–	–	–	–	215,788	(5,452)	210,336
Balance at 31 December 2016		14,878	1,618,899	(154,447)	65,059	–	8,878	(13,489)	1,168,911	2,708,689	24,761	2,733,450

The notes on pages 91 to 159 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities:			
Cash generated from operations	31	**65,537**	240,550
Interest paid	27	**(5,098)**	(6,144)
Bank charges paid	27	**(664)**	(732)
Income tax paid		**(24,480)**	(187,411)
Net cash generated from operating activities		**35,295**	46,263
Cash flows from investing activities:			
Change in restricted cash	17	**10,283**	155,429
Interest received		**7,948**	8,594
Proceeds from disposal of property, plant and equipment	31	**416**	51
Purchase of land use rights and intangible assets	8	**(1,126)**	(1,645)
Purchase of property, plant and equipment	6	**(31,056)**	(6,114)
Acquisition of subsidiaries net of cash required		**–**	(15,500)
Payment for construction in progress		**(100,000)**	–
Loans granted to third parties		**(105,000)**	–
Acquisition of equity interest in investment in an associate	11	**(27,288)**	–
Net cash (used in)/generated from investing activities		**(245,823)**	140,815
Cash flows from financing activities:			
Borrowings from banks	22	**154,550**	166,920
Repayments of borrowings	22	**(166,920)**	(295,500)
Dividends paid to owners of the Company		**–**	(74,926)
Dividends paid to non-controlling interests	23 (c)	**(3,542)**	–
Net cash used in financing activities		**(15,912)**	(203,506)
Net decrease in cash and cash equivalents		**(226,440)**	(16,428)
Cash and cash equivalents at beginning of the year		**1,333,320**	1,349,231
Exchange gains on cash and cash equivalents		**449**	517
Cash and cash equivalents at end of the year	18	**1,107,329**	1,333,320

The notes on pages 91 to 159 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 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 23 March 2017.

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 2016.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (IFRS) and requirement of the Hong Kong Companies Ordinance Cap. 622. 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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment 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 or after 1 January 2016:

IFRS 14	Regulatory Deferred Accounts
Amendments to IFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 27	Equity Method in Separate Financial Statements
Annual Improvement Project	Annual Improvements 2012-2014 Cycle
Amendments to IFRS 10, IFRS 12 and IAS 28	Investments Entities: Applying the Consolidation Exception
Amendments to IAS 1	Disclosure Initiative

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

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

A number of new and amended standards are effective for annual periods beginning after 1 January 2016, 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 excluding IFRS 15 Revenue from Contracts with Customers and IFRS 16 Lease will result in any material impact on the consolidated financial statements of the Group.

		Effective for annual years beginning on or after
Amendments to IAS 7	Statement of Cash Flows	1 January 2017
Amendments to IAS 12	Income Taxes	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to IFRS 10 and IAS 28	Sale and Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

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

IFRS 15, Revenue from contracts with customers

The ISAC has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- Accounting for certain costs incurred in fulfilling a contract - certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and

- Rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

Notes to the Consolidated Financial Statements

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

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

IFRS 16, Leases

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change. The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB110,640,000, see note 32(a). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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.

2.2 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.

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

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation (continued)

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

Acquisition-related costs are expensed as incurred.

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

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

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 interests 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.

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)*

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.

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. Summary of significant accounting policies *(continued)*

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit/loss of an associate" in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

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

2.4 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. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 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.

2.6 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 RMB, which is the Company's functional and the Group's presentation currency.

Notes to the Consolidated Financial Statements

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

2.6 Foreign currency translation *(continued)*

(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". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other losses – net".

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)*

2.7 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. Construction in progress is recognized at the percentage completion of contract cost.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to the respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

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

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

– Buildings	20 years
– Motor vehicles	4-8 years
– Furniture and office equipment	3-5 years
– Leasehold improvements	shorter of lease period and estimated useful life

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amounts (Note 2.10).

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.

2.8 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)*

2.9 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)*

2.10 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.

2.11 Financial assets

2.11.1 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 receivables and loans comprise "trade and other receivables" and "cash and cash equivalents" in the consolidated balance sheets (Notes 2.15 and 2.16).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Notes to the Consolidated Financial Statements

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

2.11 Financial assets *(continued)*

2.11.2 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.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

In looking for a reliable measure of fair value, the Group provides a hierarchy to be used in determining an instrument's fair value:

Active market – quoted market price. The existence of published price quotations in an active market is the best evidence of fair value and they must be used to measure the financial instrument.

No active market – valuation technique. If the market for a financial instrument is not active, fair value is established by using a valuation technique. Valuation techniques that are well established in financial markets include recent market transactions, reference to a transaction that is substantially the same, discounted cash flows and option pricing models.

It is not possible to estimate the fair value of an equity instrument, the range of reasonable fair value estimates is significant and no reliable estimate can be made, the Group to measure the equity instrument at cost less impairment as a last resort.

Notes to the Consolidated Financial Statements

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

2.12 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.

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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.

Notes to the Consolidated Financial Statements

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

2.13 Impairment of financial assets *(continued)*

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

2.14 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.

2.15 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.

2.16 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.

Notes to the Consolidated Financial Statements

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

2.17 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.

2.18 Borrowings and borrowing costs

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

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

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.19 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.

2.20 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.

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

2.20 Current and deferred income tax *(continued)*

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

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.

Notes to the Consolidated Financial Statements

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

2.20 Current and deferred income tax *(continued)*

(c) Offsetting

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

2.21 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.

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

2.21 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 recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

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

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

Share-based payment transactions among group entities

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

Notes to the Consolidated Financial Statements

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

2.21 Employee benefits *(continued)*

(c) Share-based payments (continued)

<u>Share Option Scheme</u>

The Group operates a share option scheme ("Share Option Scheme") (Note 21(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.

<u>Share Award Plan</u>

The Company adopted a share award plan ("Share Award Plan") (Note 21(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.

2.22 Provisions and contingent liabilities

2.22.1 Provisions

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

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

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

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

2.22 Provisions and contingent liabilities *(continued)*

2.22.2 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.

2.23 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)*

2.24 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.

2.25 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.

2.26 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 18) and the trade and other receivables (Note 15) denominated in Hong Kong Dollars ("HKD") and US Dollars ("USD"). The Group currently does not hedge its foreign exchange exposure.

As at 31 December 2016, if RMB had strengthened/weakened by 5% against the USD/HKD with all other variables held constant, loss before income tax for the year ended 31 December 2016 and profit before income tax for the year ended 31 December 2015 would have been RMB613,000 higher/lower and RMB574,000 lower/higher, respectively, 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 2016, 72.0% (2015: 63.0%) 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 15. 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 2016, the exposure to the top 15 customers did not exceed 30% of the gross trade receivables, with the exposure to the largest customer representing less than 8%.

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 2016 the Group held cash of RMB1,107,329,000 (2015: RMB1,333,320,000) (Note 18) and trade receivables of RMB165,486,000 (2015: RMB248,676,000) (Note 15), that are expected to readily generate cash inflows for managing liquidity risk.

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

	Less than 1 year
	RMB'000
As at 31 December 2016	
Borrowings	157,589
Trade and other payables	303,265
As at 31 December 2015	
Borrowings	170,483
Trade and other payables	300,936

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 17, 18 and 22 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 2016, 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, loss for the year ended 31 December 2016 and profit for the year ended 31 December 2015 would have been RMB5,821,000 lower/higher and RMB7,714,000 higher/lower, respectively.

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 2016 and 2015 were as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Borrowings *(Note 22)*	**154,550**	166,920
Less: cash and cash equivalents *(Note 18)*	**1,107,329**	1,333,320
Less: restricted cash in association of the borrowings *(Note 17)*	**150,000**	150,000
Net cash	**(1,102,779)**	(1,316,400)
Total equity	**2,733,450**	2,618,370
Total capital	**1,630,671**	1,301,970
Gearing ratio *(Note *)*	**NA**	NA

*Note **

As at 31 December 2016 and 2015, there was no net debt as the borrowing were less than cash and cash equivalents.

3.3 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, 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.

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) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.10. 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.

(b) Purchase price allocation for business combination

Accounting for business acquisitions requires 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, 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.

(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 2.9(b)). 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.

Notes to the Consolidated Financial Statements

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

(d) Income taxes

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

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. Individual financial information and management report of the retails with strategic stores ("Retails I"), retails consisting of non-strategic stores ("Retails II"), Distributions and Others are presented to the Board of Directors to assess their performance and for making respective business decisions. Distributions, Retails I, Retails II and Others are considered to be four segments in accordance with IFRS 8 "Operating Segment". The "Others" segment mainly comprise investment companies.

The Group's principal market is the northeastern region of the PRC. The Group has a large number of customers, which are widely dispersed within the northeastern region of the PRC, no single customer accounted for more than 10% of the Group's total revenues for the years ended 31 December 2016 and 2015. Accordingly, no geographical segment is presented.

Sales between segments are carried out at arm's length. The revenue from external customers and the costs, the total assets and the total liabilities are measured in a manner consistent with that of the Group's consolidated financial statements.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted earnings before interests, tax, depreciation and amortisation ("Adjusted EBITDA"). The measurement basis of Adjusted EBITDA excludes the effect of share of post-tax profits of joint ventures, share of post-tax profit of an associate, share-based payment expenses and goodwill impairment.

5. Revenue and segment information *(continued)*

The segment information for the year ended 31 December 2016 and as at 31 December 2016 is as follows:

	Year ended 31 December 2016				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue	2,419,426	1,398,558	259,468	–	4,077,452
Inter-segment revenue	(698,733)	–	–	–	(698,733)
Revenue from external customers	1,720,693	1,398,558	259,468	–	3,378,719
Adjusted EBITDA	1,193	109,700	(2,420)	(12,275)	96,198
Depreciation and amortisation	(14,322)	(31,554)	(997)	(58)	(46,931)
Finance income	7,434	3,753	414	7,114	18,715
Finance costs	(4,629)	(755)	(40)	(338)	(5,762)
Share of post-tax profits of joint ventures	–	691	–	–	691
Share of post-tax profit of an associate	3,548	–	–	–	3,548
Goodwill impairment *(Note 8)*	(25,426)	(103,713)	–	–	(129,139)
Income tax expenses	2,309	(25,417)	(1,530)	–	(24,638)
Loss for the year	(29,893)	(47,295)	(4,573)	(5,557)	(87,318)
Additions of non-current assets	396,307	30,432	–	112	426,851

	As at 31 December 2016				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total assets before eliminations	2,494,615	1,753,504	121,883	1,530,906	5,900,908
Inter-segment assets	(518,313)	(595,978)	(42,042)	(1,441,736)	(2,598,069)
Total assets	1,976,302	1,157,526	79,841	89,170	3,302,839
Total liabilities before eliminations	1,283,454	715,855	43,581	26,000	2,068,890
Inter-segment liabilities	(929,144)	(511,708)	(37,549)	(21,100)	(1,499,501)
Total liabilities	354,310	204,147	6,032	4,900	569,389

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	Retails I	Retails II	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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 post-tax profits of joint ventures	–	1,066	–	–	1,066
Share-based 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/(loss) 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	Retails I	Retails II	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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

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

Notes to the Consolidated Financial Statements

6. Property, plant and equipment

	Buildings *RMB'000*	Motor vehicles *RMB'000*	Furniture and office equipments *RMB'000*	Leasehold improvements *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
As at 1 January 2015						
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
Year ended 31 December 2016						
Opening net book amount	**51,960**	**5,982**	**16,531**	**28,694**	**–**	**103,167**
Additions	**–**	**5,674**	**12,149**	**13,233**	**121,928**	**152,984**
Disposals	**–**	**(244)**	**(495)**	**(1,128)**	**–**	**(1,867)**
Depreciation	**(2,675)**	**(2,418)**	**(7,643)**	**(14,883)**	**–**	**(27,619)**
Closing net book amount	**49,285**	**8,994**	**20,542**	**25,916**	**121,928**	**226,665**
As at 31 December 2016						
Cost	**56,323**	**17,972**	**50,959**	**82,269**	**121,928**	**329,451**
Accumulated depreciation	**(7,038)**	**(8,978)**	**(30,417)**	**(56,353)**	**–**	**(102,786)**
Net book amount	**49,285**	**8,994**	**20,542**	**25,916**	**121,928**	**226,665**

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	
	2016	2015
	RMB'000	*RMB'000*
Administrative expenses	**3,669**	3,036
Selling and marketing expenses	**23,950**	20,340
	27,619	23,376

(b) Lease rentals amounting to RMB108,969,000 and RMB103,444,000 for the years ended 31 December 2016 and 2015 related to the lease of property are included in the consolidated statement of comprehensive income.

7. Land use rights

	RMB'000
Year ended 31 December 2015	
Opening net book amount	3,807
Amortisation *(Note 25)*	(94)
Closing net book amount	3,713
As at 31 December 2015	
Cost	3,870
Accumulated amortisation	(157)
Net book amount	3,713
Year ended 31 December 2016	
Opening net book amount	**3,713**
Amortisation *(Note 25)*	**(94)**
Closing net book amount	**3,619**
As at 31 December 2016	
Cost	**3,870**
Accumulated amortisation	**(251)**
Net book amount	**3,619**

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 (2015: RMB94,000) in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

8. Intangible assets

	Goodwill *RMB'000*	Trademarks, licenses and brand loyalty *RMB'000*	Contractual supplier relationship *RMB'000*	Computer software licences *RMB'000*	Total *RMB'000*
As at 1 January 2015					
Cost	582,562	188,816	53,511	2,152	827,041
Accumulated amortisation	–	(16,636)	(10,278)	(314)	(27,228)
Accumulated 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)
Accumulated Impairment	(109,203)	–	–	–	(109,203)
Net book amount	473,359	163,268	33,704	1,724	672,055
Year ended 31 December 2016					
Opening net book amount	**473,359**	**163,268**	**33,704**	**1,724**	**672,055**
Additions	**–**	**–**	**–**	**1,126**	**1,126**
Disposals/write-offs	**–**	**(5,946)**	**–**	**(1,197)**	**(7,143)**
Amortisation charge	**–**	**(10,549)**	**(8,316)**	**(353)**	**(19,218)**
Impairment	**(129,139)**	**–**	**–**	**–**	**(129,139)**
Closing net book amount	**344,220**	**146,773**	**25,388**	**1,300**	**517,681**
As at 31 December 2016					
Cost	**582,562**	**183,732**	**53,511**	**2,110**	**821,915**
Accumulated amortisation	**–**	**(36,959)**	**(28,123)**	**(810)**	**(65,892)**
Accumulated Impairment	**(238,342)**	**–**	**–**	**–**	**(238,342)**
Net book amount	**344,220**	**146,773**	**25,388**	**1,300**	**517,681**

Notes to the Consolidated Financial Statements

8. Intangible assets *(continued)*

(a) Amortisations of the Group's intangible assets for the year ended 31 December 2016 amounting to RMB19,218,000 (2015: RMB20,200,000) have been charged to the consolidated statement of comprehensive income as administrative expenses.

(b) Impairment tests for goodwill

For the year ended 31 December 2016, the following is a summary of goodwill allocation for each operating segment:

	Opening *RMB'000*	**Impairment** *RMB'000*	**Closing** *RMB'000*
Distributions	58,115	(25,426)	32,689
Retails I	415,244	(103,713)	311,531
	473,359	(129,139)	344,220

Goodwill arising on the acquisitions of distribution and retail businesses in prior years were allocated to the operating segments of Distributions and Retails I, and were monitored at the respective operating segment levels.

The recoverable amount of all CGUs is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2016 are as follow:

	Distributions	**Retails I**
Gross margin	16.2%	35.9%
Growth rate	1.5%	1.5%
Pre-tax discount rate	17.0%	17.0%

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 pre-tax and reflect specific risks relating to the relevant business.

Notes to the Consolidated Financial Statements

8. Intangible assets *(continued)*

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

For the year ended 31 December 2016, impairment charges on goodwill of RMB25,426,000 and RMB103,713,000 were provided for goodwill in relation to Distributions segment and Retails I segment, respectively. As at 31 December 2016, goodwill of the Group relating to CGUs of Distributions and Retails I were amounted to RMB32,689,000 and RMB311,531,000, respectively. Following the decision on the provision for goodwill impairment, the Group reassessed the depreciation policies of its property, plant and equipment and estimated that their useful lives would not be affected. No other class of long-term asset other than goodwill was impaired as at 31 December 2016.

9. Subsidiaries

The Company has the following principal subsidiaries at 31 December 2016:

Name	Place/date of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Gaoya Investments Limited	BVI 9 June 2015 Limited liabilities company	Investments holding BVI	USD1	100%	100%	–
Hong Kong Health Century International Group Limited	Hong Kong 15 September 2010 Limited liabilities company	Investments holding and retailing drugs and other pharmaceutical products Hong Kong	HKD1,001	100%	100%	–
Junfeng Global Limited	BVI 12 September 2014 Limited liabilities company	Investments holding BVI	USD1	100%	100%	–
Jilin Jintian Aixin Health Pharmaceutical Co., Ltd	PRC 25 May 2009 Limited liabilities company	Retailing drugs and other pharmaceutical products PRC	RMB2,000,000	100%	100%	–
Neo Century Holdings Limited	BVI 20 May 2014 Limited liabilities company	Investments holding BVI	USD1	100%	100%	–

9. Subsidiaries *(continued)*

Name	Place/date of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Jintian Pharmaceutical Group Limited	Hong Kong 16 November 2015 Limited liabilities company	Investments holding Hong Kong	HKD100	100%	100%	–
Universal Health International (Hong Kong) Investments Holdings Limited	Hong Kong 16 November 2015 Limited liabilities company	Investments holding Hong Kong	HKD100	100%	100%	–
Gerrards Agents (Macau Commercial Offshore) Limited	Macau 15 April 2014 Limited liabilities company	Off-shore business Macau	MOP100,000	–	100%	–
Health Century Jintian Aixin Medical Limited	Hong Kong 2 May 2013 Limited liabilities company	Retailing drugs and other pharmaceutical products Hong Kong	HKD10,000	–	100%	–
Health Century (Hong Kong) Milky City Co., Limited	Hong Kong 8 September 2014 Limited liabilities company	Retailing drugs and other pharmaceutical products Hong Kong	HKD10,000	–	100%	–
Health Century Muying Aixin Medicine Limited	Hong Kong 14 April 2014 Limited liabilities company	Retailing drugs and other pharmaceutical products Hong Kong	HKD10,000	–	100%	–
Health Century Jintian Aixin Pharmaceutical Group Limited	Hong Kong 24 April 2013 Limited liabilities company	Investments holding Hong Kong	HKD100,000	–	100%	–
Hebei Jintian Yan Xiao Pharmaceutical Co., Ltd.	PRC 27 December 2005 Limited liabilities company	Wholesaling drugs and other pharmaceutical products PRC	RMB30,000,000	–	100%	–
Hegang Ji Shi Tang Pharmacy Chain Co., Ltd. ("Ji Shi Tang")	PRC 30 September 2006 Limited liabilities company	Retailing drugs and other pharmaceutical products PRC	RMB650,000	–	51%	49%

Notes to the Consolidated Financial Statements

9. Subsidiaries *(continued)*

Name	Place/date of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Heilongjiang Jintian Health Aixin Pharmacy Chain Co., Ltd. ("Aixin Health")	PRC 4 January 2006 Limited liabilities company	Retailing drugs and other pharmaceutical products PRC	RMB500,000	–	100%	–
Heilongjiang Jintian Aixin Pharmaceutical Distribution Co., Ltd.	PRC 12 February 2004 Limited liabilities company	Wholesaling drugs and other pharmaceutical products PRC	USD92,310,000	–	100%	–
Heilongjiang Jintian Aixin Pharmaceutical Chain Co., Ltd.	PRC 23 June 2005 Limited liabilities company	Retailing drugs and other pharmaceutical products PRC	RMB1,000,000	–	100%	–
Hong Kong Universal Health Cross-border Platform Company Limited	Hong Kong 5 August 2015 Limited liabilities company	E-commerce and trading of health-care products Hong Kong	HKD1	–	100%	–
Hong Kong Wing Ming Medical Limited	Hong Kong 25 July 2014 Limited liabilities company	Trading of health-care product and chinese patent medicines Hong Kong	HKD1	–	100%	–
Hong Kong Yushi Holdings Limited	Hong Kong 4 December 2014 Limited liabilities company	Investments holding Hong Kong	HKD10,000	–	100%	–
Jiamusi Jintian Aixin Pharmaceutical Co., Ltd.	PRC 15 July 1998 Limited liabilities company	Wholesaling drugs and other pharmaceutical products PRC	RMB15,000,000	–	100%	–
Jiamusi Jintian Aixin Pharmaceutical Chain Co., Ltd.	PRC 14 April 2004 Limited liabilities company	Retailing drugs and other pharmaceutical products PRC	RMB5,000,000	–	100%	–
Jilin Jintian Aixin Pharmaceutical Distribution Co., Ltd.	PRC 4 December 2007 Limited liabilities company	Wholesaling drugs and other pharmaceutical products PRC	RMB1,000,000	–	100%	–

Notes to the Consolidated Financial Statements

9. Subsidiaries *(continued)*

Name	Place/date of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Jinzhou Jintian Aixin Pharmacy Chain Co., Ltd ("Tian Kang")	PRC 16 January 2012 Limited liabilities company	Retailing drugs and other pharmaceutical products PRC	RMB500,000	–	100%	–
Jintian Pharmaceutical Company Limited	Hong Kong 27 March 2014 Limited liabilities company	Wholesaling drugs and other pharmaceutical products Hong Kong	HKD1	–	100%	–
Luen Fat Dispensary Limited	Hong Kong 18 August 2011 Limited liabilities company	Retailing drugs and other pharmaceutical products Hong Kong	HKD100	–	100%	–
Rebound Global Limited	BVI 11 June 2014 Limited liabilities company	Investments holding BVI	USD1	–	100%	–
Shenyang Wei Kang Drug Store Chain Co., Ltd. ("Wei Kang")	PRC 24 October 2001 Limited liabilities company	Retailing drugs and other pharmaceutical products PRC	RMB30,000,000	–	100%	–
Shenyang Weishi Pharmaceutical Co., Ltd.	PRC 27 October 2013 Limited liabilities company	Wholesaling drugs and other pharmaceutical products PRC	RMB5,000,000	–	100%	–
Suihua Jintian Aixin Pharmaceutical Mall Chain Co., Ltd. ("Sui Hua")	PRC 8 April 2003 Limited liabilities company	Retailing drugs and other pharmaceutical products PRC	RMB3,800,000	–	99.04%	0.96%
Tonghua Jinfeng Pharmacy Chain Co., Ltd. ("Jin Feng")	PRC 9 December 2010 Limited liabilities company	Retailing drugs and other pharmaceutical products PRC	RMB1,100,000	–	100%	–
Jiamusi Golden Sky Storage Co., Ltd	PRC 07/06/2016 Limited liabilities company	Storage PRC	RMB1,000,000	–	100%	–

There were no material transactions with non-controlling interests in 2016.

Notes to the Consolidated Financial Statements

10. Investments in joint ventures

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**7,520**	6,454
Share of post-tax profits	**691**	1,066
At end of the year	**8,211**	7,520

As at 31 December 2016, the Group had equity interests in these joint ventures:

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

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

* The Company holds less than 50% of the equity interests in 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	
	2016	2015
	RMB'000	*RMB'000*
Assets		
Non-current assets	**448**	452
Current assets	**7,980**	7,283
	8,428	7,735
Liabilities		
Current liabilities	**(217)**	(215)
Net assets	**8,211**	7,520

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**3,883**	4,279
Expenses	**(3,192)**	(3,213)
Profit after income tax	**691**	1,066

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. Investment in an associate

	Year ended 31 December 2016 *RMB'000*
At beginning of the year	**–**
Addition	**243,076**
Share of post-tax profit	**3,548**
At end of the year	**246,624**

On 24 May 2016, the Group acquired 36.38% of equity interest in Jilin Wenhui, a company incorporated in the PRC and of which principal businesses comprised of manufacturing, sales and research and development of hollow capsules in the PRC. The Directors of the Company are of the view that the investment in Jinlin Wenhui allows the Company to better integrate the Group's commercial and production resources in the northeastern region of PRC and leverage the advantage to achieve better efficiency and future development.

The total cost of the investment was RMB243,076,000, consisting of: (1) RMB 27,031,000 in cash; (2) 400,000,000 shares of the Company valued of RMB 215,788,000 issued to the vendor (Note 19) and the excess of the monetary value over the nominal value of the share issued amounting to RMB213,169,000 was accounted for as share premium (Note 20); and (3) the transaction cost of RMB257,000. Upon completion of the acquisition (the "Acquisition"), Jilin Wenhui has become an associate of the Group.

With the assistance of external professional experts, management performed the fair value assessment for allocation of the purchase price in respect of the investment in Jilin Wenhui at the acquisition date. Based on the assessment, the Group's investments in Jilin Wenhui include a goodwill of RMB199,868,000 identified from the Acquisition, which was attributable to the synergy expected from the integration of the Group's commercial and production resources in the north-eastern region of the PRC.

Jilin Wenhui is a private company and there is no quoted market price available for its shares.

There are no commitments and contingent liabilities relating to the Group's interests in the associate, and no contingent liabilities of the associate itself.

11. Investment in an associate *(continued)*

Summarised financial information for associates

Set out below are the summarised financial information for Jilin Wenhui, which are accounted for using equity method.

Summarised balance sheet

	As at 31 December 2016 *RMB'000*
Current	
Cash and cash equivalents	1,581
Other current assets (excluding cash)	54,997
Total current assets	56,578
Trade and other payables	76,252
Other current liabilities	26,458
Total current liabilities	102,710
Non-current	
Intangible assets	183,315
Other non-current assets	20,038
Total non-current assets	203,353
Non-current liabilities	28,700
Total non-current liabilities	28,700
Net assets	128,521

Notes to the Consolidated Financial Statements

11. Investment in an associate *(continued)*

Summarised statement of comprehensive income

	Year 2016 starting from acquisition date *RMB'000*
Revenue	54,180
Cost of sales	(27,691)
Selling and marketing expenses	(10,592)
Administrative expenses	(1,722)
Financial expenses – net	(634)
Other income	19
Profit before income tax	13,560
Income tax expense	(3,808)
Profit and total comprehensive income	9,752

The information above reflects the amounts presented in financial statements of the associate (and not the Group's share of those amounts). The associate has adopted accounting policies which are consistent with the Group's significant accounting policies.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the associate.

	As at 31 December 2016 *RMB'000*
Opening net assets as at acquisition date	118,769
Profit for the year starting from acquisition date	9,752
Closing net assets	128,521
Interest in an associate (36.38%)	46,756
Goodwill	199,868
Carrying value	246,624

12. Prepayment for construction in progress

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Prepayment for construction in progress	**25,426**	–

On 30 August 2016, the Group entered into two construction agreements with third party construction companies for the construction of a logistics centre located in northeastern region of the PRC for an approximate aggregate consideration of RMB201,243,000. The logistics centre is expected to be completed in the second half of year 2017. As at 31 December 2016, the construction in progress based on the estimated stage of completion was RMB121,928,000 (Note 6). The prepayment to one construction company and payable to another construction company as at 31 December 2016 were RMB25,426,000 and RMB47,354,000 (Note 23(c)) based on the respective progress of work and payment arrangement. As at 31 December 2016, the Group has a further estimated capital commitment of RMB53,889,000 to be paid in year 2017 in order to complete the construction work in accordance with the total contract consideration (Note 32(b)).

13. Deferred income tax

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Deferred tax assets:		
– Deferred tax assets to be recovered within 12 months	**12,862**	19,297
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**(36,138)**	(41,287)
– Deferred tax liabilities to be recovered within 12 months	**(5,144)**	(5,298)
	(41,282)	(46,585)

Notes to the Consolidated Financial Statements

13. Deferred income tax *(continued)*

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

Deferred tax assets	Accrual for employee payroll	Accrual for sales commissions	Deferred advertising expenses	Provision	Tax Loss	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As 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
As at 31 December 2015	14,073	1,344	3,531	349	–	19,297
As at 1 January 2016	**14,073**	**1,344**	**3,531**	**349**	**–**	**19,297**
(Charged)/credited to the consolidated statement of comprehensive income	**(4,314)**	**(40)**	**(2,981)**	**–**	**900**	**(6,435)**
As at 31 December 2016	**9,759**	**1,304**	**550**	**349**	**900**	**12,862**

Deferred tax liabilities	Deferred tax liabilities arising from business combination	Accrual for interest income	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2015	(50,698)	–	(50,698)
(Charged)/credited to the consolidated statement of comprehensive income	4,830	(717)	4,113
At 31 December 2015	(45,868)	(717)	(46,585)
At 1 January 2016	**(45,868)**	**(717)**	**(46,585)**
(Charged)/credited to the consolidated statement of comprehensive income	**5,722**	**(419)**	**5,303**
At 31 December 2016	**(40,146)**	**(1,136)**	**(41,282)**

13. Deferred income tax *(continued)*

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The group did not recognise deferred income tax assets of RMB18,431,000 (2015: RMB12,795,000) in respect of losses amounting to RMB85,806,000 (2015: RMB94,721,000) that can be carried forward against future taxable income. Losses amounting to RMB3,601,000 (2015: nil) will be expired in 2021 respectively.

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 2016, no provision for withholding tax has been made (2015: nil), as unremitted earnings of those subsidiaries in mainland China are not expected to be distributed in the foreseeable future. Unremitted earnings amounted to RMB1,368,064,000 (2015: RMB1,425,713,000) as at 31 December 2016, respectively.

14. Financial instruments by category

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Loans and receivables		
Trade and other receivables excluding prepayments	**286,233**	333,332
Restricted cash	**217,131**	227,414
Cash and cash equivalents	**1,107,329**	1,333,320
	1,610,693	1,894,066
Financial liabilities at amortised cost		
Trade and other payables	**303,265**	300,936
Borrowings	**154,550**	166,920
	457,815	467,856

Notes to the Consolidated Financial Statements

15. Trade and other receivables

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables *(a)*		
– Due from third parties	**165,012**	248,207
– Due from related parties *(Note 33(b))*	**474**	469
	165,486	248,676
Prepayments		
– Prepayments to third parties	**209,082**	56,776
– Tax input credits	**48,720**	51,245
– Prepayments to related parties *(Note 33(b))*	**1,500**	1,500
	259,302	109,521
Other receivables		
– Loans granted to third parties *(c)*	**105,000**	–
– Deposits	**9,109**	10,907
– Interest receivable	**1,504**	–
– Due from related parties *(Note 33(b))*	**–**	67,517
– Others	**6,908**	8,006
	122,521	86,430
Trade and other receivables	**547,309**	444,627
Less: Provision for impairment *(d)*	**(1,774)**	(1,774)
Trade and other receivables – net	**545,535**	442,853

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

Notes to the Consolidated Financial Statements

15. 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	
	2016	2015
	RMB'000	*RMB'000*
Up to 3 months	**152,801**	229,920
4 to 6 months	**4,559**	5,813
7 to 12 months	**8,126**	12,943
	165,486	248,676

As at 31 December 2016 and 2015, the trade receivables of RMB12,685,000 and RMB18,756,000 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	
	2016	2015
	RMB'000	*RMB'000*
Past due up to 3 months	**4,559**	5,813
Past due 4 to 9 months	**8,126**	12,943
	12,685	18,756

Notes to the Consolidated Financial Statements

15. Trade and other receivables *(continued)*

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**528,782**	429,733
HKD	**16,753**	13,120
	545,535	442,853

(c) Loans granted to third parties are unsecured, interest bearing at 3.5% per annum and repayable within one year.

(d) As of 31 December 2016, other receivables of RMB1,774,000 (2015: RMB1,774,000) were impaired. Movements on the Group's allowance for impairment of other receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
As at 1 January and 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.

16. Inventories

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finished Goods	**391,756**	398,605

For the year ended 31 December 2016, the cost of inventories recognised as expense and included in cost of sales amounting to RMB2,488,673,000 (2015: RMB3,439,429,000) (Note 25).

Notes to the Consolidated Financial Statements

17. Restricted cash

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Restricted cash	**217,131**	227,414

The balance of the restricted cash was secured for bank borrowings and notes payable. As at 31 December 2016, the amount of trade finance facilities utilised by the Group for bank borrowings amounting to RMB150,000,000 (2015: RMB150,000,000) (Note 22(a)) and issuing notes payable to its suppliers amounting to RMB67,131,000 (2015: RMB77,414,000) (Note 23(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 1.43% to 3.05% (2015: 1.30% to 2.74%) per annum as at 31 December 2016.

18. Cash and cash equivalents

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cash on hand	**5,678**	1,025
Cash at bank	**1,101,651**	1,332,295
Total	**1,107,329**	1,333,320

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

As at 31 December 2016 and 2015, the cash and bank denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**1,100,083**	1,326,605
HKD	**6,954**	6,562
USD	**292**	152
MOP	**–**	1
Total	**1,107,329**	1,333,320

Notes to the Consolidated Financial Statements

19. Share capital

	Number of ordinary shares	Nominal value of ordinary shares *USD*
Authorised:		
Ordinary shares of USD0.001 each as at 31 December 2016 and 2015	10,000,000,000	10,000,000

Issued and fully paid:

	Number of ordinary shares	Nominal value of ordinary shares *USD*	Equivalent nominal value of ordinary shares *RMB'000*
At 1 January 2015, and 31 December 2015	2,000,000,000	2,000,000	12,259
Shares issued	400,000,000	400,000	2,619
At 31 December 2016	2,400,000,000	2,400,000	14,878

Note: On 24 May 2016, the Group issued 400,000,000 shares at nominal value of USD0.001 per share to the vender in respect to the investment in Jilin Wenhui as part of the purchase consideration. The ordinary shares issued have the same right as the other shares in issue. The fair value of the shares issued amounted to HK$256,000,000 (HK$0.64 per share), equivalent to RMB215,788,000 (Note 11).

Notes to the Consolidated Financial Statements

20. Reserves

	Note	Share premium RMB'000	Capital reserves RMB'000	statutory reserves RMB'000 (Note (a))	Shares held for Share Award Plan RMB'000 (Note 21(b))	Share-based compensation reserves RMB'000 (Note 21(b))	Other reserves RMB'000	Total RMB'000
Balance at 1 January 2015		1,480,656	(154,447)	60,182	(39,780)	8,853	–	1,355,464
Dividends distribution		(74,926)	–	–	–	–	–	(74,926)
Shares granted for Share Award Plan	21(b)	–	–	–	39,780	25	–	39,805
Profit appropriation to statutory reserves	(a)	–	–	4,877	–	–	–	4,877
Currency translation differences		–	–	–	–	–	(5,551)	(5,551)
Balance at 31 December 2015		1,405,730	(154,447)	65,059	–	8,878	(5,551)	1,319,669
Balance at 1 January 2016		**1,405,730**	**(154,447)**	**65,059**	**–**	**8,878**	**(5,551)**	**1,319,669**
Issuance of ordinary shares		**213,169**	**–**	**–**	**–**	**–**	**–**	**213,169**
Currency translation differences		**–**	**–**	**–**	**–**	**–**	**(7,938)**	**(7,938)**
Balance at 31 December 2016		**1,618,899**	**(154,447)**	**65,059**	**–**	**8,878**	**(13,489)**	**1,524,900**

Notes:

(a) 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, providing that such reserve is maintained at a minimum of 25% of the companies registered capital.

As at 31 December 2016, all profitable companies have reached 50% of the registered capital. According to the relevant PRC laws and regulations, there is no statutory requirement for these companies to appropriate statutory reserve any more.

Notes to the Consolidated Financial Statements

21. Share-based payments

(a) Share Option Scheme

The Company's Share Option Scheme was approved for adoption on 18 November 2013 for the purpose to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to contribute for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company, as well as for such other purposes as the Board may approve from time to time. The Share Option Scheme remains in force for a period of 10 years until 17 November 2023.

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

(b) Share Award Plan

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

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

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

During the year ended 31 December 2015, the Company granted an aggregate of 16,993,000 shares to an aggregate of 13 grantees without consideration. As of 31 December 2015, no remaining shares were held by the trust for the purpose of the Share Award Plan.

During the year ended 31 December 2016, no shares were awarded under the Share Award Plan. As of 31 December 2016, no shares were held by the trust for the purpose of the Share Award Plan.

22. Borrowings

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current		
Short-term bank borrowings – secured	**154,550**	166,920

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Group's assets		
– Restricted cash (i)	**150,000**	150,000
– Buildings and land use rights (ii)	**–**	45,951
Related party's assets		
– Buildings and land use rights (ii)	**–**	7,260
	150,000	203,211

(i) As at 31 December 2016, bank borrowings amounting to RMB154,550,000 (2015: 150,000,000) are secured by restricted cash of RMB150,000,000 (2015: RMB150,000,000) (Note 17).

(ii) The respective borrowings were repaid by the Group during the year ended 31 December 2016 and the secured assets were released accordingly.

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 1 year	**154,550**	166,920

(c) As at 31 December 2016 and 2015, there is no undrawn borrowing facilities of the Group.

Notes to the Consolidated Financial Statements

22. Borrowings *(continued)*

(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	
	2016	2015
	RMB'000	*RMB'000*
Bank borrowings		
– fixed rates	**154,550**	150,000
– floating rates	**–**	16,920
	154,550	166,920

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bank borrowings	**2.76%**	3.57%

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

23. Trade and other payables

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables *(a)*		
– Due to third parties	**164,377**	184,541
	164,377	184,541
Notes payable *(b)*	**66,129**	94,662
Other payables *(c)*	**141,420**	94,261
Total	**371,926**	373,464

Notes to the Consolidated Financial Statements

23. Trade and other payables *(continued)*

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Up to 3 months	**156,546**	183,468
4 to 6 months	**6,362**	1,051
7 to 12 months	**540**	1
1 year to 2 years	**929**	21
	164,377	184,541

(b) As at 31 December 2016, the entire balance of notes payable was secured by restricted cash of RMB67,131,000 (2015: RMB77,414,000) (Note 17).

(c) Details of other payables are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Salary and welfare payable	**58,761**	67,480
Constructions in progress payable *(Note 12)*	**47,354**	–
Sales commissions and marketing expenses	**13,365**	12,593
Other taxes	**9,900**	5,048
Dividend payable *(Note *)*	**1,910**	–
Others	**10,130**	9,140
Total	**141,420**	94,261

*Note **

On 24 November 2016, a subsidiary of the Group declared dividends to Jiamusi Jintian Aixin Pharmaceutical Chain Co., Ltd, its 51% shareholder and its non-controlling interests shareholders amounting to RMB5,674,000 and RMB5,452,000, respectively. As at 31 December 2016, the dividends amouting to RMB3,542,000 has been paid to the non-controlling interests shareholder.

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**360,183**	365,114
HKD	**10,705**	7,606
USD	**1,038**	744
	371,926	373,464

Notes to the Consolidated Financial Statements

24. Other losses – net

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Disposals/write-offs of intangible assets	**(7,143)**	–
Loss on disposals of property, plant and equipment	**(1,451)**	(390)
Others	**(49)**	(253)
	(8,643)	(643)

25. Expenses by nature

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Changes in inventories *(Note 16)*	**2,488,673**	3,439,429
Employee benefit expenses *(Note 26)*	**321,359**	332,513
Advertising and other marketing expenses	**217,341**	502,640
Provision for impairment of goodwill *(Note 8)*	**129,139**	108,899
Rental expenses *(Note 6(b))*	**108,969**	103,444
Transportation and related charges	**76,439**	91,461
Depreciation of property, plant and equipment *(Note 6)*	**27,619**	23,376
Amortisation of intangible assets *(Note 8)*	**19,218**	20,200
Other tax expenses	**18,149**	25,692
Office and communication expenses	**10,935**	13,142
Training fee	**8,466**	6,330
License fee of trademarks	**7,260**	6,500
Auditors' remuneration		
– Audit services	**4,531**	4,531
– Non-audit services	**–**	796
Electricity and other utility fees	**4,471**	5,841
Professional fees	**3,387**	9,183
Travelling and meeting expenses	**1,832**	1,713
Amortisation of land use rights *(Note 7)*	**94**	94
Provision for impairment of inventories	**–**	2,675
Other expenses	**4,707**	10,246
	3,452,589	4,708,705

26. Employee benefit expenses

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Salaries and wages	**232,749**	212,886
Contributions to pension plans	**77,156**	71,369
Share-based payment expenses	**–**	39,805
Other benefits	**11,454**	8,453
	321,359	332,513

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2015: four) directors whose emoluments are reflected in the analysis presented in Note 34. The emoluments payable to the remaining two (2015: one) individual during the year are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Salaries and allowance	**1,376**	439
Contributions to pension plans	**31**	25
Awarded shares expenses	**–**	3,359
	1,407	3,823

The emolument paid to the two individuals both fell between RMB500,000 and RMB1,000,000 (2015: one individual fell between RMB3,500,000 and RMB4,000,000).

As at the year ended 31 December 2016, 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 (2015: nil).

Notes to the Consolidated Financial Statements

27. Finance income and costs

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income		
Exchange gains	**9,263**	7,096
Interest income on bank deposits	**9,452**	8,380
	18,715	15,476
Finance costs		
Interest expense on loans	**(5,098)**	(6,144)
Other charges	**(664)**	(732)
	(5,762)	(6,876)
Finance income – net	**12,953**	8,600

28. Income tax expenses

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax – PRC corporate income tax	**23,506**	84,434
Deferred income tax *(Note 13)*	**1,132**	(11,457)
Total income tax expenses	**24,638**	72,977

Notes to the Consolidated Financial Statements

28. 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	
	2016	2015
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(62,680)**	106,851
Tax calculated at a PRC statutory tax rate of 25%	**(15,670)**	26,713
Tax effects of:		
– Expenses not deductible for tax purpose *(Note)*	**31,144**	31,281
– Tax losses for which no deferred income tax asset was recognised	**6,985**	5,089
– Effect of different applicable tax rates for certain subsidiaries	**3,239**	10,161
– Results of joint ventures and an associate reported net of tax	**(1,060)**	(267)
Income tax expenses	**24,638**	72,977

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 2016. 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 years ended 31 December 2016 and 2015 are mainly related to goodwill impairment.

Notes to the Consolidated Financial Statements

29. (Loss)/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 21(b)).

	Year ended 31 December	
	2016	2015
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(87,811)**	31,163
Weighted average number of ordinary shares in issue *(thousands)*	**2,242,623**	1,983,193
Basic (loss)/earnings per share *(RMB cents)*	**(3.92)**	1.57

(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 2016 and 2015, the diluted earnings per share for the years is equal to basic earnings per share.

30. Dividends

No final dividends were declared in respect of the years ended 31 December 2016 and 2015. No interim dividend was declared for the six months ended 30 June 2016. The interim dividend paid in 2015 was RMB24,593,000 (HK1.5 cents per share), which excluded the dividend of RMB211,000 related to the shares held for the purpose of the Share Award Plan for the six months ended 30 June 2015.

Notes to the Consolidated Financial Statements

31. Cash generated from operations

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(87,318)**	33,874
Adjustments for:		
– Income tax expenses *(Note 28)*	**24,638**	72,977
– Depreciation of property, plant and equipment *(Note 6)*	**27,619**	23,376
– Amortisation of land use rights *(Note 7)*	**94**	94
– Amortisation of intangible assets *(Note 8)*	**19,218**	20,200
– Loss on disposals of property, plant and equipment *(Note 24)*	**1,451**	390
– Disposal/write-offs of intangible assets *(Note 24)*	**7,143**	–
– Share-based payments	**–**	39,805
– Impairment of goodwill *(Note 25)*	**129,139**	108,899
– Impairment of inventories	**–**	2,675
– Impairment of prepayment for intangible assets	**–**	2,103
– Finance income – net *(Note 27)*	**(12,953)**	(8,600)
– Share of post-tax profits of joint ventures *(Note 10)*	**(691)**	(1,066)
– Share of post-tax profit of an associate *(Note 11)*	**(3,548)**	–
Changes in working capital:		
– Increase/(decrease) in inventories	**6,849**	(38,340)
– Increase/(decrease) in trade and other receivables	**4,043**	(17,918)
– (Decrease)/increase in trade and other payables	**(50,147)**	2,081
Cash generated from operations	**65,537**	240,550

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net book amount *(Note 6)*	**1,867**	441
Loss on disposals of property, plant and equipment *(Note 24)*	**(1,451)**	(390)
Proceeds from disposal of property, plant and equipment	**416**	51

Notes to the Consolidated Financial Statements

32. 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	
	2016	2015
	RMB'000	*RMB'000*
No later than 1 year	**74,715**	56,531
Later than 1 year and no later than 5 years	**35,925**	30,631
More than 5 years	**–**	130
	110,640	87,292

(b) Capital commitments

Capital expenditure constructed for at the end of the year but not yet incurred is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Warehouse construction *(Note 12)*	**53,889**	–

33. Related-party transactions

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

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

Notes to the Consolidated Financial Statements

33. Related-party transactions *(continued)*

(a) Transactions with related parties

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Sales of goods	**5,772**	5,641
Operating lease	**3,000**	1,500
Purchases of services	**445**	117
Purchases of goods	**–**	15,648
Use of trademarks	**–**	474

(b) Balances with related parties

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Prepayment of rental expenses *(Note 15)*	**1,500**	1,500
Trade receivables *(Note 15)*	**474**	469
Other receivables *(Note 15)*	**–**	67,517

(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	
	2016	2015
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**4,348**	6,039
Post-employment benefits	**73**	158
Share-based payments	**–**	21,327
	4,421	27,524

Notes to the Consolidated Financial Statements

33. Related-party transactions *(continued)*

(d) Related-party collateral

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Shareholder's buildings and land use rights *(Note 22(a)(ii))*	**–**	7,260

34. 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 2016

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 a retirement benefit scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Jin Dongtao	367	500	–	–	14	881
Mr. Chu Chuanfu**	367	260	–	–	14	641
Mr. Jin Dongkun	367	258	–	–	14	639
Mr. Zhao Zehua	208	183	–	–	–	391
Mr. Cheng Sheung Hing*	208	–	–	–	–	208
Ms. Chiang Su Hui Susie*	208	–	–	–	–	208
Ms. Hao Jia*	208	–	–	–	–	208
	1,933	1,201	–	–	42	3,176

Notes to the Consolidated Financial Statements

34. Benefits and interests of directors *(continued)*

Directors' and chief executive's emoluments *(continued)*

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 a retirement benefit 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	114	136	100	3,359	–	3,709
Mr. Yang Jiacheng (i)	98	69	–	–	4	171
Mr. Cheng Sheung Hing*	195	–	–	–	–	195
Ms. Chiang Su Hui Susie*	195	–	–	–	–	195
Ms. Hao Jia*	106	–	–	–	–	106
Mr. Chen Xiao* (ii)	98	–	–	–	–	98
	3,245	1,089	700	17,967	49	23,050

* represent the independent non-executive directors.

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

(i) Mr. Yang Jiacheng resigned as the executive director from 16 June 2015

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

For the year ended 31 December 2016 and 2015, no housing allowance, estimated money value of other benefits, remunerations paid or receivable in respect of accepting office as directors, emoluments paid or receivable in respect of directors' 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

35. Balance sheet and reserve movement of the Company

Balance sheet of the Company

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries		58,533	58,533
Loans to subsidiaries		125,145	130,190
Total non-current assets		183,678	188,723
Current assets			
Other receivables		727,510	501,711
Cash and cash equivalents		2,824	2,381
Total current assets		730,334	504,092
Total assets		914,012	692,815
EQUITY			
Equity attributable to owners of the Company			
Share capital		14,878	12,259
Reserves	a	983,680	770,511
Accumulated losses	a	(115,599)	(107,494)
		882,959	675,276
Total equity		882,959	675,276
Current liability			
Other payables		31,053	17,539
Total liabilities		31,053	17,539
Total equity and liabilities		914,012	692,815

The balance sheet of the Company was approved by the Board of Directors on 23 March 2017 and was signed on its behalf.

Jin Dongtao
Director

Zhao Zehua
Director

35. 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*	Other reserves (Note*) *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2015	1,480,656	(39,780)	–	(635,244)	(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	1,405,730	–	25	(635,244)	(107,494)	663,017
Balance at 1 January 2016	**1,405,730**	**–**	**25**	**(635,244)**	**(107,494)**	**663,017**
Loss for the year	**–**	**–**	**–**	**–**	**(8,105)**	**(8,105)**
Issuance of ordinary shares	**213,169**	**–**	**–**	**–**	**–**	**213,169**
Balance at 31 December 2016	**1,618,899**	**–**	**25**	**(635,244)**	**(115,599)**	**868,081**

Note*: Other reserves represent the deemed distribution upon the Group reorganisation for listing.

36. Subsequent events

The Group has entered into a memorandum with independent third parties (the "Seller") in relation to the acquisition of 51% equity interest in a company established in the PRC, which is principally engaged in retail business in northeastern region of the PRC. Subsequent to the year end, the commercial conditions of the acquisition pre-determined in the memorandum have been substantially fulfilled. A sale and purchase agreement ("SPA") will be signed between the Group and the Seller subject to the determination of purchase consideration is finalised. As at the date that the consolidated financial statements are approved, the transaction contemplated under the memorandum has not been completed.

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				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**3,378,719**	4,805,855	4,355,842	3,323,499	2,326,292
Gross profit	**874,086**	1,340,575	1,267,460	936,418	545,769
(Loss)/profit before income tax	**(62,680)**	106,851	682,085	519,846	305,880
Income tax expenses	**(24,638)**	(72,977)	(178,744)	(134,786)	(78,517)
(Loss)/profit for the year	**(87,318)**	33,874	503,341	385,060	227,363
(Loss)/profit attributable to:					
Owners of the Company	**(87,811)**	31,163	472,724	355,103	213,760
Non-controlling interests	**493**	2,711	30,617	29,957	13,603
	(87,318)	33,874	503,341	385,060	227,363

Assets, Liabilities And Non-controlling Interests

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**3,302,839**	3,207,944	3,413,865	2,744,231	1,515,146
Total liabilities	**(569,389)**	(589,574)	(788,697)	(288,455)	(886,988)
Non-controlling interests	**(24,761)**	(29,720)	(27,009)	(100,884)	(79,377)
Equity attributable to owners of the Company	**2,708,689**	2,588,650	2,598,159	2,354,892	548,781