AliHealth
阿里健康

ALIBABA HEALTH
Information Technology Limited
阿里健康信息技術有限公司

(Incorporated in Bermuda with limited liability)
Stock code: 00241

ANNUAL REPORT 2017

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director
Mr. WANG Lei *(Chief Executive Officer)*

Non-executive Directors
Mr. WU Yongming *(Chairman)*
Mr. TSAI Chung, Joseph
Ms. HUANG Aizhu
Mr. KANG Kai

Independent Non-executive Directors
Mr. YAN Xuan
Mr. LUO Tong
Mr. WONG King On, Samuel

Audit Committee
Mr. WONG King On, Samuel *(Chairman)*
Mr. YAN Xuan
Mr. LUO Tong

Remuneration Committee
Mr. YAN Xuan *(Chairman)*
Mr. WU Yongming
Mr. WONG King On, Samuel

Nomination Committee
Mr. WU Yongming *(Chairman)*
Mr. LUO Tong
Mr. WONG King On, Samuel

AUTHORIZED REPRESENTATIVES
Mr. WANG Lei
Ms. LEW Aishan, Nicole

COMPANY SECRETARY
Ms. LEW Aishan, Nicole

LEGAL ADVISORS
Freshfields Bruckhaus Deringer
H. M. Chan & Co in association with Taylor Wessing

AUDITOR
Ernst & Young
Certified Public Accountants

REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
26/F, Tower One
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR (IN BERMUDA)
Estera Management (Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

BRANCH SHARE REGISTRAR (IN HONG KONG)
Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
China CITIC Bank International Limited
The Hongkong and Shanghai Banking Corporation Limited
China Merchants Bank Co., Ltd.

COMPANY WEBSITE
www.irasia.com/listco/hk/alihealth/

CHAIRMAN'S STATEMENT

Dear Shareholders,

As the healthcare flagship of Alibaba Group Holding Limited ("Alibaba Holding", together with its subsidiaries, "Alibaba Group"), Alibaba Health Information Technology Limited (the "Company") and its subsidiaries (the "Group") have been committed to developing Internet technology and establishing a service ecology platform to provide industry partners with technical capabilities such as big data, cloud computing, artificial intelligence and Internet of Things, as well as service capabilities such as operational, quality control and customer service capabilities.

With our mission of "making good health achievable at the fingertips" and our vision of "facilitating medicines through big data and using the internet to change the face of healthcare, to provide fair, affordable and accessible medical and healthcare services to 1 billion people", the Group has worked hard to develop its pharmaceutical e-commerce, intelligent medicine and product tracking system services businesses during the financial year ended March 31, 2017.

Compared to China's huge pharmaceutical market, pharmaceutical e-commerce in China is still at a nascent stage of development, with pharmaceutical e-commerce making up only approximately 3% of pharmaceutical sales in China, which means there is still huge potential for its development. In addition, China's retail pharmacies are currently undergoing an upgrade and transformation through chain operation, e-commerce, supply chain optimization and greater service specialization.

The Group aspires to create an Internet-based drug distribution and sales system that covers the entire industry chain, thereby enhancing the efficiency of the healthcare product supply chain and bringing benefits to all market participants and consumers. It commenced its own pharmaceutical e-commerce business this year, and leveraging on its operational branding strengths and owing to the efficient execution of its business team, the Group quickly established the supporting systems for warehousing, logistics and customer services. This has facilitated the rapid growth of its pharmaceutical e-commerce business. The Group also commenced the provision of merchants' business development, merchant customer services, technical support and other outsourced and value-added services for certain pharmaceutical-related categories on the Tmall platform in consideration for relevant service fees received from Tmall. In addition, the Group began to develop centralized procurement and distribution operations for the pharmaceutical supply chain, starting by analyzing circulation data at the supply chain upstream to better provide quality products at competitive prices to downstream businesses. At the same time, the Group also rolled out a new online and offline integrated retail channel covering the full chain by combining B2C and O2O businesses.

In relation to intelligent medicine, the Group actively organized the provision of online health consultation services by pharmaceutical professionals through end-user applications such as the Ali Health mobile application, and the Taobao, Tmall and Alipay mobile applications, allowing users to easily obtain real-time professional guidance. The Group has also actively established a personal health management platform through which personal health reports are compiled using smart devices and artificial intelligence engines, and personalized health management services can be provided to users.

CHAIRMAN'S STATEMENT

The PRC government has implemented a number of healthcare reform initiatives to encourage tiered medical consultation and treatment and doctors to practise at multiple locations. The Group will continue to actively explore the construction of an Internet-based tiered medical service network through the Internet hospital model, to facilitate optimization of medical resource allocation by medical institutions. Furthermore, the Group has invested significant manpower and other resources towards the integration of online and offline medical data, and is cooperating with quality hospitals and experts in the medical sector to develop artificial intelligence medical analysis engines and to actively explore technology extension and product forms for intelligent medicine, with the aim of helping medical institutions to enhance their efficiency in terms of technological research, operation and diagnosis. Meanwhile, the Group is also exploring investment opportunities in these areas. The Group, together with those who share our vision, will explore the creation of personalized electronic health records for the public through the application of Internet technology and artificial intelligence, to promote integrated healthcare services covering prevention, treatment, rehabilitation and health management throughout the full life cycle.

In relation to the construction of our product tracking system, in addition to our continued operation of the product identification, authentication and tracking system for the drug industry ("Drug PIATS") under the policy guidance of the China Food and Drug Administration, the Group has leveraged on its prior accumulated technical and operational experience and launched its *Ma Shang Fang Xin (碼上放心)* tracking platform, which offers product tracking and related value-added services to help manufacturers properly establish product tracking systems and realize quality assurance and marketing control, and to provide consumers with a terminal tool for scanning codes to trace product origin. As at the end of the year ended March 31, 2017, more than 5,000 enterprises from the drug, food and nutritional supplement industries had signed up with the Group to join its *Ma Shang Fang Xin* platform, among which the number of pharmaceutical manufacturers which signed up accounted for more than half of the total number of pharmaceutical manufacturers in China.

With strong support from Alibaba Group and our ongoing investment in the expansion of strategic businesses and in nurturing talent, we believe that the Group is well-positioned to satisfy the considerable demand in China's healthcare market and that our business will maintain strong growth in the next few years. Finally, I would like to take this opportunity to express my sincere gratitude to our shareholders, business partners, product users, and all of our staff for their long and unwavering support.

WU Yongming
Chairman

May 16, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As the healthcare flagship of Alibaba Group Holding Limited ("Alibaba Holding", together with its subsidiaries, "Alibaba Group"), the Company (together with its subsidiaries, the "Group") has made solid progress in its strategic deployment and business development in the medical and healthcare sector during the year ended March 31, 2017. The Group is committed to providing Internet technology, service tools and platforms to industry partners, with the aim of providing accessible and affordable medical and healthcare services to the public so as to make good health achievable at the fingertips. To achieve this objective, the Group has worked hard to develop its pharmaceutical e-commerce business, as well as to explore intelligent medicine, provide product tracking system services, and to generally enhance the operating efficiency of its businesses. For a description of the principal risks and uncertainties facing the Group, please refer to the table headed "4. List of Important Risks" in the section headed "Risk Management and Internal Control" in this report.

- **Pharmaceutical e-commerce business**

  The Group aspires to create an Internet-based drug distribution and sales system that covers the entire industry chain, thereby enhancing the efficiency of the healthcare product supply chain and bringing benefits to all market participants and consumers. Total revenue from the pharmaceutical e-commerce business for the year ended March 31, 2017 amounted to RMB378.8 million.

  Following the acquisition of the entire equity interest in Guangzhou Wu Qian Nian Pharmaceutical Chain Co., Ltd.^ (廣州五千年醫藥連鎖有限公司) (subsequently renamed as "Alibaba Health Pharmaceutical Chain Co., Ltd.^" (阿里健康大藥房醫藥連鎖有限公司), hereinafter "Ali Health Pharmacy") on August 16, 2016, the Group promptly commenced its own pharmaceutical e-commerce business. Leveraging on its operational branding strengths and owing to the efficient execution of its business team, the Group quickly established the supporting systems for warehousing, logistics and customer services. This has facilitated the rapid growth of the Group's pharmaceutical e-commerce business, which has quickly grown into an important source of revenue for the Group at this stage.

  On September 13, 2016, the service agreement entered into between the Group and Zhejiang Tmall Technology Co., Ltd and Zhejiang Tmall Network Co., Ltd (together, the "Tmall Entities") dated August 24, 2016 became effective. Pursuant to the service agreement, the Group commenced the provision of merchants' business development, merchant customer services, technical support and other outsourced and value-added services for certain pharmaceutical-related categories (including over-the-counter drugs, medical devices, contact lenses and solutions, sexual health and family planning products, medical services and other categories) on the Tmall platform in consideration for a service fee payable by the Tmall Entities to the Group. The service fee is equivalent to 21.5% of the fees paid by the merchants to the Tmall Entities and their affiliates in respect of the value of completed sales of products or services under the relevant categories on Tmall. In tandem with the ongoing growth of Tmall's pharmaceutical categories' e-commerce business, the said service agreement has become a steady and fast-growing source of revenue for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Furthermore, the Group took the lead to form a Chinese pharmaceutical online to offline ("O2O") pioneer alliance, which covers more than 20,000 pharmacy outlets in over 100 cities in China through cooperation with more than 200 offline pharmaceutical chains. The Group will actively explore various models to empower merchants and realize mutual growth and benefits with the creation of a new retail model for healthcare products and services that integrates online and offline to provide end-consumers with greater diversity of products and convenience of services. During the year ended March 31, 2017, the Group also began to develop centralized procurement and distribution operations for the pharmaceutical supply chain, by utilizing users' big data at the supply chain upstream to better provide quality products at competitive prices to downstream businesses.

Future prospects

China's healthcare market is characterized by greatly dispersed healthcare product distributors and an excessively long supply chain, which leaves much to be desired in terms of efficiency enhancement. The Group is committed to enhancing the transparency and efficiency of the healthcare product supply chain through the use of Internet-based solutions for the benefit of all market participants and consumers. The Group will continue with its efforts to develop a more efficient drug distribution network, enhance user experience through technology-driven initiatives and business model innovations, as well as optimise the end-to-end industry chain, in a bid to build the best platform and offer the most comprehensive services possible for both businesses and consumers.

- **Intelligent medicine**

During the year, the Group actively organized the provision of online health consultation services in various areas and at multiple levels by certified doctors, pharmacists and other third-party professionals via end-user applications such as the Ali Health mobile application, and the Taobao, Tmall and Alipay mobile applications, allowing users to easily obtain real-time professional guidance. During the year ended March 31, 2017, the Group provided an aggregate of over 6 million sessions of online medical healthcare consultation services. Meanwhile, the Group actively explored cooperation with various local medical institutions to develop remote medical services through the same online consultation channel, with the aim of building an Internet-based tiered medical service network to provide personalized medical services for users. The Group actively set up a personal health management platform to facilitate the integration of online and offline medical health data to generate personal health profiles, which would enable the provision of personalized medical services and total health cycle management to users. For example, under the "intelligent care program" (智能關愛計劃) launched by the Group, health trend reports (which incorporate remote guidance from doctors as appropriate) are generated automatically based on users' physical indicators (such as blood sugar, blood pressure, weight and temperature, etc) which are recorded and uploaded on a timely basis through the use of intelligent healthcare devices. Furthermore, the Group has invested significant manpower and other resources towards the integration of online and offline medical data, and is cooperating with quality hospitals and medical experts in the medical sector to gradually develop an artificial intelligence medical platform and core intelligent analysis engines for future hospitals. At the same time, the Group is also actively exploring investment opportunities in the sector and leveraging off its strong capability in cloud computing and medical big data extraction and analysis, to enhance the variety of medical services provided and to deploy big data. This will lay a solid foundation for further development of personal health profiles and other personalized businesses in the future.

Future prospects

The PRC government has implemented a number of healthcare reform initiatives to encourage tiered medical consultation and treatment and doctors to practise at multiple locations. The Group will continue to actively explore the construction of an Internet-based tiered medical service network through the Internet hospital model, to provide personalized medical services to users. The Internet, big data and various innovative technologies have given rise to more new opportunities for the solution of issues in the medical and healthcare sector. The Group will continue to improve its health management platform, with a view to providing round-the-clock health management services to consumers for their full life cycle. Going forward, together with those who share our vision, we will explore the creation of personalized electronic health records for the public through the use of big data analysis and application, to promote integrated healthcare services covering prevention, treatment, rehabilitation and health management throughout the full life cycle. The Group will also continue to work with hospitals, local governments and pharmaceutical enterprises across the nation to develop more intelligent engines that will improve the efficiency of medical services, as well as actively explore technology extension and product forms for intelligent medicine.

- **Product tracking platforms**

Pursuant to the relevant regulations of the China Food and Drug Administration (the "CFDA"), the responsibility for developing safety tracking systems for food and drug products rests with enterprises engaged in the manufacturing of such products. The government also encourages and supports other companies to provide technical support for the product safety tracking systems of food and drug manufacturers. As the operator of the product identification, authentication and tracking system for the drug industry (the "Drug PIATS"), the Group carried on with the proper operation of the Drug PIATS during the year ended March 31, 2017. At the same time, the Company also leveraged on its prior accumulated technical and operational experience and launched its *Ma Shang Fang Xin* tracking platform, offering product tracking and related value-added services, to help manufacturers properly establish their product tracking systems as required by the CFDA and to realize quality assurance and marketing control. By leveraging on the strong computational and data processing capacity of Alibaba Cloud, the platform is capable of processing mega-sized big data and supporting several hundred thousand corporate users at the same time with its sound compatibility, accessibility and security. The customer base of the Company's *Ma Shang Fang Xin* platform has expanded beyond the drug industry to cover non-drug industries such as food, agricultural products and nutritional supplements. A number of food and agricultural product conglomerates, notably Charoen Pokphand (also known as Chia Tai) Group, are also working with the Group to explore opportunities for in-depth cooperation in multiple areas. As at the end of the year ended March 31, 2017, more than 5,000 enterprises from the drug, food and nutritional supplement industries had signed up with the Group to join its *Ma Shang Fang Xin* platform, among which the number of pharmaceutical manufacturers which signed up accounted for more than half of the total number of pharmaceutical manufacturers in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Future prospects

The use of electronic tracking systems is an important means adopted by the PRC government to strengthen the administration of key products, such as drugs and food. The PRC government continues to require enterprises to take primary responsibility for establishing tracking systems for their products. Leveraging on the experience it has accumulated in platform operations, the Company will continue to develop tracking system platforms and work with enterprises, industry associations and the government to build a healthcare ecosystem, so as to expand the functionality of tracking platform services, promote further industry development and uphold public health.

In line with our vision of facilitating medicines through big data and using the internet to change the face of healthcare, we are actively making deployments in the areas of intelligent medicine and artificial intelligence. Currently, the Group is working with the government, hospitals, research institutes and colleges and other third parties in areas such as medical data research platforms, e-medical records, cloud-based remote imaging platforms and intelligent diagnostic engines. The Group is also closely monitoring investment opportunities in medical data and artificial intelligence, and will continue to actively explore potential opportunities in these areas. In the meantime, the Group's extensive online and offline deployments in the areas of pharmaceutical e-commerce and medical services will not only enhance the development of our new retail model, but will also allow us to build one-stop personal health profiles for users off the back of big data extraction and analysis capabilities. Through these strategic deployments, the Group will be able to build an efficient intelligent medicine platform that integrates online and offline resources, which will help medical institutions in disease management and medical insurance decision-making while enhancing health management for the individual. Ultimately, this will allow for more accessible and affordable pharmaceutical and health services to be made available to the public.

The aging Chinese population, increasing public awareness about health issues and the progress of government-backed medical reforms have combined to create huge opportunities in China's pharmaceutical and healthcare market. Leveraging on the strong support of Alibaba Group and our investments in various strategic businesses and high-calibre talent, we believe that the Group will be favourably positioned to tap into the strong demand in China's pharmaceutical and healthcare market and sustain positive development in the following years.

FINANCIAL REVIEW

The key financial figures of the Group for the year ended March 31, 2017 and March 31, 2016 are summarized as follows:

	2017	2016	Change
	RMB'000	*RMB'000*	*%*
REVENUE	**475,078**	56,595	739.4
Gross profit	**187,243**	37,993	392.8
Gross profit margin	**39.4%**	67.1%	N/A
Fulfilment	**67,768**	—	100.0
Sales and marketing expenses	**113,090**	80,787	40.0
Administrative expenses	**95,740**	91,797	4.3
Product development expenses	**108,580**	76,153	42.6
Other income and gains	**17,354**	14,702	18.0
Other expenses	**24,679**	26,143	(5.6)
Interest on bank loans	**6,886**	—	100.0
Operating loss	**212,146**	222,185	(4.5)
Share of profits of a joint venture	**9,480**	11,892	(20.3)
Share of profits/(losses) of associates	**(4,433)**	13,176	(133.6)
LOSS FOR THE YEAR	**208,653**	198,968	4.9
Net loss attributable to owners of the parent	**207,626**	191,608	8.4
NON-HKFRS ADJUSTMENTS			
Adjusted net loss	**98,329**	161,496	(39.1)

MANAGEMENT DISCUSSION AND ANALYSIS

— Revenue

Revenue of the Group for the year ended March 31, 2017 amounted to approximately RMB475,078,000 (2016: approximately RMB56,595,000), representing an increase by 739.4% as compared to the year ended March 31, 2016. Such revenue was derived from our pharmaceutical e-commerce business and product tracking platform services. The increase in revenue was primarily attributable to rapid growth in our pharmaceutical e-commerce business during the year ended March 31, 2017.

— Pharmaceutical e-commerce business

The Group officially commenced its B2C pharmacy business in September 2016. Since its launch, the business has registered robust growth as a new operation. This business has grown rapidly to become our most important source of revenue in the next stage of the Group's development.

The service agreement between the Group and the Tmall Entities under Alibaba Group officially became effective on September 13, 2016. Pursuant to the service agreement, the Group commenced the provision of merchants' business development, merchant customer services, technical support and other outsourced and value-added services for certain pharmaceutical-related categories on the Tmall platform in consideration for certain service fees. In tandem with the ongoing growth of Tmall's pharmaceutical categories e-commerce business, the said service agreement has become a steady and fast-growing source of revenue for the Group.

The revenue from the pharmaceutical e-commerce business during the year ended March 31, 2017 was RMB378,773,000.

— Product tracking platform services

During the year, the Group continued to provide product tracking platform services to its customers, which include the Drug PIATS and the newly-developed tracking platform known as *Ma Shang Fang Xin*. As the *Ma Shang Fang Xin* platform was just recently launched and is still in its early stages, revenue from our product tracking platform business was still mainly derived from the Drug PIATS. For the year ended March 31, 2017, revenue from the tracking platform business increased by RMB39,710,000 or 70.2% to RMB96,305,000 from RMB56,595,000 for the previous year.

— Gross profit and gross profit margin

The Group reported gross profit of RMB187,243,000 for the year ended March 31, 2017, representing a 392.8% growth as compared to RMB37,993,000 for the previous year. Gross profit margin for the year was 39.4%, as compared to 67.1% for the previous year. The decline in gross profit margin reflected mainly the lower gross profit margin of the pharmaceutical e-commerce business.

	Year ended March 31			
	2017		2016	
	Gross profit *RMB'000*	**Gross profit margin** **%**	Gross profit *RMB'000*	Gross profit margin %
Pharmaceutical e-commerce	**100,983**	**26.7**	—	—
Product tracking platforms	**86,260**	**89.6**	37,993	67.1
Total	**187,243**	**39.4**	37,993	67.1

– Fulfilment

The Group commenced its own pharmaceutical e-commerce business during the year ended March 31, 2017. Warehousing, logistics and customer service expenses relating to such business were included in fulfilment costs.

– Sales and marketing expenses

Sales and marketing expenses for the year ended March 31, 2017 amounted to RMB113,090,000, increasing by RMB32,303,000 or 40.0% as compared to RMB80,787,000 for the preceding year mainly as a result of the increase in labour costs, and travelling and promotional materials expenses for sales and marketing as the Group suitably put in greater effort in marketing to promote its new businesses.

– Administrative expenses

Administrative expenses for the year ended March 31, 2017 amounted to RMB95,740,000, representing an increase of RMB3,943,000 or 4.3% from RMB91,797,000 for the preceding year, which reflected primarily the increase in management share incentive costs.

– Product development expenses

Product development expenses for the year ended March 31, 2017 amounted to RMB108,580,000, representing an increase of RMB32,427,000 or 42.6% as compared to RMB76,153,000 for the preceding year. Such increase reflected mainly increased headcount for the Company's R&D function and higher costs related to share incentives for R&D staff. During the year ended March 31, 2017, the Group recruited more IT engineers to expand its intelligent medicine business, as well as to develop a health management platform and an intelligent medical analysis engine.

– Other income

Other income for the year ended March 31, 2017 amounted to RMB17,354,000, increasing by RMB2,652,000 or 18% as compared to RMB14,702,000 for the preceding year. Such increase reflected mainly the gain from disposal of Guangdong Grand Cycle Technology Company Limited^ (廣東天圖科技有限公司) by the Group during the year.

– Other expenses

Other expenses for the year ended March 31, 2017 amounted to RMB24,679,000, decreasing by RMB1,464,000 or 5.6% as compared to RMB26,143,000 for the preceding year. Other expenses mainly consist of foreign exchange loss from offshore RMB deposits held by the Group, allowance for bad debts and loss on disposal of fixed assets. Such decrease reflected mainly the loss on disposal of fixed assets of RMB2,827,000 for the year ended March 31, 2016 and no such loss recorded for the year ended March 31, 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

— Share of profits of a joint venture

Share of profits of a joint venture represented the share of net operating results of our 49%-owned joint venture, Beijing Honglian 95 Information Industries Company Limited^ (北京鴻聯九五信息產業有限公司) ("HL95")), an enterprise engaged in telecommunications and information value-added services. The share of profits of HL95 for the year ended March 31, 2017 amounted to RMB9,480,000, representing a decrease of RMB2,412,000 or 20.3% as compared to RMB11,892,000 for the preceding year. The decrease in share of profit was mainly attributable to the intensified competition in call center business.

— Share of losses of associates

The Group is actively investing in healthcare sector. For the year ended March 31, 2017, share of losses of associates amounted to RMB4,433,000 because the newly acquired associates are either at the initial stage of business development, or under business transformation.

— Non-HKFRS indicator in relation to loss for the year: Adjusted net loss

For the year ended March 31, 2017, loss for the year of the Group amounted to RMB208,653,000, representing an increase by RMB9,685,000 or 4.9% as compared to RMB198,968,000 for the preceding year, indicating a basically stable level of profit or loss.

For the year ended March 31, 2017, the Group's adjusted net loss amounted to RMB98,329,000, representing a substantial decrease by 39.1% as compared to RMB161,496,000 for the preceding year. The reduction in adjusted net loss was mainly attributable to (i) the increase in gross profit in line with revenue growth; and (ii) effective control over staff costs and administrative expenses.

To supplement the Group's consolidated financial statements under HKFRS, the Group has also reported its adjusted net loss, which is not required under HKFRS or presented in accordance with HKFRS, as an additional indicator for the measurement of our financial performance. We believe that such non-HKFRS indicator is conducive to the comparison of operating performances across different periods and between different companies by eliminating the potential impact of items which are, in the view of the management, not indicative of our operating performance. We believe that such indicator would provide investors and other parties with useful information which would enable them to understand and evaluate our combined operating results in the same manner as our management does. However, the adjusted net loss presented by us may not be comparable to similar indicators presented by other companies. Such non-HKFRS indicator is subject to limitations as an analytical tool and should not be regarded as being independent from or a substitute for the analysis of our operating results or of financial conditions reported under HKFRS.

The figures of adjusted net loss for the years ended March 31, 2017 and 2016 set out in the table below represent adjustments to the most direct and comparable financial indicator computed and presented in accordance with HKFRS (i.e., loss for the year):

	Year ended March 31	
	2017	2016
	RMB'000	*RMB'000*
LOSS FOR THE YEAR	**208,653**	198,968
Excluding		
— Share-based compensation expenses	**110,324**	37,472
Adjusted net loss	**98,329**	161,496

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

The financial position of the Group as at March 31, 2017 and the corresponding comparative figures as at March 31, 2016 are summarized as follows:

	March 31, 2017	March 31, 2016
	RMB'000	*RMB'000*
Current assets	**810,915**	1,035,488
Including		
— cash and cash equivalents (including fixed deposits and mainly denominated in Hong Kong dollar, United States dollar and Renminbi)	**569,860**	1,020,558
— restricted cash	**914**	—
— debtors	**58,118**	11,328
Current liabilities	**353,472**	185,860
Current ratio (current asset/current liabilities)	**2.29**	5.57
Quick ratio (cash and cash equivalents and debtors/current liabilities)	**1.78**	5.55
Shareholders' equity	**1,177,836**	1,221,360
Gearing ratio (bank loans/shareholders' equity)	**N/A**	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

Cash and cash equivalents including fixed deposits held at banks decreased by RMB450,698,000 or 44.2% from RMB1,020,558,000 as at March 31, 2016 to RMB569,860,000 as at March 31, 2017. The decrease was mainly attributable to the investment in associates and the drawdown to finance the operating cash outflow of the Group during the year ended March 31, 2017.

Debtors increased by RMB46,790,000 or 413.0% from RMB11,328,000 as at March 31, 2016 to RMB58,118,000 as at March 31, 2017. Such increase reflected mainly the increase in amounts receivable from customers following the provision of operational services for Tmall platforms under the service agreement and the centralized procurement and distribution business during the year ended March 31, 2017.

The decrease in current and quick ratios as at March 31, 2017 reflected mainly the decrease in cash and cash equivalents described above. The current ratio was 2.29 (March 31, 2016: 5.57) and the quick ratio was 1.78 (March 31, 2016: 5.55).

Shareholders' equity decreased by RMB43,524,000 or 3.6% from RMB1,221,360,000 as at March 31, 2016 to RMB1,177,836,000 as at March 31, 2017, reflecting mainly net loss of the Company for the year.

The balance of the Group's outstanding bank loans as at March 31, 2017 were taken at a fixed interest rate, which amounted to RMB200,000,000. As at March 31, 2017, the amount of the Group's cash and cash equivalents exceeded that of its bank loans and hence no gearing ratio was shown (March 31, 2016: Nil).

The Group's operations and transactions are principally located in the PRC. Other than a certain amount of bank balances and cash, most of the Group's bank balances and cash are placed in fixed deposits and are denominated in Hong Kong dollars and United States dollars, while other assets and liabilities are mainly denominated in either Hong Kong dollars or Renminbi. The Group has changed its presentation currency from HK$ to RMB starting from the year ended March 31, 2016 to better reflect its operations in the PRC and to be consistent with the internal reports reviewed by the Directors. The Group does not have a foreign exchange hedging policy but management will continue to closely monitor exchange rate fluctuations and will take appropriate measures to keep foreign exchange risk exposure to a minimum.

EMPLOYEES AND REMUNERATION POLICIES

The number of full-time employees of the Group as at March 31, 2017 was 384 (263 as at March 31, 2016). Total staff costs of the Group for the year ended March 31, 2017 amounted to RMB251 million (RMB152 million for the year ended March 31, 2016). All the Group's staff employed in Hong Kong participated in the Mandatory Provident Fund Scheme.

The Group's policy is to maintain a competitive pay structure and employees are rewarded based on their performance.

The Group has also adopted the Share Award Scheme as approved by the shareholders of the Company on November 24, 2014, pursuant to which the Board may grant Awards in the form of RSUs or share options to eligible participants, including the Directors, the directors of the Company's subsidiaries, the employees of the Group or any other persons who, as determined by the Board in its absolute discretion, have contributed or will contribute to the success of the Group's operations. Details of the options and RSUs granted, lapsed and outstanding under the Share Award Scheme during the year are set out in note 27 to the consolidated financial statements.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On July 6, 2016, Alibaba Health Technology (Beijing) Company Limited^ (阿里健康科技（北京）有限公司) ("Alibaba Health Technology (Beijing)") entered into an acquisition agreement with Mr. Cheng Qi Zhi, Mr. Liu Ji Hui and Ms. Liao Qi Juan (the "Vendors"), pursuant to which Alibaba Health Technology (Beijing) agreed to acquire, and the Vendors agreed to sell, the entire equity interest in Guangzhou Wu Qian Nian Pharmaceutical Chain Co., Ltd.^ (廣州五千年醫藥連鎖有限公司) (subsequently renamed as Alibaba Health Pharmaceutical Chain Co., Ltd. 阿里健康大藥房醫藥連鎖有限公司) ("Guangzhou Wu Qian Nian") ("Acquisition of Guangzhou Wu Qian Nian"). The consideration for the Acquisition of Guangzhou Wu Qian Nian was RMB16,800,000. The Acquisition of Guangzhou Wu Qian Nian was completed on August 16, 2016 and Guangzhou Wu Qian Nian became an indirectly wholly owned subsidiary of the Company. For further information, please refer to the announcements of the Company dated July 6, 2016 and August 16, 2016.

On April 21, 2016, Alibaba Health Technology (Beijing), Alibaba (China) Technology Co., Ltd.^ (阿里巴巴（中國）網絡技術有限公司) ("Alibaba (China) Technology"), and a number of independent third parties of the Company, each as a promoter, entered into a promoters agreement (the "Promoters Agreement") to establish a joint venture enterprise, Alibaba Health Insurance Co., Ltd.^ (阿里健康保險股份有限公司) (the "JV Company"), to engage in, among other things, internet health insurance related operations in the PRC. Pursuant to the Promoters Agreement, the registered capital of the JV Company shall be RMB1 billion, and the total capital contribution to be made by Alibaba Health Technology (Beijing), Alibaba (China) Technology, and the other independent third parties (in aggregate) to the JV Company shall be RMB50 million, RMB150 million, and RMB800 million, respectively, which represents a pro rata equity interest of 5%, 15%, and 80% respectively, in the JV Company. Alibaba Health Technology (Beijing) will finance its capital contribution through internal resources. As Alibaba (China) Technology is a connected person of the Company, the Promoters Agreement constitutes a connected transaction of the Company. As at the date of this report, the Promoters Agreement has not yet been completed and the JV Company has not yet been established. For further information, please refer to the announcement of the Company dated April 21, 2016.

^ For identification purpose only

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended March 31, 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the Group is committed to providing Internet technology, service tools and platforms to industry partners, with the aim of providing accessible and affordable medical and healthcare services to the public so as to make good health achievable at the fingertips. The principal activities of the Group comprise pharmaceutical e-commerce, intelligent medicine business and the operation of product tracking platforms in the PRC.

BUSINESS REVIEW

Review of Business

A review of the Group's business, including the principal risks and uncertainties faced by such business and its possible future development are described under the paragraphs headed "Business Review" in the section headed "Management Discussion and Analysis" of this report on pages 5 to 15.

Analysis of Performance and Financial Position

The key financial figures and financial position of the Group for the year ended March 31, 2017 and the relevant analysis are set out under the paragraphs headed "Financial Review" and "Financial Resources, Liquidity and Foreign Exchange Exposures" respectively in the section headed "Management Discussion and Analysis" of this report on pages 5 to 15.

Environmental Policies and Performance

The Group is committed to promoting environmentally friendly business practices and raising awareness on the conservation of natural resources. By utilizing intranet systems, our staff can accomplish some of their administrative work electronically which reduces the use of office supplies. We also encourage prudent electricity consumption. Our staff are advised to switch off any lights in unoccupied areas. We believe that taking active measures in minimizing wasteful material and energy consumption in the course of conducting our business will not only bring economic benefits but also assist in the preservation of the natural environment.

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with legal and regulatory requirements. Internal compliance and risk management policies and procedures are in place to ensure the Group's adherence and compliance with all significant legal and regulatory requirements in Hong Kong and the PRC. For the year ended March 31, 2017 and up to the date of this report, to the best knowledge of the directors of the Company (the "Directors"), the Group has complied in all material respects with the applicable laws and regulations of Hong Kong and the PRC which have a significant impact on the business and operations of the Group, including in respect of its principal businesses of pharmaceutical e-commerce, intelligent medicine business and the operation of product tracking platforms in the PRC, employment and labour practices and environmental protection, etc. The Group has also obtained all licenses, approvals and permits from the relevant regulatory authorities that are material for its business operations in the PRC.

Relationships with Key Stakeholders

The Group's success depends on the support from key stakeholders which includes its employees, customers and suppliers.

Employees

Employees are regarded as the most important and valuable assets of the Group. The number of full-time employees of the Group as at March 31, 2017 was 384 (263 as at March 31, 2016). The Group's policy is to maintain a competitive pay structure and employees are rewarded based on their performance and with appropriate incentives including cash bonuses and through the use of the Share Award Scheme (as defined below), details of which are set out under the paragraphs headed "Share Award Scheme" in this report.

Customers

The Group believes that effective communications are the key to maintaining a good relationship with its customers. Various means have been established to strengthen the communications between the Group and its customers, including seeking more regular feedback through direct engagement with customers and also through industry seminars and forums to better understand industry trends and demands. The Group continually strives to improve its service quality and to provide better customer experience.

Suppliers

Sound relationships with key suppliers of the Group are important in managing the supply chain, meeting business challenges and complying with regulatory requirements, which can drive cost effectiveness and foster long-term business benefits. We seek to develop long-standing relationships with key suppliers and to explore with them ways to improve supply chain efficiencies.

RESULTS AND DIVIDENDS

The Group's financial performance for the year ended March 31, 2017 and the financial position of the Group as at that date are set out in the financial statements on pages 87 to 90.

The Board of Directors (the "Board") of the Company does not recommend the payment of any dividend (2016: Nil) for the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on page 172. This summary does not form part of the audited financial statements.

SHARE CAPITAL, SHARE OPTIONS AND RESTRICTED SHARE UNITS ("RSUs")

Details of movements in the Company's share capital, share options and RSUs during the year are set out in notes 26 and 27 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, has purchased, redeemed or sold any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders of the Company.

DISTRIBUTABLE RESERVES

The Company did not have any reserves available for distribution at the end of the reporting period. However, the Company's share premium account, in the amount of approximately RMB1,907,220,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. They were attributable to five institutional customers in the PRC. Trade receivables with these major customers are settled in accordance with the terms of their respective contracts. The details of the credit terms and provision for impairment of trade receivables is set out in note 17 to the consolidated financial statements. Since the sales of the Group were derived from a wide range of customers, the risk of reliance on these major customers is considered to be minimal. Purchases from the Group's five largest suppliers accounted for 52% of the total purchases for the year and purchases from the largest supplier amounted to 19% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the knowledge of the directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest suppliers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

For the purpose of disclosing the environmental, social and governance (the "ESG") information in accordance with the ESG Reporting Guide in Appendix 27 to the Listing Rules, the Company has engaged an external consultant to identify material ESG issues of the Group and assist in the reporting of the Group's performance based on its ESG management approach, strategy, priorities and objectives. For details of the Company's environmental, social and governance policies and performance and its compliance with the relevant laws and regulations, please refer to the ESG report on pages 55 to 79.

DIRECTORS

The Directors during the year were:

Executive Directors:

Ms. Chen Xiao Ying*(Note)* *(Executive Vice Chairman)*
Mr. Wang Lei *(Chief Executive Officer)*

Non-executive Directors:

Mr. Wu Yongming *(Chairman)*
Mr. Tsai Chung, Joseph
Ms. Huang Aizhu
Mr. Kang Kai

Independent Non-executive Directors:

Mr. Yan Xuan
Mr. Luo Tong
Mr. Wong King On, Samuel

Since the date of the interim report of the Company for the six months ended September 30, 2016, the changes to the information which are required to be disclosed and had been disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") are as below:

Ms. Huang Aizhu, a non-executive Director, has been a senior director of rural Taobao since April 2017. Ms. Huang was senior director of Tmall from November 2011 to March 2017.

Mr. Wong King On, Samuel ceased to be the honorary secretary of the Outstanding Polytechnic University Alumni Association.

In accordance with Clause 99 of the bye-laws of the Company, Mr. Wang Lei, Mr. Wu Yongming and Mr. Tsai Chung, Joseph will retire by rotation at the forthcoming annual general meeting of the Company to be held on July 26, 2017 (the "AGM"). Mr. Wang Lei, Mr. Wu Yongming and Mr. Tsai Chung, Joseph, being eligible, will offer themselves for re-election at the AGM.

Note: Ms. Chen Xiao Ying retired at the conclusion of annual general meeting held on August 18, 2016.

DIRECTORS' REPORT

The non-executive Directors and independent non-executive Directors are appointed for a term of one year and their appointment shall be renewable automatically for successive terms of one year each commencing from the next day after the expiry of the then current term of their appointment unless terminated by the Company in accordance with the terms of their appointment letters and the provisions of the bye-laws, respectively.

The Company has complied with the requirements of the Listing Rules to have three independent non-executive Directors representing at least one-third of the Board during the year and up to the date of this report. The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 34 to 36 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The emoluments of the Directors are determined having regard to the Company's operating results, individual performance and comparable market statistics. The details of the Directors' emoluments are set out in note 8 to the consolidated financial statements in this report. During the year ended March 31, 2017, there was no arrangement under which a Director waived or agreed to waive any remuneration and no remuneration was paid by the Group to a Director as an inducement to join or upon joining the Group or as compensation for loss of office.

Directors are also eligible to be granted awards under the Company's Share Award Scheme. The details of the scheme are set out in note 27 to the consolidated financial statements.

SHARE AWARD SCHEME

At the special general meeting of the Company held on November 24, 2014 (the "Adoption Date"), the shareholders of the Company approved the adoption of a new share award scheme (the "Share Award Scheme"). Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date. The Share Award Scheme shall remain in effect until November 23, 2024. The validity period of the options granted under the Share Award Scheme shall be ten years from the date of grant and the options shall lapse at the expiry of the validity period.

Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time) select an employee or any other person for participation in the Share Award Scheme and determine the number of shares to be awarded (the "Share Awards"). The total number of shares in respect of which awards may be granted under the Share Award Scheme and any other share award schemes of the Company shall not exceed 3% of the shares in issue as at the Adoption Date(the "Scheme Mandate Limit"), or 3% of the shares in issue as at the new approval date of the renewed Scheme Mandate Limit.

The specific mandate granted to the Board at the annual general meeting of the Company held on September 30, 2015 (the "2015 Specific Mandate") to exercise all the powers of the Company to grant Share Awards lapsed at the conclusion of the annual general meeting of the Company held on August 18, 2016, where the specific mandate was then renewed by approval of the shareholders (the "2016 Specific Mandate"). During the year, the total number of shares underlying the Share Awards granted and which remained outstanding as at March 31, 2017 amounted to 103,615,555, 83,893,055 of which were granted pursuant to the 2015 Specific Mandate, and 19,722,500 of which were granted pursuant to the 2016 Specific Mandate. As at March 31, 2017, Share Awards in respect of a total of 225,015,784 underlying shares, which represent 2.75% of the total issued shares as at March 31, 2017, remain available to be granted under the Share Award Scheme under the 2016 Specific Mandate.

Details of the options and RSUs granted and outstanding under the Share Award Scheme are as below:

Name of option holders/ grantees of RSU	Nature	Number of shares represented by options or RSUs at April 1, 2016	Date of grant/ conditional Grant	Granted during the year	Exercise price *(HK$)*	Options exercised during the year	Options or RSUs lapsed/ cancelled during the year	RSUs vested during the year	Number of shares represented by options or RSUs outstanding at March 31, 2017
Director of the Company Mr. Wang Lei	Options	7,491,000	September 7, 2015[1]	–	5.184	–	–	–	7,491,000
	RSUs	1,284,000	September 7, 2015	–	–	–	–	–	1,284,000
	Options	–	July 29, 2016[2]	1,141,000	5.558	–	–	–	1,141,000
	RSUs	–	July 29, 2016	380,000	–	–	–	–	380,000
Employees	Options	22,671,000	September 7, 2015[3]	–	5.184	38,000[11]	4,483,500	–	18,149,500
	RSUs	15,117,000	September 7, 2015	–	–	–	2,389,346	5,923,254	6,804,400
	Options	2,023,000	October 20, 2015[4]	–	5.550	–	43,000	–	1,980,000
	RSUs	2,943,000	October 20, 2015	–	–	–	68,000	580,300	2,294,700
	Options	–	April 28, 2016[5]	5,832,000	5.320	–	1,568,000	–	4,264,000
	RSUs	–	April 28, 2016	16,214,890	–	–	3,528,840	2,561,095	10,124,955
	Options	–	July 29, 2016[6]	20,197,600	5.558	–	3,101,000	–	17,096,600
	RSUs	–	July 29, 2016	15,243,700	–	–	1,843,300	517,500	12,882,900
	Options	–	October 11, 2016[7]	1,921,000	4.416	–	138,000	–	1,783,000
	RSUs	–	October 11, 2016	2,489,800	–	–	69,000	170,500	2,250,300
	RSUs	–	November 23, 2016	1,923,200	–	–	173,000	–	1,750,200
	Options	–	February 2, 2017[8] & [9]	6,680,000	3.626	–	–	–	6,680,000
	RSUs	–	February 2, 2017	4,176,000	–	–	–	–	4,176,000
	Options	–	February 22, 2017[9] & [10]	116,000	3.610	–	–	–	116,000
	RSUs	–	February 22, 2017	2,967,000	–	–	–	–	2,967,000

Notes:

(1) The options granted to Mr. WANG Lei on September 7, 2015 shall vest in accordance with vesting schedule as follows:

(i) as to 50% of the options granted shall vest on April 30, 2017;

(ii) as to 25% of the options granted shall vest on April 30, 2018; and

DIRECTORS' REPORT

(iii) as to 25% of the options granted shall vest on April 30, 2019.

(2) The closing price of HK$5.39 per Share is stated in the daily quotation sheets issued by the Stock Exchange on the date of grant, and the options granted to Mr. WANG Lei on July 29, 2016 shall vest in 4 tranches of 25% each on July 31 of 2017, 2018, 2019 and 2020, respectively.

(3) The options granted on September 7, 2015 to the employees shall vest on or before October 10, 2019.

(4) The options granted on October 20, 2015 shall vest in accordance with the vesting schedule as follows:

(i) as to 50% of the options granted shall vest on October 10, 2017;

(ii) as to 25% of the options granted shall vest on October 10, 2018; and

(iii) as to 25% of the options granted shall vest on October 10, 2019.

(5) The closing price of HK$5.32 per Share is stated in the daily quotation sheets issued by the Stock Exchange on the date of grant, and the options granted on April 28, 2016 shall vest on or before April 30, 2020.

(6) The closing price of HK$5.39 per Share is stated in the daily quotation sheets issued by the Stock Exchange on the date of grant, and the options granted on July 29, 2016 to the employees shall vest on or before July 31, 2020.

(7) The closing price of HK$4.31 per Share is stated in the daily quotation sheets issued by the Stock Exchange on the date of grant, and the options granted on 11 October, 2016 shall vest on or before October 10, 2020.

(8) The closing price of HK$3.57 per Share is stated in the daily quotation sheets issued by the Stock Exchange on the date of grant.

(9) The options granted on February 2, 2017 and February 22, 2017 respectively shall vest in accordance with vesting schedule as follows:

(i) as to 50% of the options granted shall vest on January 21, 2019;

(ii) as to 25% of the options granted shall vest on January 31, 2020; and

(iii) as to 25% of the options granted shall vest on January 31, 2021.

(10) The closing price of HK$3.61 per Share is stated in the daily quotation sheets issued by the Stock Exchange on the date of grant.

(11) The weighted average closing price of the Shares immediately before the dates on which these 38,000 Options were exercised was HK$5.70 per Shares.

The Board considers that it is not appropriate or helpful to the shareholders of the Company to state the value of all Share Awards granted under the Share Award Scheme during the year. The Board believes that any statement regarding the value of all Share Awards during the year will not be meaningful to the shareholders of the Company, since the Share Awards granted shall not be assignable, and no holder of the Share Awards shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any Share Award. In addition, the calculation of the value of the Share Awards is based on a number of variables such as exercise price, exercise period, interest rate, expected volatility and other relevant variables. The Board believes that any calculation of the value of the Share Awards during the year based on a great number of speculative assumptions would not be meaningful and would be misleading to the shareholders of the Company. For the accounting policy adopted for the Share Awards, please refer to note 2.4 to the Group's consolidated financial statements for the year ended March 31, 2017.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at March 31, 2017, the interests and short positions of the Directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of SFO, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in shares and underlying shares of the Company

	Number of ordinary shares and underlying shares held, capacity and nature of interest		
Name of director	**Nature of Interest**	**Total interest in Shares**	**Percentage of the Company's share capital**
Mr. Wang Lei	Equity derivative interests *(Note)*	10,296,000	0.13%
Mr. Wu Yongming	Beneficial Owner	1,262,000	0.02%

Note: Subject to vesting, Mr. WANG Lei is interested in a total of 10,296,000 shares underlying the 8,632,000 options and 1,664,000 RSUs granted to him in accordance with the Share Award Scheme adopted by the Company at the special general meeting held on November 24, 2014.

Long positions in shares and underlying shares of Alibaba Group Holding Limited ("Alibaba Holding", together with its subsidiaries, "Alibaba Group"), an associated corporation of the Company within the meaning of Part XV of the SFO.

Name of Director	Nature of interest	Number of shares/ underlying shares held	Approximate percentage of issued shares of associated corporation
Mr. WANG Lei	Beneficial, equity derivative interests and interests of spouse(1)	70,498	0.00%
	Beneficiary of a trust(2)	20,000	0.00%
Mr. TSAI Chung, Joseph	Beneficial, equity derivative interests and interests of spouse(3)	1,807,964	0.07%
	Interests in controlled corporation and other interests(4)	57,770,552	2.30%
	Founder of a discretionary trust(5)	10,078,199	0.40%
Ms. HUANG Aizhu	Beneficial and equity derivative interests(6)	93,572	0.00%
Mr. KANG Kai	Beneficial and equity derivative interest(7)	14,061	0.00%
Mr. WU Yongming	Beneficial and interests of spouse(8)	281,017	0.01%
	Interests in controlled corporation(9)	200,000	0.01%
	Founder of a discretionary trust(10)	6,813,690	0.27%
Mr. YAN Xuan	Beneficial interest	3,000	0.00%

DIRECTORS' REPORT

Notes:

(1) It represents 16,250 ordinary shares or underlying ordinary shares and 50,000 restricted share units beneficially held by Mr. WANG Lei and 1,500 ordinary shares or underlying shares and 2,748 restricted share units held by his spouse.

(2) It represents 20,000 ordinary shares or underlying ordinary shares held by a private trust whereby Mr. WANG Lei and his family are beneficiaries.

(3) It represents 1,510,464 ordinary shares and 137,500 restricted share units beneficially held by Mr. TSAI Chung, Joseph and 160,000 ordinary shares held by his spouse.

(4) It represents the sum of 20,605,952 ordinary shares or underlying ordinary shares directly or indirectly held by Parufam Limited (of which Mr. TSAI Chung, Joseph is a director and has been delegated sole voting and disposition power), 21,123,178 ordinary shares held by PMH Holding Limited (of which Mr. TSAI Chung, Joseph is the sole director), 15,000,000 ordinary shares held by APN Ltd. (in which Mr. TSAI Chung, Joseph holds 30% equity interest and has been granted a revocable proxy to vote 15,000,000 ordinary shares owned by APN Ltd.), 1,041,422 underlying ordinary shares held by MFG II Ltd. (which is wholly-owned by Mr. TSAI Chung, Joseph).

(5) It represents the 10,078,199 ordinary shares and/or options held by Joe and Clara Tsai Foundation Limited (whereby Mr. TSAI Chung, Joseph is the "founder" of the trust within the meaning of the SFO).

(6) It represents 49,572 ordinary shares or underlying ordinary shares and 44,000 restricted share units beneficially held by Ms. HUANG Aizhu.

(7) It represents 2,061 ordinary shares or underlying ordinary shares and 12,000 restricted share units beneficially held by Mr. KANG Kai.

(8) It represents 81,017 ordinary shares held by Mr. WU Yongming, and 200,000 ordinary shares held by his spouse.

(9) It represents 200,000 ordinary shares or underlying ordinary shares held by Plus Force Enterprise Ltd. (which is wholly-owned by Mr. WU Yongming).

(10) It represents 6,813,690 ordinary shares or underlying ordinary shares held by Mr. WU Yongming through two private trusts whereby he is the founder of the discretionary trusts.

Save as disclosed above, as at March 31, 2017, none of the Directors and chief executive had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section titled "Connected Transactions" below and except for any perceived material interest in transactions between members of Alibaba Group and the Company due to their role as employees of Alibaba Holding or its subsidiaries as disclosed in the section titled "Biographical Information of Directors and Senior Management", no Director and controlling shareholders of the Company had a material interest, either directly or indirectly, in any contract of significance (whether for the provision of services to the Company or any of its subsidiaries or not) to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year under review.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed under the section titled "Share Award Scheme", at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or chief executive of the Company or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at March 31, 2017, the following interests and short positions of 5% or more of the share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name	*Notes*	Capacity and nature of interest	Number of shares/ underlying shares	% of the issued share capital of the Company
Perfect Advance Holding Limited	(1)	Beneficial owner	5,198,112,038	63.45%
Alibaba Group Holding Limited	(1)	Interest of controlled corporation	5,198,112,038	63.45%
Alibaba Investment Limited	(1)	Interest of controlled corporation	5,198,112,038	63.45%
Innovare Tech Limited	(1)	Persons acting in concert	5,198,112,038	63.45%
Yunfeng Fund II, L.P.	(1)	Persons acting in concert	5,198,112,038	63.45%
Yunfeng Investment GP II, Ltd.	(1)	Interest of controlled corporation	5,198,112,038	63.45%
Yunfeng Investment II, L.P.	(1)	Interest of controlled corporation	5,198,112,038	63.45%
Mr. Yu Feng	(1)	Interest of controlled corporation	5,198,112,038	63.45%
Mr. Ma Yun	(1)	Interest of controlled corporation	5,198,112,038	63.45%
Uni-Tech International Group Limited	(2)	Beneficial owner	777,484,030	9.49%
21CN Corporation	(2)	Interest of controlled corporation	777,484,030	9.49%
Pollon Internet Corporation	(2)	Interest of controlled corporation	777,484,030	9.49%
Ms. Chen Xiao Ying	(2)	Interest of controlled corporation	777,484,030	9.49%

DIRECTORS' REPORT

Notes:

(1) Perfect Advance Holding Limited ("Perfect Advance") holds 4,420,628,008 shares. In addition, as a security for her obligations under the subscription agreement entered into by the Company with Perfect Advance dated January 23, 2014 in relation to the share subscription by Perfect Advance, Ms. Chen Xiao Ying, a former executive director and executive vice chairman of the Company retired at the conclusion of the 2016 Annual General Meeting, provided to Perfect Advance a share charge over the shares indirectly held by her on April 30, 2014 (the "Share Charge"). Perfect Advance was therefore deemed to have an interest in an aggregate of 5,198,112,038 shares, and each of Perfect Advance and Innovare Tech Limited ("Innovare") is also deemed to have an interest in an aggregate of 5,198,112,038 shares. The Share Charge was discharged on June 2, 2017.

Perfect Advance is owned by Alibaba Investment Limited ("AIL") as to 70.21% and Innovare as to 29.79%. Perfect Advance is a party to the shareholders agreement dated April 30, 2014 entered into with AIL and Innovare which constitutes a concert party agreement for the purpose of section 317(1)(a) of the SFO. (Please refer to the circular of the Company dated March 21, 2014 for the details of the said shareholders agreement.)

AIL is wholly-owned by Alibaba Group Holding Limited. Innovare is wholly controlled by Yunfeng Fund II, L.P., which is a direct wholly-owned subsidiary of Yunfeng Investment II, L.P. and an indirect wholly-owned subsidiary of Yunfeng Investment GP II, Ltd.. Yunfeng Investment GP II, Ltd. is owned by Mr. Ma Yun as to 40% and Mr. Yu Feng as to 60%. Accordingly, each of Yunfeng Fund II, L.P., Yunfeng Investment II, L.P., Yunfeng Investment GP II, Ltd., Mr. Ma Yun and Mr. Yu Feng is also deemed to have an interest in an aggregate of 5,198,112,038 shares via Perfect Advance within the meaning of Part XV of the SFO.

In addition to the above, according to the register of interests required to be kept by the Company pursuant to section 336 of the SFO, Mr. Chen Wen Xin had acquired an additional interest in 3,683,420,065 shares since April 8, 2015 as beneficial owner. To the best knowledge of the Directors, Mr. Chen Wen Xin no longer holds such interest as from April 1, 2016 as a result of the termination of the share purchase agreement dated April 8, 2015, entered into among others, the Company and Mr. Chen Wen Xin in respect of such number of shares with effect from April 1, 2016.

(2) Uni-Tech International Group Limited is wholly-owned by 21CN Corporation. 21CN Corporation is owned as to 100% by Pollon Internet Corporation, which is wholly-owned by Ms. Chen Xiao Ying.

Save as disclosed above, as at March 31, 2017, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section titled "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year ended March 31, 2017, the Group had the following connected and continuing connected transactions, details of which were disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

(a) Continuing Connected Transaction — Cloud Computing Services Agreement

On May 30, 2016, CITIC 21CN (China) Technology Company Limited* (中信21世紀(中國)科技有限公司) ("CITIC 21CN Technology"), an indirect wholly-owned subsidiary of the Company, entered into a second renewed Cloud Computing Services Agreement (the "Second Renewed Agreement") with Alibaba Cloud Computing Ltd* (阿里雲計算有限公司) ("Alibaba Cloud"). Pursuant to the Second Renewed Agreement, Alibaba Cloud agreed to provide certain cloud computing services to the Group for a term of one year from April 1, 2016 to March 31, 2017. The purpose of the transaction is to acquire technology input on cloud computing or other data processing solutions for processing big data in order to maintain a stable and sophisticated system to cater for real-time access to the Group's drug—tracking platform by the customers. Perfect Advance is a substantial shareholder and a connected person of the Company. Alibaba Holding is the ultimate majority shareholder of Perfect Advance and Alibaba Cloud is a member of Alibaba Group. Accordingly, Alibaba Cloud is also a connected person of the Company and the transactions contemplated under the Second Renewed Agreement constituted continuing connected transactions of the Company in accordance with the Listing Rules. During the year ended March 31, 2017, the aggregate value of services fees charged by Alibaba Cloud under the Second Renewed Agreement was approximately of RMB7.8 million (2016: RMB7.7 million).

On March 13, 2017, Alibaba Health Technology (China) Company Limited* (阿里健康科技(中國)有限公司) ("Alibaba Health Technology (China)", formerly known as Alibaba Health Technology (Beijing) Company Limited* (阿里健康科技(北京)有限公司) ("Alibaba Health Technology (Beijing)")), an indirectly wholly-owned subsidiary of the Company and Alibaba Cloud renewed the Second Renewed Agreement (the "Third Renewed Agreement"), under which Alibaba Cloud will continue to provide certain cloud computing services to the Group for a term of another one year from April 1, 2017 to March 31, 2018 with expected total fees payable by Alibaba Health Technology (China) to Alibaba Cloud being not more than HK$7 million.

(b) Continuing Connected Transaction — Tmall Services Agreement with Alibaba Health Technology (China)

On April 1, 2016, Alibaba Health Technology (China) entered into a service agreement with Zhejiang Tmall Technology Co., Ltd ("Tmall Technology") and Zhejiang Tmall Network Co., Ltd ("Tmall Network", together with Tmall Technology, the "Tmall Entities"), being members of Alibaba Group, pursuant to which Alibaba Health Technology (China) was engaged to provide certain outsourced and value-added services in relation to certain categories of products or services sold on or offered on Tmall, for the payment of fees (the "Original Services Agreement"). The Tmall Entities are members of Alibaba Group. Accordingly, the Tmall Entities are connected persons of the Group.

On August 24, 2016, Alibaba Health Technology (China) and the Tmall Entities terminated the Original Services Agreement and entered into a new services agreement in relation to the same services with key changes in relation to term, annual cap, detailed services to be provided, scope of the relevant categories and service fee (the "New Services Agreement"). This transaction provides an opportunity for the Group to further develop expertise in the healthcare e-commerce area in the PRC.

The transactions contemplated under the New Services Agreement constitute non-exempt continuing connected transactions of the Company, and have been approved by independent shareholders of the Company at the special general meeting held on September 12, 2016. The proposed annual cap in respect of the service fees payable to the Group during the term of the New Services Agreement is RMB60 million. For the period from the effective date of September 13, 2016 of the New Services Agreement till March 31, 2017, the aggregate service fees received by the Group under the New Services Agreement was approximately RMB42.3 million.

On March 10, 2017, the same parties entered into the services agreement to renew the New Services Agreement on substantially the same key terms for one year until March 31, 2018 (the "Renewed Services Agreement"). The proposed annual cap in respect of the service fee payable to the Group during the term of the Renewed

DIRECTORS' REPORT

Services Agreement is RMB110 million. The transactions contemplated under the Services Agreement constitute non-exempt continuing connected transactions of the Company, and have been approved by independent shareholders of the Company at the special general meeting held on March 30, 2017.

(c) Continuing Connected Transaction — Services Framework Agreement and Other Related Agreements

The Group entered into standard service agreements with various Tmall Entities between April 1, 2016 and December 31, 2016 (the "Previous Tmall Services Agreements") for the provision of internet information related software technical services, bonus points system related software technical services, internet information services, secondary domain name services and other platform related services, etc., by the Tmall Entities (the "Tmall Services"). As Alibaba Holding is the ultimate majority shareholder of the Company, and controls the Tmall Entities, the Tmall Entities are connected persons of the Group and the transactions under these agreements constituted continuing connected transactions of the Company but were previously fully exempt from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules.

On August 16, 2016, the Group completed its acquisition of 100% equity interest in Guangzhou Wu Qian Nian Pharmaceutical Chain Co., Ltd.* (廣州五千年醫藥連鎖有限公司) ("GWQNP") (subsequently renamed as: Alibaba Health Pharmaceutical China Co., Ltd. (阿里健康大藥房連鎖有限公司). Prior to the completion of such acquisition, GWQNP had entered into a Tmall services agreement with the Tmall Entities ("GWQNP Tmall Services Agreement"), pursuant to which the Tmall Entities will provide the Tmall Services and GWQNP would pay the Tmall Entities service fees, according to the Tmall various product category technical services fees annual fee summary table and the standard fees charged to Tmall merchants for the Tmall bonus points system, as published on the Tmall website and generally applicable to Tmall merchants. The term of the Tmall Services Agreement was from July 12, 2016 to December 31, 2016. As Alibaba Holding is the ultimate majority shareholder of the Company, and controls the Tmall Entities, the Tmall Entities are connected persons of the Group and the transactions under the GWQNP Tmall Services Agreement between GWQNP and the Tmall Entities became continuing connected transactions of the Company following completion of the Group's acquisition of GWQNP. The annual cap was proposed to be HKD9 million. The aggregate services fees paid by GWQNP to the Tmall Entities under this services agreement was approximately RMB3.8 million.

Since March 11, 2017, the Tmall Entities had provided the Tmall Services pursuant to the Services Framework Agreement (as defined below).

On December 31, 2016, the Company (for itself and on behalf of its subsidiaries (including GWQNP)) entered into the services framework agreement with Alibaba.com China Limited (阿里巴巴網絡中國有限公司) and Taobao China Holding Limited (淘寶中國控股有限公司) (for themselves and on behalf of their subsidiaries) (the "Services Framework Agreement"), pursuant to which Alibaba (China) Technology Co., Ltd.* (阿里巴巴（中國）網絡技術有限公司), Hangzhou Alibaba Advertising Co., Ltd.* (杭州阿里巴巴廣告有限公司), Taobao China Holding Limited (淘寶中國控股有限公司), the Tmall Entities and their respective affiliates (the "AGH Service Group") will provide the Tmall Services and the Group will pay the service fees calculated in accordance with the standard terms and conditions as amended and published on the respective online sales platforms operated by the respective entities from time to time. The Services Framework Agreement commenced from March 11, 2017 and is effective until March 31, 2018. It enables the Company to continue to market and sell products and services on online sales platforms operated by the respective parties and thus enable the Company to reach out to more customers and improve understanding on their needs.

As Alibaba Holding is the ultimate majority shareholder of the Company, and controls the AGH Service Group, each of the AGH Service Group is a connected person of the Company. The transactions contemplated under the Services Framework Agreement constitute non-exempt continuing connected transactions of the Company, and have been approved by independent shareholders of the Company at the special general meeting held on March 10, 2017. For the year ended March 31, 2017, the annual cap and the actual amount of fees incurred by the Group in relation to the Services Framework Agreement was RMB15 million and RMB12,653,000, respectively. Such annual cap and amount of incurred fees included (i) the fees incurred by GWQNP under the GWQNP Tmall Services Agreement from the completion of the acquisition of GWQNP (i.e. August 16, 2017) up to December 31, 2017, (ii) the fees incurred by other members of the Group for the period from April 1, 2016 for similar services under the Previous Tmall Services Agreements, which expired on December 31, 2016, and (iii) the aggregate service fees incurred by the Group under the Services Framework Agreement for the three months ended March 31, 2017.

(d) Continuing Connected Transactions — Marketing Agency Services

On August 4, 2016, Hangzhou Alimama Software Services Co., Ltd.* (杭州阿里媽媽軟件服務有限公司) ("Alimama") and Alibaba Health Technology (China) have entered into the agency agreement (the "Agency Agreement"), pursuant to which Alimama agreed to provide marketing services to Alibaba Health Technology (China) and its contracted clients for a term of nine months from July 1, 2016 to March 31, 2017. The Agency Agreement allows the Group to better serve its customers by packaging its own marketing and promotional resources together with external resources. The annual cap of the aggregate marketing expenses to be incurred and the incentive fees to be received under the Agency Agreement was HK$9,500,000, while the actual amount was approximately RMB1.3 million for the year ended March 31, 2017.

Perfect Advance is a substantial shareholder and a connected person of the Company. Alibaba Holding is the ultimate majority shareholder of Perfect Advance and Alimama is an indirect wholly owned subsidiary of Alibaba Holding. Accordingly, Alimama is also a connected person of the Company.

As Mr. Wu Yongming, Mr. Tsai Chung, Joseph, Ms. Huang Aizhu and Mr. Kang Kai are employees of Alibaba Holding or its subsidiaries, each of these Directors is deemed or may be perceived to have a material interest in each of the above continuing connected transactions. Accordingly, they abstained from voting on the resolutions approving each of the above continuing connected transactions.

The Group has imposed internal control procedures to ensure that the continuing connected transactions are conducted in accordance with the pricing policies or mechanism under the relevant framework agreements. A specialized internal audit function has been set up during the year to carry out independent appraisal of the adequacy and effectiveness of the internal control procedures and to review all the connected transactions. Any findings by the internal audit function have been provided to the Directors to assist them in performing the annual review of the continuing connected transactions. The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and have confirmed that such continuing connected transactions were entered into (i) in the ordinary and

DIRECTORS' REPORT

usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditor, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

(e) Connected Transaction — Formation of a Joint Venture

On April 21, 2016, Alibaba Health Technology (Beijing), China Taiping Insurance Holdings Company Limited (中國太平保險控股有限公司), Taiping Life Insurance Company Limited (太平人壽保險有限公司), Alibaba (China) Technology Co., Ltd.* (阿里巴巴（中國）網路技術有限公司), Shanghai Yunfeng Investment Management Company Limited* (上海雲鋒投資管理有限公司), Jiangsu Yuwell Technology Development Co., Ltd.* (江蘇魚躍科技發展有限公司) and Shenzhen Baiyeyuan Investment Co., Ltd.* (深圳市百業源投資有限公司), each as a promoter, entered into the promoters agreement to establish a joint venture enterprise to engage in, among other things, internet health insurance related operations in the PRC. The registered capital of the joint venture enterprise is RMB1 billion, and the total capital contribution to be made by Alibaba Health Technology (Beijing), Alibaba (China) Technology, and the other independent third parties (in aggregate) to the JV Company shall be RMB50 million, RMB150 million, and RMB800 million, respectively, which represents a pro rata equity interest of 5%, 15%, and 80% respectively, in the JV Company. As Alibaba (China) Technology is an indirect wholly-owned subsidiary of Alibaba Holding, Alibaba (China) Technology is a connected person of the Company under the Listing Rules. As at the date of this report, the Promoters Agreement has not yet been completed and the JV Company has not yet been established. For further information, please refer to the announcement of the Company dated April 21, 2016. The Company believes that through the joint venture, it will be able to participate in internet health insurance which is a new and promoting business area that will also help to align the interests of the participants in the PRC healthcare market.

As Mr. Wu Yongming, Mr. Tsai Chung, Joseph, Ms. Huang Aizhu and Mr. Kang Kai are employees of Alibaba Holding or its subsidiaries, each of these Directors is deemed or may be perceived to have a material interest in the transaction. Accordingly, they abstained from voting on the resolutions approving the promoters agreement.

(f) Grant of Options and RSUs to Connected Persons

On July 29, 2016, the Board resolved, among other things, to grant 1,065,000 RSUs to Mr. Wang Lei, Mr. Meng Changan, Ms. Ma Li, Mr. Li Yipeng and Mr. Wang Peiyu in accordance with the terms of the Share Award Scheme.

As Mr. Wang Lei is the chief executive officer and an executive Director of the Company, and each of Mr. Meng Changan, Ms. Ma Li, Mr. Li Yipeng and Mr. Wang Peiyu was a director of a subsidiary or certain subsidiaries of the Company on the above-mentioned grant date, and therefore each of them was a connected person of the Company. The grant of RSUs to each of them constituted fully-exempt connected transactions of the Company in accordance with the Listing Rules. For details, please refer to the Company's announcement dated July 29, 2016.

On February 22, 2017, the Board resolved, among other things, to grant 2,029,000 RSUs to Ms. Lew Aishan, Nicole, who was a connected person of the Company by virtue of her directorship in certain subsidiaries of the Company. Ms. Lew is a director of each of Joy Heaven Incorporated and Alibaba Health (Hong Kong) Technology Company Limited (阿里健康（香港）科技有限公司), both of which are subsidiaries of the Company. As such, Ms. Lew is a connected person of the Company. The grant of RSUs to Ms. Lew constituted a connected transaction subject to reporting and announcement but exempt from independent shareholders' approval requirements. For details, please refer to the Company's announcement on February 22, 2017.

The grant of RSUs to the above connected person is to recognize their contribution to the success and development of the Group and to incentivize and motivate them to remain with and strive for the future development and expansion of the Group.

The Group recognized a share-based compensation expense of RMB21,902,000 (year ended March 31, 2016: RMB11,733,000) during the year ended March 31, 2017 for connected transactions hereunder.

RELATED PARTY TRANSACTIONS

During the year, save as disclosed in note 33 to the consolidated financial statements, the Group had no material transactions with its related parties.

The Directors have conducted review of the related party transactions of the Group during the year and were not aware of any transactions requiring disclosure of connected transactions in accordance with the Listing Rules except for those disclosed in the section of "Connected Transaction" in this report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year under review. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against the Directors and officers of the Company.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the following Director has declared interests in the following business (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which is considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group#	Description of business of the entity which is considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director
Mr. Wu Yongming	Choice Technology Inc.	Medical healthcare systems and data services platform	As a substantial shareholder (as defined in the Listing Rules)
	Beijing Huifukang Information Consulting Co., Ltd.* (北京惠福康信息咨詢有限公司)	Online doctor referral platform	As a substantial shareholder (as defined in the Listing Rules)

Such business may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments. Mr. Wu is the controlling shareholder of an entity which is a substantial shareholder of the companies listed herein.

Given that Mr. Wu is a non-executive Director and does not participate in the day-to-day operations of the Group, the Directors believe that it would be unlikely that Mr. Wu's aforesaid interests in Choice Technology Inc. and Beijing Huifukang Information Consulting Co., Ltd.* (北京惠福康信息諮詢有限公司) will cause any material adverse impact to the business of the Group. Mr. Wu has confirmed he is fully aware of and has been discharging his fiduciary duty to the Company to avoid conflicts of interest. In situations where any conflict of interests arises, Mr. Wu will refrain from discussion, taking part in the decision-making process and voting on the relevant Board resolution at the Board meeting.

In addition, Mr. Wu had also voluntarily entered into a deed of non-competition dated September 17, 2015 in favor of the Company to agree to certain measures to minimize potential competition between the Company and business invested in by certain funds that he is interested in. The deed of non-competition is valid for the period commencing on the date of the deed of non-competition until the earlier of either of the following events or circumstances occurs: (a) the liquidation of the relevant funds is completed; provided that if any successor fund is raised, the date shall be extended to such date when (i) the liquidation of all successor funds is completed and (ii) Mr. Wu has no intention to raise any additional successor fund; or (b) Mr. Wu ceases to be a Director of the Company, or to otherwise hold a position in the Company which owes fiduciary duties to the Company. The Company believes that the deed of non-competition provides adequate measures to monitor, and the opportunity to address, any acquisitions of interests of Mr. Wu in businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group. The Company would like to emphasize that the Board is independent from the boards of directors of the above-mentioned entities, and is accountable to the Company's shareholders as a whole. Coupled with the diligence of its independent non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of the above-mentioned entities in which Mr. Wu is interested in.

Save as disclosed, during the year and up to the date of this report, none of the Directors is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and has any other conflicts of interest, as required to be disclosed under the Listing Rules.

TAX RELIEF

The Company is not aware of any relief on taxation available to the shareholders of the Company by reason of their holdings of the Shares. If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the shares, they are advised to consult their professional advisers.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITOR

During the year ended March 31, 2015, Messrs. Deloitte Touche Tohmatsu resigned as auditor of the Company and Messrs. Ernst & Young were appointed by the Directors to fill the casual vacancy so arising. There have been no other changes of auditor in the past three years. A resolution for the reappointment of Ernst & Young as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Wang Lei
Chief Executive Officer and Executive Director

Hong Kong
May 16, 2017

* For identification purpose only

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS AND CHIEF EXECUTIVE OFFICER

Mr. WANG Lei, aged 37, was appointed as an executive Director and a chief executive officer of the Company on April 17, 2015. Prior to his current position, Mr. Wang was the general manager of Alibaba Group's Taobao Diandian business from September 2013. Mr. Wang has held various positions within Alibaba Group since he joined in 2003, including customer relationship management product manager and Alibaba call center project manager from September 2003 to December 2005, P4P project manager of Yahoo China from January 2006 to May 2007, senior manager of Alimama product and operations department from June 2007 to December 2008, B2B advertising product and operations department director from January 2009 to May 2011, senior director of B2B advertising service department and commercial product department from June 2011 to July 2012 and O2O workshop senior director of Alibaba Group's mobile Internet business department from August 2012 to August 2013. Mr. Wang obtained a bachelor's degree in engineering from China Jiliang University, PRC in June 2001.

NON-EXECUTIVE DIRECTORS

Mr. WU Yongming, aged 42, was appointed as a non-executive Director and Chairman of the Company on April 17, 2015. Mr. Wu has been a senior vice president of the Alibaba Group since June 2010 and has been a special assistant to the chairman of the board of directors of Alibaba Group Holding Limited ("Alibaba Holding") since September 2014, the shares of which are listed on the New York Stock Exchange (stock code: BABA). Mr. Wu also served as technology director of Alibaba (China) Technology Co., Ltd. * (阿里巴巴（中國）網絡技術有限公司) from September 1999, technology director of Alipay (China) Information Technology Co., Ltd. * (支付寶（中國）網絡技術有限公司) from December 2004, P4P business director of Alibaba Group from November 2005, general manager of Hangzhou Alimama Technology Co., Ltd.* (杭州阿里媽媽網絡技術有限公司) from December 2007, chief technology officer of Taobao (China) Software Co., Ltd.* (淘寶（中國）軟件公司) from September 2008, and was responsible for Alibaba Group's search business, advertising business and mobile business from October 2011. Mr. Wu was previously a director of AutoNavi Holdings Limited, a then NASDAQ-listed company, from May 2013 to July 2014. Mr. Wu graduated from the college of information engineering of Zhejiang University of Technology, PRC in June 1996.

Mr. TSAI Chung, Joseph, aged 53, joined Alibaba Group in 1999 as a member of the Alibaba founding team and has served as the executive vice chairman of Alibaba Holding since May 2013. Mr. Tsai previously served as Alibaba Holding's chief financial officer and has been a member of Alibaba Holding's board of directors since its formation. From 1995 to 1999, Mr. Tsai worked in Hong Kong with Investor AB, the main investment vehicle of Sweden's Wallenberg family, where he was responsible for Asian private equity investments. Prior to that, he was vice president and general counsel of Rosecliff, Inc., a management buyout firm based in New York. From 1990 to 1993, Mr. Tsai was an associate attorney in the tax group of Sullivan & Cromwell LLP, a New York-based international law firm. Mr. Tsai serves on the boards of directors of several of Alibaba Group's investee companies and is currently also a director of Momo, Inc., the shares of which are listed on NASDAQ (stock code: MOMO). Mr. Tsai is qualified to practice law in the State of New York. He received his bachelor's degree in Economics and East Asian Studies from Yale College and a juris doctor degree from Yale Law School.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Ms. HUANG Aizhu, aged 49, has been a senior director of rural Taobao since April 2017. Ms. Huang was senior director of Tmall from November 2011 to March 2017. Prior to joining Alibaba Group, Ms. Huang worked as a product vice-president for Shanghai Yishiduo e-Commerce Company Limited* (上海益實多電子商務有限公司) (more commonly known as Yihaodian) and was responsible for its pharmaceutical, food and beverage, beauty care, household cleaning, and mothercare and toys product lines. Ms. Huang previously also worked at Amazon China Information Service (Beijing) Company Limited* (亞馬遜中國資訊服務（北京）有限公司) as a chief editor. Ms. Huang obtained a bachelor's degree in mechanical engineering from Harbin University of Science and Technology, PRC in July 1992.

Mr. KANG Kai, aged 40, has been a director of Tmall that is a third party online platform for brands and retailers operated by Alibaba Group (a group of companies comprising Alibaba Holding and its subsidiaries, the "Alibaba Group") under the domain name Tmall.com (the "Tmall") and head of Tmall's medical and healthcare business since he joined Alibaba Group in July 2014. Mr. Kang was previously the chief operating officer of Beijing Haoyaoshi Pharmacy Chain Co., Ltd.* (北京好藥師大藥房連鎖有限公司) and before that, he was a member of management of Leyou (China) Chain Supermarket Company Limited* (樂友（中國）超市連鎖有限公司) where he was responsible for formulating and implementing the goals and strategies for the company's e-commerce business. He was vice-president, health products business for Shanghai Yishiduo e-Commerce Company Limited* (上海益實多電子商務有限公司) (more commonly known as Yihaodian) from October 2009 to December 2010. Mr. Kang was also a deputy general manager of Jinxiang Internet Technology Co., Ltd* (北京金象在綫網絡科技有限公司), from April 2007 to September 2009. Mr. Kang obtained a bachelor's degree in computer science and engineering from the Beijing University of Technology, PRC in July 1999 and a master of science degree in multimedia and internet computing from the Loughborough University, United Kingdom in December 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YAN Xuan, aged 55, was appointed as an independent non-executive Director of the Company on May 9, 2014. Appointed in June 2011, Mr. Yan is President, Greater China for Nielsen Holdings N.V. and leads Nielsen Holdings N.V.'s business initiatives in mainland China, Hong Kong, Taiwan and Macau. Before joining Nielsen Holdings N.V., Mr. Yan spent close to two decades in China in senior and executive positions with leading global companies, such as AT&T, Microsoft Corporation, Oracle Corporation and Qualcomm Incorporated. Mr. Yan was previously a vice chairman of the board of governors of American Chamber of Commerce in China from January to December 2008 as well as a member of the board of directors of the United States Information Technology Office. Mr. Yan also served as a director or vice-chairman on the boards of directors of several US-China telecom equipment and software joint ventures. Mr. Yan received his juris doctor from Duke University School of Law, U.S. as a Richard M. Nixon Scholar in 1987, and attended the Advanced Management Program at Harvard Business School, U.S. in 2000.

Mr. LUO Tong, aged 50, was appointed as an independent non-executive Director of the Company on May 9, 2014. Mr. Luo is currently the chief strategy officer of Yiguo Information Technology Co., Ltd. Mr. Luo has over 20 years of experience of retailing operation and management. Before joining the Board of the Company, he worked as the regional general manager for Walmart's Zhejiang Province Operations, the vice president of operations and development for China Nepstar Chain Drugstore Ltd., the vice president of operations for Tesiro Jewellery Company and the general manager of retail development of Guangzhou Pharmaceuticals Corporation. Mr. Luo has obtained a diploma in business administration from Guangzhou Finance and Trade Management Institute and a diploma in English from Guangdong Social Science College.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Mr. WONG King On, Samuel, aged 64, was appointed as an independent non-executive Director of the Company on May 9, 2014. During the period from October 2010 to November 2013, Mr. Wong was an independent non-executive director and chairman of the audit committee of Yashili International Holdings Limited (Stock code: 1230) which is listed on the Hong Kong Stock Exchange Limited. Mr. Wong has over 30 years of experience in accounting and finance. Mr. Wong joined Ernst & Young in October 1979 and was elected to its partnership in January 1993. Mr. Wong was the managing partner, China Central of Ernst & Young and a member of the management committee of the China firm of Ernst & Young from 2005 until his retirement in 2010. Mr. Wong was a professor of practice (accounting) of the school of accounting and finance of the Hong Kong Polytechnic University from September 2013 to August 2016, and also an adjunct professor of the school of accounting & finance of the Hong Kong Polytechnic University from 2002 to 2010. Mr. Wong was the president of Association of Chartered Certified Accountants (ACCA) Hong Kong for 1998–1999 and a member of the global council of ACCA from 1999 to 2005. Mr. Wong was also the first non-European global president of ACCA for 2003–2004. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants, a member of the ACCA and a Certified Practising Accountant Australia. Mr. Wong obtained a master of business administration degree from the University of Bradford, United Kingdom in December 1978. Mr. Wong was awarded the Binder Hamlyn Prize for the best student in financial management in 1978.

COMPANY SECRETARY

Ms. LEW Aishan, Nicole, joined the Group in August 2014 and is the General Counsel of the Group. Prior to joining the Group, Ms. Lew worked at Freshfields Bruckhaus Deringer from 2006 to 2014. Ms. Lew obtained a Bachelor of Laws honors degree from University College London and is qualified to practice law in England and Wales. She was admitted as a solicitor of the High Court of Hong Kong in 2008 and is a current member of the Law Society of Hong Kong.

For details of the interests and short positions of the Directors in the share capital and underlying shares of the Company or its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), please refer to the section headed "Directors' and Chief Executive's Interest and Short Positions in Shares and Underlying Shares".

* For identification purpose only

CORPORATE GOVERNANCE REPORT

The Company strives to continuously attain and maintain high standards of corporate governance as it believes that effective corporate governance practices are fundamental to safeguarding the interests of its shareholders and other stakeholders, and to enhancing shareholder value.

In the opinion of the Board of the Company, throughout the year ended March 31, 2017, the Company has complied with the code provisions ("Code Provisions") set out in the Corporate Governance Code (the "CG Code") under Appendix 14 to the Listing Rules, except in respect of the following matter:

Code provision A.6.7 stipulates that independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Wu Yongming, Mr. Tsai Chung, Joseph, Ms. Huang Aizhu and Mr. Kang Kai, being non-executive Directors, and Mr. Yan Xuan and Mr. Luo Tong, being independent non-executive Directors were not able to attend the special general meetings of the Company held on March 30, 2017 and March 10, 2017 respectively; Mr. Tsai Chung, Joseph, Ms. Huang Aizhu, Mr. Kang Kai, Mr. Yan Xuan and Mr. Luo Tong were not able to attend the special general meeting of the Company held on September 12, 2016; and Mr. Tsai Chung, Joseph, Ms. Huang Aizhu, Mr. Kang Kai and Mr. Yan Xuan were not able to attend the annual general meeting of the Company held on August 18, 2016 due to conflicts of prior scheduled engagements with the meeting times. However, the Company has reported to the Directors on the items discussed at the general meetings and the feedback from the shareholders.

THE BOARD

Composition

As at the date of this report, the Board comprises eight Directors, including (i) an executive Director, namely Mr. Wang Lei (Chief Executive Officer); (ii) four non-executive Directors, namely Mr. Wu Yongming (Chairman), Mr. Tsai Chung, Joseph, Ms. Huang Aizhu and Mr. Kang Kai; and (iii) three independent non-executive Directors ("INED(s)"), namely Mr. Yan Xuan, Mr. Luo Tong and Mr. Wong King On, Samuel. The names and biographical details of each Director are disclosed on pages 34 to 36 of this Annual Report. The non-executive Directors and independent non-executive Directors are appointed for a term of one year and their appointment shall be renewable automatically for successive terms of one year each commencing from the next day after the expiry of the then current term of their appointment unless terminated by the Company in accordance with the terms of their appointment letters and the provisions of the bye-laws, respectively.

During the year and up to the date of this report, all Directors have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for the efficient and effective delivery of the Board's functions. The INEDs are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

Each INED, pursuant to the guidelines set out in rule 3.13 of the Listing Rules, has confirmed he has been independent of the Company throughout the year ended March 31, 2017 and up to the date of this report, and the Company also considers that they have been independent. Each INED is subject to the requirement that one-third of all the Directors shall retire from office by rotation at each annual general meeting pursuant to the bye-laws of the Company. There is no relationship (including financial, business, family or other material or relevant relationship) between each Director (including INED) and the other members of the Board or the senior management and between the Chairman and the Chief Executive Officer.

CORPORATE GOVERNANCE REPORT

Function

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting any major acquisition and disposal, major capital investment and dividend policies, regulating and reviewing internal controls, formulating the Company's corporate governance policy, supervising management's performance and reviewing the adequacy of the Group's resources.

The INEDs play a significant role on the Board by virtue of their independent judgment and their views carry significant weight in the Board's decisions. They bring an impartial view on issues of the Company's strategies, performance and controls.

The Company views that well-developed and timely reporting systems and internal controls are essential, and the Board plays a key role in the implementation and monitoring of internal financial controls.

Chairman and Chief Executive Officer

Mr. Wu Yongming is the chairman of the Board and Mr. Wang Lei is the chief executive officer of the Company. As such, the Company has fully complied with the code provision A.2.1 of the CG Code during the year ended March 31, 2017.

The Board held seven Board meetings during the year ended March 31, 2017. Agenda and accompanying board papers were sent to all Directors in a timely manner. Directors who could not attend in person could participate through other electronic means of communications. Individual attendance of each Director at the Board meetings, Board Committee meetings and general meetings during the year ended March 31, 2017 are set out in the table below:

	Attended/Eligible to attend					
Directors	**Annual General Meeting**	**Special General Meeting**	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors						
Ms. Chen Xiao Ying *(retired on August 18, 2016)*	0/1	0/0	0/3	N/A	N/A	N/A
Mr. Wang Lei *(Chief Executive Officer)*	1/1	0/3	7/7	N/A	N/A	N/A
Non-executive Directors						
Mr. Wu Yongming *(Chairman)*	1/1	1/3	7/7	N/A	2/2	1/1
Mr. Tsai Chung, Joseph	0/1	0/3	3/7	N/A	N/A	N/A
Ms. Huang Aizhu	0/1	0/3	5/7	N/A	N/A	N/A
Mr. Kang Kai	0/1	0/3	7/7	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Yan Xuan	0/1	0/3	6/7	3/3	2/2	N/A
Mr. Luo Tong	1/1	0/3	7/7	3/3	N/A	1/1
Mr. Wong King On, Samuel	1/1	3/3	7/7	3/3	1/2 *(Note)*	1/1

Note: Mr. Wong King On, Samuel abstained from a remuneration committee meeting held for reviewing his own remuneration.

Directors' Training

Each newly-appointed Director is offered training by the Company upon his or her appointment, so as to ensure that they have appropriate understanding of the Company's business and they are aware of their duties as directors under the applicable laws and regulations.

Pursuant to Code Provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the financial year ended March 31, 2017, all of the following Directors participated in continuous professional development by attending seminars or by self-studying of materials on topics related to corporate governance, regulations and business:

Executive Director

Mr. Wang Lei	Attending seminars and self-study

Non-executive Directors

Mr. Wu Yongming	Attending seminars and self-study
Mr. Tsai Chung, Joseph	Attending seminars and self-study
Ms. Huang Aizhu	Attending seminars and self-study
Mr. Kang Kai	Attending seminars and self-study

Independent Non-executive Directors

Mr. Yan Xuan	Attending seminars
Mr. Luo Tong	Attending seminars and self-study
Mr. Wong Kong On, Samuel	Attending seminars

Board Committees

Throughout the year ended March 31, 2017, the Company maintained the Audit Committee, the Nomination Committee and the Remuneration Committee in compliance with the Listing Rules and the relevant Code Provisions of the CG Code.

Remuneration Committee

The Remuneration Committee currently comprises Mr. Yan Xuan (Chairman), Mr. Wu Yongming and Mr. Wong King On, Samuel, with specific terms of reference which clearly deals with its authority and duties.

The main duties of the Remuneration Committee include:

(a) to make recommendations to the Board on the Company's policy for and structure of remuneration for all Directors and senior management and on the establishment of a formal and transparent procedure for developing the remuneration policy;

CORPORATE GOVERNANCE REPORT

(b) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, and make recommendations to the Board on the remuneration of non-executive Directors; and

(c) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The Remuneration Committee held two meetings for the year ended March 31, 2017. The Remuneration Committee discussed and reviewed the remuneration paid to the Directors for the year ended March 31, 2016, made recommendations on adjustment to Directors' remuneration packages and/or share awards, on the standard policy of grant of share awards and the delegation of power of grant under the Company's Share Award Scheme to the management remuneration committee, and made recommendations for the Board's approval.

Audit Committee

The Audit Committee currently comprises Mr. Wong King On, Samuel (Chairman), Mr. Yan Xuan and Mr. Luo Tong, with specific terms of reference which clearly deals with its authority and duties.

The main duties of the Audit Committee include:

(a) to consider the appointment of the external auditor and any questions in relation to its resignation or dismissal;

(b) to discuss with the external auditor the nature and scope of the audit;

(c) to review the half-year and annual financial statements before submission to the Board;

(d) to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss;

(e) to review the external auditor's management letter and management's response;

(f) to review the Company's financial reporting system, risk management systems and internal control procedures;

(g) to review the internal audit function, and ensure coordination with external auditor, and ensure the internal audit function has adequate resources and appropriate standing within the Company; and

(h) to consider the major finding of internal investigations and management's response.

The Audit Committee held three meetings for the financial year ended March 31, 2017. The Audit Committee reviewed the financial statements of the Company for the year ended March 31, 2016 and for the six months period ended September 30, 2016, re-appointment of Ernst & Young as auditor of the Company, internal controls and risk management system and Ernst & Young's audit plan for the year ended March 31, 2017, and made relevant recommendations to the Board for its approval.

During the year under review, the Company has set up a specialized internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems.

Nomination Committee

The Nomination Committee currently comprises Mr. Wu Yongming (Chairman), Mr. Luo Tong and Mr. Wong King On, Samuel, with specific terms of reference which clearly deals with its authority and duties.

The main duties of the Nomination Committee include:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become members of the Board and to select or to make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of the independent non-executive Directors; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive officer of the Company.

The Nomination Committee held one meeting for the year ended March 31, 2017. The Nomination Committee, assessed the independence of the independent non-executive Directors, reviewed the retirement schedule, made recommendations on the retirement and re-election of Directors and reviewed the composition, size and diversity of the board.

Board Diversity Policy

With effect from June 19, 2014, the Board adopted a board diversity policy (the "Policy") setting out the approach to achieve diversity on the Board. The Board considered that the diversity of Board members can be achieved through the consideration of 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 of the Board. The Nomination Committee reviews the Policy on a regular basis and discusses any revisions that might be required, and recommends to the Board for consideration and approval.

Model Code for Securities Transactions

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules (the "Model Code") to regulate the Directors' dealings in the Group's securities. In response to specific enquires by the Company, all Directors have confirmed that they have complied with the Model Code in their securities transactions throughout the year ended March 31, 2017.

COMPANY SECRETARY

During the year under review, Mr. Au Kin Fai resigned as the Company Secretary of the Company on June 1, 2016 and Ms. Lew Aishan, Nicole was appointed as the Company Secretary of the Company on June 1, 2016. Ms. Lew's biographical details are disclosed on page 36 of this Annual Report. Ms. Lew confirms that she has complied with all the required qualifications, experience and training requirements of the Listing Rules.

AUDITOR'S REMUNERATION

The remuneration paid to Ernst & Young for audit and non-audit services for the year ended March 31, 2017 amounted to approximately RMB1,144,000 and RMB529,000, respectively. The non-audit services provided by Ernst & Young to the Group were in relation to the review service on the interim results, limited assurance services on continuing connected transactions, other professional service related to the environmental, social and governance assessment and tax review service.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board and the management of the Group maintain a sound and effective system of internal controls of the Group so as to ensure the effectiveness and efficiency of operations of the Group in achieving its established corporate objectives, safeguarding assets of the Group, rendering reliable financial reporting and complying with the applicable laws and regulations.

The Board is also responsible for making appropriate assertions on the adequacy of internal controls over financial reporting and the effectiveness of disclosure controls and procedures. Through the Audit Committee of the Board, the Board reviews the effectiveness of these systems.

It is also the Board's responsibility to review the effectiveness of the Group's risk management system and ensure that risk management controls are sound and effective to safeguard the investment of the Company's shareholders and the Group's assets at all times. In connection with this, the Board formed a risk management committee on November 23, 2016 to discharge its role in monitoring and in exercising oversight over the risk management of the Company.

The Audit Committee and the Board performed its annual review of the Group's risk management and internal controls and concluded that for the year ended March 31, 2017, (a) the Group's risk management and internal control systems were effective; (b) the Group had adopted the necessary control mechanisms to monitor and correct non-compliance; and (c) the Group had complied satisfactorily with the requirements of the Corporate Governance Code in respect of risk management and internal control systems.

SHAREHOLDER COMMUNICATION POLICY

Purpose

1. This policy aims at ensuring that the Company's shareholders, both individual and institutional (collectively, "Shareholders"), and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company. The Board will review the effectiveness of this policy on a regular basis.

Communication Strategies

Corporate Website

2. The Company communicates to its Shareholders through announcements and interim and annual reports published on its website at http://www.irasia.com/listco/hk/alihealth/. The information on the website is updated on a regular basis.

3. Information released by the Company to the Stock Exchange is also posted on the Stock Exchange's website immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents etc.

Shareholders' meetings

4. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings.

5. The process of the Company's general meetings will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that Shareholders' needs are best served.

6. Board members, in particular, either the chairman of the Board or chairman of Board committees or their delegates, appropriate management executives and external auditor will attend annual general meetings to answer Shareholders' questions.

Shareholder Privacy

The Company recognizes the importance of Shareholders' privacy and will not disclose Shareholders' information without their consent, unless required by law to do so.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene a special general meeting

Shareholders, holding at the date of the requisition not less than 10% of the paid-up capital of the Company carrying the right to vote at general meetings of the Company, shall at all times have the right by written requisition to the Board or the Company Secretary, to require a general meeting (the "SGM") to be called by the Board for the transaction of any business specified in such requisition.

The requisitionists must state the purpose of the meeting and their contact details in the requisition, and sign and deposit the requisition at the principal place of business of the Company for the attention of the Company Secretary.

The SGM shall be held within two months from the deposit of the requisition. If the Board fails to proceed to convene the SGM within 21 days of such deposit, the requisitionists, or any of them representing more than 50% of the total voting rights of all of them, may convene the SGM by themselves in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda (as amended), but any SGM so convened shall not be held after the expiration of three months from the deposit of the requisition.

Procedures for putting forward proposals at general meetings

Shareholders holding not less than 5% of the total voting rights of all shareholders having a right to vote at the general meeting or not less than 100 shareholders can submit a written request stating a resolution to be moved at the AGM or a statement of not more than 1,000 words with respect to a matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

The requisitionists must sign and deposit the written request or statement at the registered office of the Company and the principal place of business of the Company for the attention of the Company Secretary, not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

If the written request is in order, the Company Secretary will ask the Board to include the resolution in the agenda for the AGM, as the case may be, to circulate the statement for the general meeting, provided that the requisitionists have deposited a sum of money reasonably determined by the Board sufficient to meet the expenses in serving the notice of the resolution and/or circulating the statement submitted by the requisitionists in accordance with the statutory requirements to all the registered shareholders.

Procedures for sending enquires to the Board

Shareholders may send their enquiries with sufficient contact details to the Board at the principal place of the business of the Company for the attention of the Company Secretary. When the written enquiries are in order, the Company will direct them to the Board.

CONSTITUTIONAL DOCUMENTS

There is no amendment to the bye-laws of the Company during the year under review.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Company's financial statements of the Group (the "Financial Statements") which give a true and fair view and are in accordance with Hong Kong Financial Reporting Standards published by the Hong Kong Institute of Certified Public Accountants. The Directors endeavor to ensure a balanced, clear and understandable assessments of the Group's performance, position and prospects in financial reporting. Accordingly, appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable.

The statement of the Company's auditor about their reporting responsibilities on the Financial Statements is set out in the Independent Auditor's Report on pages 84 to 86.

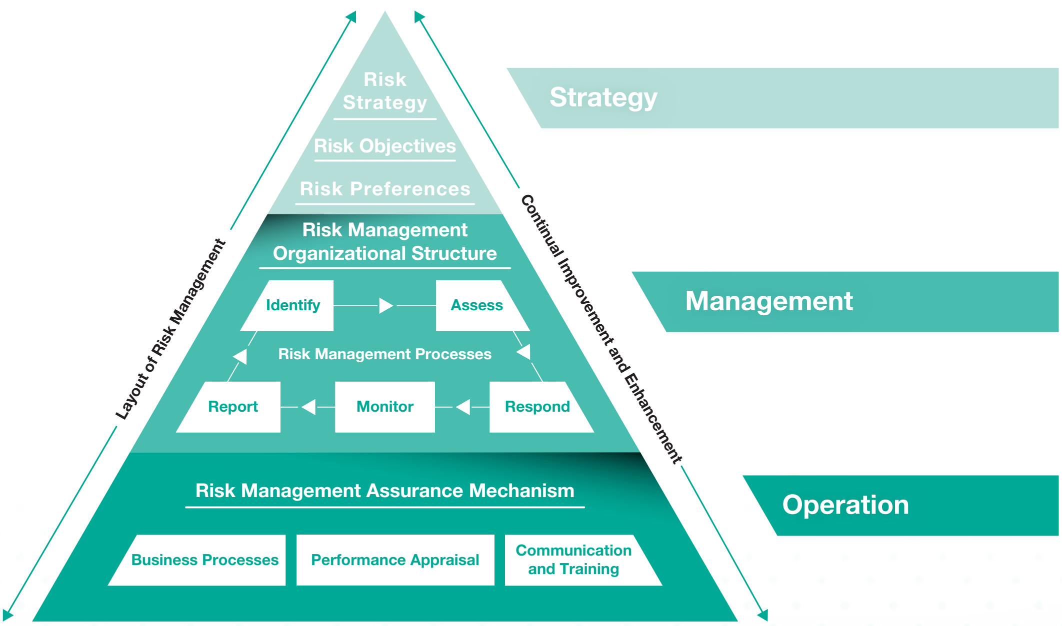
RISK MANAGEMENT AND INTERNAL CONTROL

1. RISK MANAGEMENT AND INTERNAL CONTROL

The Group considers risk management and internal control to be a core part of its operational management and business activities. We are committed to: (i) establishing a comprehensive risk management system which is in line with the Group's strategy and its specific business characteristics; (ii) continually optimizing our risk management organizational structure; (iii) standardizing our risk management processes; and (iv) adopting quantitative and qualitative approaches to drive better identification, evaluation and mitigation of risks, to achieve a balance between risks and rewards, and to achieve sustainable business development while appropriately managing risks.

2. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The risk management and internal control systems aim to support the realization of the Company's strategy, vision and mission as well as the sustainable development of its business. The risk management objectives of "Strategy", "Operation", "Reporting" and "Compliance" can be achieved by implementing the processes of risk identification, evaluation, remediation and monitoring. Risk management capability is one of the Company's core competitive competencies, and we believe that implementing risk management and internal control systems over each business line and every functional department will help to enhance long-term shareholder value. The Group's risk management and internal control framework includes three levels: strategy, management and operation.



- **Risk Management Strategy**

  The Group's risk management strategy is aimed at ensuring steady growth and sustainable development of the Group's businesses through continual enhancement of the Group's risk management framework, capability and culture.

- **Risk Management Objectives**

  The Company's risk management objectives include: (i) strategic objective — to construct our risk management and internal control systems so that they are complementary with the Company's strategic objectives and support the achievement of its strategic goals and sustainable business development; (ii) operational objective — to continually improve the Company's risk management capabilities, thereby reducing uncertainties in the achievement of our operational goals, supporting our business expansion and innovative activities, and ensuring the efficiency and effectiveness of our operational activities; (iii) reporting objective — to ensure the validity, accuracy and completeness of our financial and operation management reporting; and (iv) compliance objective — to ensure compliance with both external regulatory requirements and internal management policies, standardize our operational management and business processes to maintain the legality and compliance of each business transaction of the Company.

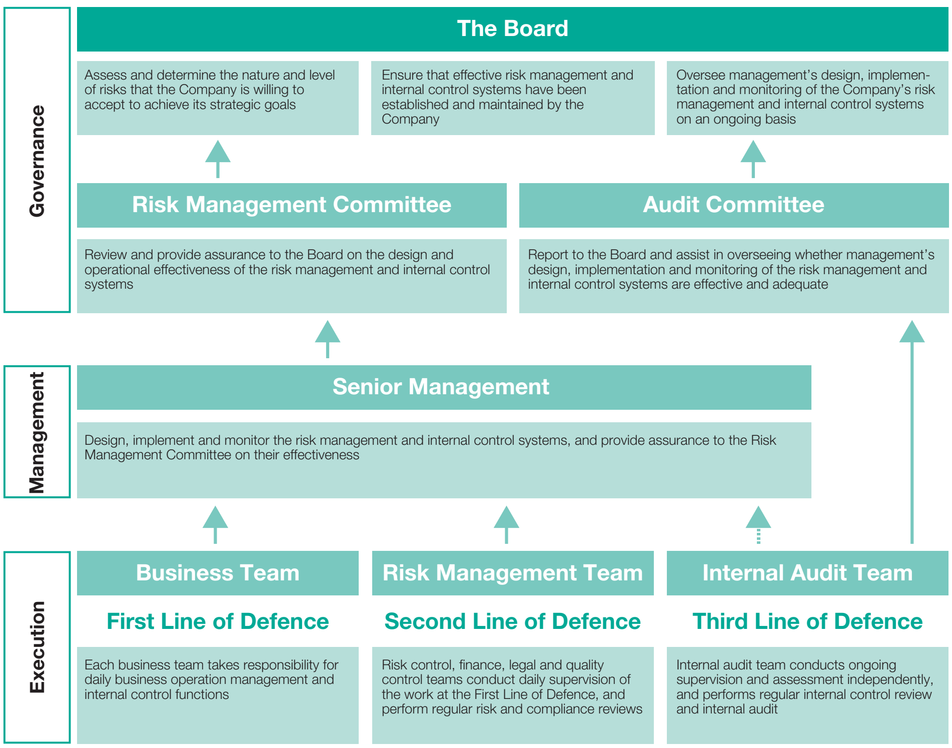
- **Risk Preferences**

  Risk preferences set the tone for the Group's overall risk profile. The Group has adopted a prudent stance in the determination of its risk preferences. The Group organically integrates its development strategies with its risk preferences, by taking into account its overall strategic deployment and the needs of each business segment, thereby facilitating the healthy operation and sustainable growth of the Group as well as each business line.

RISK MANAGEMENT AND INTERNAL CONTROL

- ### Risk Management Organizational Structure

The Group's risk management organizational structure has three levels: governance, management and execution. The risk management responsibilities and reporting relationships of the different levels are illustrated below.



- ### Risk Management Processes

  - Risk identification — management identifies uncertainties and risk exposures which could affect the Company's realization of its strategic and operational objectives. It has currently identified uncertainties and risk exposures in eight major areas, including strategic management, operational management, marketing management, financial management, legal management, human resources management, information technology and data security management, and reputation management.

  - Risk assessment — senior management and the managers evaluate and rate risks based on the two dimensions of probability and impact and rank them as "high", "moderate" or "low" based on the rating results, to create a chart mapping risk intensity.

  - Risk response — risk response strategies include risk avoidance, transfer, mitigation and acceptance. Based on the risk identification and assessment results, the management adopts the appropriate risk response strategy to design and implement relevant internal control activities to address the specific risk.

- Risk monitoring — risk monitoring is to oversee the implementation of risk mitigation measures as well as to continually improve internal control activities, which includes ongoing daily business operation monitoring and regular independent internal assessment and audit.

- Risk reporting — risk reporting is to report on the effectiveness of the design, implementation and operation of the risk management and internal control systems to management, the Board of Directors, the Audit Committee and the Risk Management Committee.

- **Risk Management Assurance Mechanisms**

  - The Company's risk mitigation processes and internal control activities include processes and internal controls at the company, business, financial reporting and IT system levels. The relevant processes and internal controls have been recorded in internal controls manuals and policies, which are published on our systems platform for all employees to access and study.

  - Risk management performance appraisal provides assurance for risk management implementation and the Company ensures implementation of its risk management strategies by raising employees' risk awareness, standardizing internal control processes and adopting a policy of total accountability of its employees.

  - The Group ensures the implementation of the Company's business processes, policies and internal control activities through related communication and training. Their forms include centralized training sessions, seminars or workshops, on-job instructive feedback, online video learning, e-mail reminders and online examinations etc., covering content such as policies, internal controls, legal and regulatory compliance, integrity and data security management.

3. MAIN RISK MANAGEMENT AND INTERNAL CONTROLS WORK CONDUCTED IN FY2017

- On November 23, 2016, the Board of Directors approved the Proposal on the Establishment of the Risk Management Committee of Alibaba Health Information Technology Limited, following which the Group established the Risk Management Committee and announced its responsibilities and terms of reference.

- By the end of March 31, 2017, the Risk Management Committee had held three meetings and reported twice to the Board of Directors on the effectiveness of the Company's risk management and internal control systems. The tasks completed by the committee in FY2017 included: (i) discussion and review of the Group's findings on major risk identification and assessment, the risk intensity map, the risk management strategies and major internal control measures mitigating key risks; (ii) discussion and review of the Report on Internal Control Assessment for FY2017 submitted by the internal audit team and oversight of management's responsibilities of design, implementation and monitoring of the risk management and internal control systems; (iii) discussion and review of the Risk Management and Internal Control Report and Environmental, Social and Governance Report required to be disclosed in the Company's annual report for FY2017; (iv) discussion and review of the work plan and key points of risk management and internal control work for FY2018 as well as the expected outputs and timetable etc.

RISK MANAGEMENT AND INTERNAL CONTROL

- Management formalized the establishment of a clear governance structure for the Group's risk management and internal control systems which includes risk management strategy, risk management objectives, risk preferences, risk management organizational structure, risk management processes and risk management assurance mechanisms.

- Management and its team of managers identified uncertainties and risk exposures in eight major areas, including strategic management, operational management, marketing management, financial management, legal management, human resources management, information technology and data security management, and reputation management; completed the definition, assessment and ranking of the identified risks; drew up the risk intensity map; suggested risk mitigation proposals and measures, all culminating in the creation of a Risk Evaluation Summary for the Company, which will form the key basis of our risk management and internal control work for FY2018.

- The business team has taken steps to standardize the policies and business procedures which were published on the Company's policy management platform for all employees to refer to and learn.

- The internal audit team completed its independent review of the design and operational effectiveness of the Company's internal control activities in certain major risk areas and presented the Internal Control Review Report to the Audit Committee, the Risk Management Committee and the Company's management team.

- The risk management function's quality control team monitored on a weekly basis key risk indicator data analysis reports, continually focusing attention on warning data shown through the risk indicators and adopting relevant preventative measures in a timely manner.

- The risk management team arranged centralized trainings for all staff on a quarterly basis to promote risk management awareness and promote risk management culture. The subjects covered by the trainings included: guidance of business processes and internal control, integrity and code of business conduct, business compliance with relevant laws and regulations, and data security management, etc.

4. DISCLOSURE OF MATERIAL RISKS

During this fiscal year, the Company conducted identification, analysis and prioritization of all the risks faced by its existing and new businesses and has identified the following material risks:

Major Risks	Description of Risks	Risk Responses
Competitive Risks	In China, there is intense competition in internet healthcare; the continual reiterations of business development and commercial operational models as well as major moves or decisions by major competitors in the industry and new entrants may bring potential threats to and have adverse impact on the Company's business development competitive advantages.	• The responsible manager for each business segment closely monitors the competitive situation of his/her business segment, and reports on the relevant information and his/her analysis and judgment at the company's management monthly meeting; • The Company has a professional team which conducts in-depth analysis and research on competition in the industry regularly and provides relevant reports to the management to make informed business decisions and develop appropriate operational strategies and effective solutions to address the competitive risks; • Senior management is committed to innovative and diversified management in relation to the Company's business plans and strategic deployment. In the course of steadfastly executing the Company's strategic decisions, senior management strives for the Company to develop and accumulate core competitive advantages and to become an unsurpassable company in the industry.

RISK MANAGEMENT AND INTERNAL CONTROL

Major Risks	Description of Risks	Risk Responses
Regulatory Risks	As the Company operates its principal businesses under a strict regulatory regime, if we breach applicable regulatory requirements, we may be subject to penalties which may adversely affect our brand reputation and business. If we do not have a timely understanding of changes in and updates on the applicable policies, rules and regulations, or do not sufficiently assess the impact of policies and regulations changes on our business operation, management would be unable to adopt mitigating measures on a timely basis, which would affect the Company's regular business activities and its business continuity.	• We have established relevant business processes and procedures and internal control measures, and added internal monitoring and checks by specialist teams in relation to matters involving regulatory issues, to ensure that our business development and operations comply with regulatory requirements. • The Company stays up-to-date on applicable rules, regulations and regulatory requirements issued by the government and regulators via announcements and notices from the authorities, as well as the news media, the internet and Alibaba Group's legislation monitoring system. The Company also actively participates in feedback events organized by government and regulatory bodies to ensure that it is fully abreast of the latest government and regulatory requirements and updates. • The Company has established information dissemination channels to keep business teams abreast of the latest regulatory requirements; we also organize regular internal seminars and trainings to study and discuss the applicable rules, regulations and regulatory requirements issued by the government and regulators, with a view to ensuring that the relevant business teams accurately understand the policies and regulations. • The legal team and business teams jointly assess the impact of policy and regulatory changes on our business, and design mitigating measures and alternative business models in response to the changes, so as to ensure business continuity as well as regulatory compliance.

Major Risks	Description of Risks	Risk Responses
Information Technology and Data Management Risks	As an Internet company, information technology and data management form a solid foundation and an important infrastructure for the Company's business development and operation, as well as one of the competitive advantages to help the Company maintain high innovation levels and to become an industry leader. Any failure or postponement in our product R&D, disruption of transactions due to malfunctioning information systems, or leakage or loss of or unauthorized tampering of our data would have a material adverse impact on us achieving our strategic objectives, our brand reputation, business continuity and customer satisfaction.	• The Company has established standardized product research and development procedures, R&D project management mechanisms, coordination, communication and incentive mechanisms for cross-team cooperation between our R&D, business, product and marketing teams to ensure timely and effective development of products which can meet our business needs. • The Company has established IT system maintenance standards and business continuity management procedures, contingency plans for IT system interruptions, and the disaster recovery plans and drills to ensure smooth and uninterrupted operation of our systems and to improve the capability of the system to respond more quickly to risk events. • To comprehensively safeguard the Company from the risks of data leakage, loss and tampering from the three areas of staff, processes and information technology, the Company (i) has established management procedures for data collection and transmission, storage security, encrypted protection, authorized access and usage, and destruction; (ii) has deployed information technology for data security management and encrypted protection; and (iii) organizes regular trainings to communicate data security and encryption requirements to all our employees. • In the course of obtaining ISO27001 (information security management system) and ISO9001 (quality management system) accreditation, the Company also further conducted self-review and enhanced its information technology and data security management systems and procedures according to international standards.

RISK MANAGEMENT AND INTERNAL CONTROL

5. OUTLOOK AND KEY ACTION PLAN FOR FY2018

- Continue to reinforce the Company's risk management and internal control structure and implementation efforts, and continually improve the Company's risk management capabilities and culture to ensure compliance with the Corporate Governance Code of the Hong Kong Stock Exchange and alignment with best industry practices.

- Continue to assist and supervise each business line and functional department to promote and optimize the design, implementation and operation of our risk management and internal control systems.

- Continue to focus on material changes and updates of key risks and make timely adjustments to the risk mitigation actions and solutions accordingly.

- Continue to establish and enhance relevant policies, business procedures and internal control guidance which are published on the policy management system platform for staff to access and study.

- Conduct ongoing independent monitoring and assessment on the design and effective implementation of the internal control activities for material risks.

- Continue to provide more risk management trainings for all staff, to enhance their awareness of risk management, promote our risk management culture, reinforce the accountability mechanism, and ensure execution of the Company's risk management strategies.

In the face of present and new risks, the Group must maintain continual and strict supervision and control under an effective risk management and internal control systems. The Company has a management team well-attuned to the importance of risk management, and which will proactively identify, prevent and manage risks and continually seek to improve the Company's risk management and internal control systems.

6. STATEMENT OF THE BOARD REGARDING INTERNAL CONTROL RESPONSIBILITY

The Group's internal controls are aimed at ensuring compliance of our operations with laws and regulations, the security of our assets and the validity and completeness of our financial reports and related information, to thereby enhance operational efficiency and effectiveness and to facilitate the realization of our business development strategies. The Company has established internal control procedures to safeguard against the unauthorized use or disposition of its assets, to ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and to ensure compliance with applicable laws, rules and regulations. During FY2017, the Company conducted a comprehensive self-assessment of its internal controls which it reported to the Audit Committee and the Board of Directors, and no significant deficiencies were identified. The Board believes that, for the year ended March 31, 2017, the Company's existing internal control systems were sufficient and effective to assure the interests of the Company and its shareholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As part of Alibaba Group's "Health and Happiness", or "Double H", strategy, Alibaba Health has developed as Alibaba Group's healthcare flagship platform. Our mission is to "make good health achievable at the fingertips" and our vision is to "facilitate medicine through big data and use the Internet to change the face of healthcare, to provide fair, affordable and accessible medical and healthcare services to 1 billion people". By leveraging our advantages and experience in internet and big data technologies, we have been exploring the application of "Internet+" in the medical and healthcare industry, forming a health platform and consolidating existing medical resources. All this is aimed at providing better technical support and assistance to the medical and healthcare industry, enhancing medical service efficiency, improving public health experience and promoting healthcare affordability. Community welfare is also rooted in our corporate culture, and we have actively undertaken community welfare activities in various areas such as providing search tools for difficult-to-find pharmaceutical products, health education and donations for disaster relief, and encouraging our employees to combine their daily work with community welfare activities. In addition, the Group is committed to operational compliance and preventing bribery and corruption. We also place great emphasis on attracting talent, upholding employee rights and facilitating work-life balance. Finally, we strive for greener business operations by working to improve resource and energy efficiency and promoting more environmentally-friendly practices in our business.

1. COMMUNICATIONS WITH STAKEHOLDERS

The Group highly values its stakeholders' views and interests, and is committed to improving its processes to allow stakeholders to have meaningful participation in its affairs, as well as enhancing communication and engagement with its stakeholders, and improving the transparency of its operations.

Stakeholder	Needs and expectations	Communication and response
Government	• compliance with laws and regulations • payment of taxes • support for economic development	• regulatory compliance • proactive tax payment and compliance • implementation of national policies
Investors	• return on investment • business and earnings growth • risk management • information disclosure	• regular disclosure of operational information • investor meetings • shareholder meetings
Customers	• provision of quality products and services • meeting customers' diversified needs • value creation for customers	• innovative products • product and service quality assurance • protection of customer information • customer satisfaction surveys
Employees	• protection of employee interests • sound career development planning • protection of occupational health • work-life balance	• competitive remuneration and benefits • career development planning • employee training • provision of fitness facilities and classes
Partners	• open, fair and equitable procurement • contractual compliance	• contractual compliance • open tendering • project cooperation
Environment	• energy saving and emission reduction • ecological protection	• managing emissions • increasing resrouce and energy efficiency • environmental protection
Community and the public	• engagement in community development • support for charitable activities	• charitable activities • volunteer services

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. MATERIALITY ANALYSIS

The Group has improved the process for determining content to be reported on with reference to the requirements of the Environmental, Social and Governance ("ESG") Reporting Guide (the "ESG Guide") of The Stock Exchange of Hong Kong Limited. This report covers the ESG performance of the Group for the year ended March 31, 2017. The Group aims to increase interaction with its stakeholders through various means, identify and determine stakeholders' material concerns, and eventually determine the extent and scope of disclosure, while ensuring more accurate and complete information disclosure.

Process of selection of environmental, social and governance issues

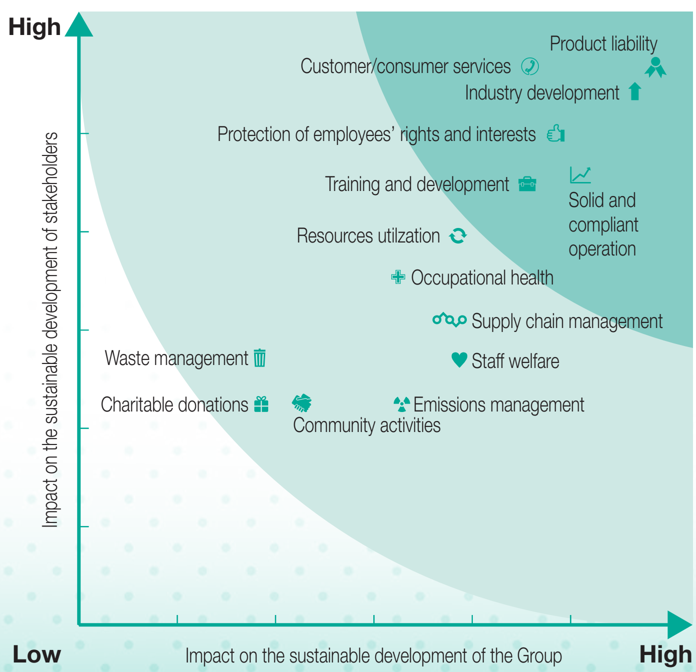
Identifying issues

- suggestions made by management of the Company
- analysis and suggestions made by internal and external experts
- analysis of media information
- study on standards conducted by peers in China and overseas
- ESG Guide of The Stock Exchange of Hong Kong Limited
- Guidance on Standards of Social Responsibility

Standards of selection

- contribution to sustainable development
- issues of general concern to stakeholders
- issues emphasized by the corporate social responsibility guidance
- compliance with the Company's needs of strategic development

Results of determination



3. HEALTHCARE ECOSYSTEM

Leveraging on the capabilities of Alibaba Group, our parent company, in the areas of e-commerce, big data and cloud computing, the Group has established an "online-to-offline integrated pharmaceutical services network". The network aims to provide each individual user with the most appropriate solution based on his/her health, sub-health and diagnostic conditions by closely linking medical treatment to medication and promoting reasonable doctor-patient collaboration, to permanently tackle the fundamental issue of expensive and time-consuming medical consultation. As a result, universal healthcare can be achieved through the formation of a complete healthcare ecosystem.

3.1 Reliable and trustworthy product tracking services

As disclosed in the Company's announcement dated July 21, 2016, the China Food and Drug Administration (the "CFDA") published the Decision of the China Food and Drug Administration Regarding Amendment of the Good Supply Practice for Pharmaceutical Products (CFDA Order No. 28) (《國家食品藥品監督管理總局關於修改〈藥品經營質量管理規範〉的決定》(國家食品藥品監督管理總局令第28號)(the "Order No. 28"), which was published by the CFDA on July 20, 2016, pursuant to which the CFDA has announced certain amendments to the Good Supply Practice for Pharmaceutical Products (《藥品經營質量管理規範》) (the "Pharmaceutical GSP"). The Company understands that the Order No. 28 means that the use of the Drug PIATS by drug trading enterprises will no longer be mandatory though the CFDA continues to require such enterprises to be responsible for managing tracking for their products.

As disclosed in the Company's announcement of final results for the financial year ended March 31, 2016 dated June 22, 2016 and its annual report 2016 despatched on July 19, 2016 and in the Circular dated August 26, 2016 relating to the Original Services Agreement, even though the Company continued the Drug PIATS operations under the CFDA's direction since the Announcement Regarding the Temporary Hal t in Enforcement of the Announcement No. 1 of 2015 Regarding Relevant Rules on the Drug PIATS (Announcement No. 40 of 2016) (《關於暫停執行2015年1號公告藥品電子監管有關規定的公告》(2016年第40號)) published by the CFDA, the Group also began to develop new market-based tracking solutions to assist enterprises to fulfil their regulatory compliance needs. In May 2016, the Company launched its "碼上放心" (*Ma Shang Fang Xin*) tracking platform, offering tracking services to enterprises for the full life cycle of their products and value-added services to assist them to strengthen their operational capabilities. By leveraging on strong calculation and data processing capability using cloud computing technologies, the Company's *Ma Shang Fang Xin* tracking platform can process larger quantities of big data and concurrently support hundreds of thousands of business users, with its sound compatibility, accessibility and security.

For enterprises, the platform provides tracking services for the full life-cycle of products. Through the tracking code, the enterprises are able to connect with consumers and develop membership programs. A wide range of interactive marketing and branding services are also provided to help enterprises in brand enhancement, channel expansion and sales growth. For governments at various levels, we provide professional consultancy services for the formulation of product tracking system planning; assist in the formulation of product tracking standards and specifications; and jointly develop product tracking showcase zones and share useful experiences for replication. The aim is to help the government develop innovative regulatory service mechanisms with a view to continually improving the standards and effectiveness of scientific regulatory services, as well as enhancing product quality safety and public safety management standards. For consumers, the platform provides product tracking information, healthcare knowledge and buying guides, etc. to provide assurance and convenience in consumption.

3.1.1 Drug Tracking

For the year ended 31 March 2017, more than 5,000 enterprises signed up with the Group to join its *Ma Shang Fang Xin* platform, among which the number of pharmaceutical manufacturers which signed up accounted for more than half of the total number of pharmaceutical manufacturers in China. In addition to permanently providing free tracking services for vaccines to enterprises, the Group also provides the public free access to its drug tracking services.

Case study: Launch of vaccine tracking and storage temperature checking services in Hubei

Vaccination is widely used to prevent diseases, though various vaccine scandals in China have resulted in a psychological fear particularly among the parents of children who are potential vaccination subjects. The temperature of the vaccines during the storage and delivery process and tracing and tracking the vaccines' distribution have become key areas of attention among the concerned public.

In September 2016, Alibaba Health and the Hubei Provincial Center for Disease Control and Prevention jointly launched a scan code search function for the public to check the temperature of a vaccine during its storage and delivery process and to trace and track the distribution of the vaccine. Vaccination subjects at the Red Cross Hospital in the Hannan District and the health center in Sha Mao Jie can simply scan the code on the vaccine package using their mobile phone using the latest version of the Taobao, Tmall or AliHealth mobile applications to obtain the details of the vaccine, including basic information such as the name of the vaccine, its manufacturer, expiry date, approval number and lot number, as well as control records on the temperature of the vaccine during its delivery and storage, before they receive the vaccine. A pre-alert will be issued by the tracking platform if there is distribution information missing or there are temperature issues indicated.

"Such scanning system for checking the temperature of vaccines during delivery and storage temperature has reassured the public,"

— Ms. Liu, a vaccination nurse at the Red Cross Hospital

"The tracking system will allow centers for disease control and prevention to paperlessly record and manage vaccination information with enhanced efficiency and reduced cost, connect individual vaccination subjects to the specific vaccine received by them, and allow for precise checking of each vaccination subject quickly in the case of any problem,"

— the responsible officer at the Hannan District for Disease Control and Prevention

Case study: Cooperating with Guangzhou Baiyunshan on using code scanning to collect expired drugs

In August 2016, Alibaba Health and Guangzhou Baiyunshan cooperated to provide services to identify expired drugs to enable the collection of expired drugs from homes. Such collaboration, on the one hand, aims to encourage consumers to participate in collection activities for expired drugs using the Internet, thereby minimizing drug pollution from arbitrary disposal and preventing recirculation of expired drugs; and on the other hand, promotes drug safety awareness among consumers.

3.1.2 Food Tracking

With the improvement of living standards, the public has become increasingly concerned about food safety. The key issue which enterprises have been trying to address is how to guarantee food safety by using more advanced Internet technology. In March 2017, the Group entered into a strategic cooperation with Charoen Pokphand Group ("CP Group"), launching a service from May 2017 that lets consumers track the origin and authenticity of eggs produced by CP Group by simply scanning quick response (QR) codes on egg cartons. Such cooperation is a critical step in the Group's expansion of its tracking services beyond drugs, and signifies the Group's gradual expansion of the *Ma Shang Fang Xin* platform into the food industry.

3.2 Highly Effective Drug Retail Platform

The Group aspires to create an Internet-based drug distribution and sales system that covers the entire industry chain, thereby enhancing the efficiency of the healthcare product supply chain and bringing benefits to all market participants and consumers. The Group's pharmaceutical business includes its self-operated pharmacy, its O2O business and the provision of outsourced and value-added services to Tmall. Following the acquisition of the entire equity interest in Guangzhou Wu Qian Nian Pharmaceutical Chain Co., Ltd.^ (廣州五千年醫藥連鎖有限公司) (subsequently renamed as "Alibaba Health Pharmaceutical Chain Co., Ltd^" (阿里健康大藥房醫藥連鎖有限公司), hereinafter "Ali Health Pharmacy") in August 2016, the Group promptly commenced its own pharmaceutical e-commerce business. Leveraging on its operational branding strengths and owing to the efficient execution of its business team, the Group quickly established the supporting systems for warehousing, logistics and customer services. This has facilitated the rapid growth of the Group's pharmaceutical e-commerce business. In September 2016, the service agreement entered into between the Group and Tmall became effective. Pursuant to the service agreement, the Group commenced the provision of merchants' business development, merchant customer services, technical support and other outsourced and value-added services for certain pharmaceutical-related categories (including over-the-counter drugs, medical devices, contact lenses and solutions, sexual health and family planning products, medical services and other categories) on the Tmall platform.

3.2.1 One-stop Multi-dimensional Drug Purchasing Service

By integrating related pharmaceutical e-commerce resources, the Group has established a B2C+O2O drug retailing model, significantly enhancing users' online purchasing experience by providing consumers with a multi-dimensional drug purchasing service and offering users a greater variety of intelligent choices.

Case study: Forming a professional pharmacist team

Professional pharmacists play a critical role in assisting consumers in purchasing the right drugs in the correct dosages. Since the inception of Ali Health Pharmacy, one of its key objectives was to form a truly professional pharmacist team. As such, we only recruit certified professional pharmacists with pharmacy work experience, and training is provided to all pharmacists from time to time with the aim of enhancing their professional knowledge in medicine and upholding quality standards. This includes training on appropriate language and behavior in customer communications, treating customers with respect and care, providing customers high quality dosage consultancy services, and continually raising service awareness of our pharmacists.

Examples of Ali Health Pharmacy's management policies

- "Pharmacist's Code of Conduct"
- "Pharmacist's Quality Standards"
- "Ali Health Pharmacy Shift Scheduling Principles"
- "Ali Health Pharmacy Customer Service Incentives and Penalties"

Case study: Health education through multiple channels

We offer popular science education on medical treatments and healthcare products, such as nutritional and supplemental healthcare, over-the-counter drugs and medical devices, using both text and graphics, evaluations, live streaming and short videos in different contexts. In 2016, we uploaded 3.06 million purchase guides for 154,100 healthcare products on Alibaba Group's Taobao website. During the "Double Eleven" period, the Group promoted healthcare education by organizing discussion on hot topics in "Weekly Health Talk"「全民健康説」, a live-streamed program, in collaboration with the team that hosts the popular Chinese internet variety show "U can U bibi"「奇葩説」. In addition, we have also organized monadic, horizontal and open-box evaluations of a number of medical and healthcare products, such as anti-pollution masks, condoms, gelatinum asini and bird's nest, in cooperation with the "Health Evaluation"《健康測評》segment of Huaxia.com and with other professional institutions. An average of approximately 2.53 million users access the Taobao website daily for healthcare education each year and each user spends approximately six minutes browsing healthcare guiding content.

3.2.2 Launch of "China's Nourishing Supplements" (「滋補中國」) Program

The Group launched the "China's Nourishing Supplements" branding program jointly with Tmall Pharmacy on October 9, 2016. Through multi-party cooperation with local governments, enterprises and industry associations in key nourishing supplement-producing provinces, such as Liaoning, Jilin, Ningxia, Yunnan, Shandong, Zhejiang and Anhui, the Group has brought together on the Tmall Pharmacy platform enterprises and products which focus on authenticity and quality, have brand influence and are innovative. The main purpose of the program is to promote quality and good service in the nourishing supplements industry through enhancement of the "China's Nourishing Supplements" hallmark's connotation of good service, whereby consumers of authentic and quality products labelled with the "China's Nourishing Supplements" hallmark can enjoy greater convenience and protection through measures such as body checks before and after the purchase of the nourishing supplements and 5x compensation for counterfeit goods. The program, on the one hand, allows consumers to learn more about nourishing supplements and to purchase authentic nourishing supplements from producing regions, and on the other hand, increases opportunities for people living in producing regions to alleviate poverty through development of the industry.

For the year ended March 31, 2017, the "China's Nourishing Supplements" program has helped nourishing supplement-producing regions and, in particular, farmers in poverty-stricken areas, to increase income. Over 2 million consumers in 395 cities have purchased nourishing supplements produced in poverty-stricken areas, and 712 out of 832 national level poverty-stricken counties in China have achieved online sales for nourishing supplements on the Tmall platform. Among them, the 20 best performing poverty-stricken counties in terms of sales volume together recorded a total transaction amount of approximately RMB651 million.

Case study: Cooperating with Yunnan Panlongyunhai Pharmaceutical Co., Ltd. to help farmers record accumulated income of approximately RMB200 million

Wenshan in Yunnan is the main producing area of Panax notoginseng (三七), a Chinese medicine, and produces over 95% of Panax notoginseng in China. Without a reliably stable sales channel, significant fluctuations in the price of Panax notoginseng resulted in the instability of income of local farmers. Both Alibaba Health and Yunnan Panlongyunhai Pharmaceutical Co., Ltd. believe that the key to poverty alleviation is in the adage "Give a man a fish, and you feed him for a day; show him how to catch fish, and you feed him for life". Poverty alleviation cannot be achieved simply through donation; in this case it involves the relay of scientific and standardized farming methods to farmers to conduct pest control and thereby stabilize and increase their production. The "China's Nourishing Supplements" program has effectively addressed the difficulty of local Panax notoginseng farmers in selling their products by enabling them to implement planned purchase and storage strategies, gradually increasing their income. As at the end of 2016, the producing area of Panax notoginseng covered over 300 villages in 20 towns with over 80% the Panax notoginseng produced in pollution-free areas. The accumulated income of the 3,000 farmers who have joined the relevant cooperative society was approximately RMB200 million.

Case study: Poverty Alleviation of "Millennium Medicine Country" (千年藥鄉) through the "Min County Model" (「岷縣模式」)

Min County, Dingxi in Gansu province, is renowned as a main producing area of authentic Chinese medicine, and is also known as "Millennium Medicine Country" (千年藥鄉) or "The Hometown of Chinese Angelica" (中國當歸之鄉). Min County produces an abundance of 238 types of valuable Chinese medicine, including Chinese angelica and astragalus, and the quality and production volume of its Chinese angelica are among the best in the world. Due to its remote and inaccessible location, sales volume of its Chinese medicine had been unsatisfactory and left Min County as a poverty-stricken county. In 2016, Juhetai (聚和泰) flagstore, a participant of the "China's Nourishing Supplements" program and the first flagship store of Chinese medicines in Dingxi Gansu, commenced operation. As a member of the "China's Nourishing Supplements" program, the store has adopted a "e-commerce + farmer cooperative society + poor households" model that leverages on the local advantage in Chinese medicine resources, through its engagement in online sales of Chinese medicines and local produce the store has increased local farmers' income through e-commerce, and such new model has been recognized as the "Min County Model" by the State Council. With the support of the "China's Nourishing Supplements" program, in 2016, Min County achieved the second highest volume of sales of nourishing supplements among poverty-stricken counties in China in terms of transaction amount, generating an income of RMB192.69 per capita.

3.2.3 Establishment of Chinese Pharmaceutical O2O Pioneer Alliance

The Group took the lead to form a Chinese pharmaceutical online to offline ("O2O") pioneer alliance, which, as of March 31, 2017, covered more than 20,000 pharmacy outlets in over 100 cities in China through cooperation with more than 200 offline pharmaceutical chains. The Group will actively explore various models to empower merchants and realize mutual growth and benefits with the creation of a new retail model for healthcare products and services that integrates online and offline service to provide end-consumers with greater diversity of products and convenience of services. During the year ended March 31, 2017, the Group also began to develop centralized procurement and distribution operations for the pharmaceutical supply chain, by utilizing upstream supply chain big data to better provide quality products at competitive prices to downstream businesses. The Group also set the "MVCDO" standards for the O2O pioneer alliance, namely Mutual communication among members, Virtual to physical complementary services, Centralized purchasing, Delivery service for online orders and O2O express delivery.

Table: The "MVCDO" Standards

Mutual communication among members	Developing a centralized system for members to communicate
Virtual to physical complementary services	Allowing drug consumers to seek online medical consultation with a professional at the physical chain store through the Alibaba Health platform
Centralized purchasing	Enabling drugstores in the pioneer alliance to purchase goods at competitive prices through centralized purchasing arrangements
Delivery service for online orders	Providing relevant product information online to facilitate procurement by users, and facilitate wholesalers to subsequently fulfill deliveries accordingly
O2O express delivery	Ensure speedy O2O delivery through local physical drugstores

3.2.4 Quality and Service Assurance for Drugs

The Group has established an e-commerce drug quality control team, which is responsible for quality control for its self-operated pharmacy, its O2O business and assisting Tmall with its product quality control functions in respect of the Group's provision of outsourced and value-added services to Tmall. The team organizes and conducts quality control in the course of the drug business operation, to ensure drug quality and safety, and proper operations. The businesses mentioned above have all established comprehensive quality management systems and standard operating procedures (SOP). For example, our self-operated pharmacy currently implements 36 management procedure documents, ranging from setting out the quality requirements for suppliers and logistics companies in relation to receipt, inspection, storage, maintenance, retrieval, delivery and return of the drugs, to the handling of complaints and unexpected events. On the basis of the quality requirements established by the quality control department and taking into account the specific characteristics of drugs, our logistics department imposes strict control over drug warehousing, delivery and return to maintain drug quality.

Table: Number of Suppliers

Suppliers of principal business (online, offline)	360
Overseas suppliers of principal business	20
Suppliers of non-principal business	28

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Table: Drug Logistics Management

Warehousing	Upon taking delivery, checks shall be performed on whether the mode of transportation fulfils requirements, and the invoices, accounts and goods shall be reconciled. Secondly, inspection shall be performed on each batch of goods, and information such as suppliers, manufacturers and the general name of the goods verified. Finally, in accordance with acceptance requirements, sampling checks shall be performed on each batch of products. For drugs using electronic drug tracking, the drug tracking code shall be scanned, and the resulting data uploaded to the Drug PIATS platform.
Product dispatch	Upon dispatch, further review shall be performed against the sales records; where damage, contamination, abnormal noise, leakage, label loss, expiry or inconsistency of the actual goods with the records is discovered, the goods shall not be dispatched. Review upon dispatch of goods shall be recorded, including information on the purchaser, the general name of the drug, its dosage, specification, quantity, batch number, validity period, manufacturer, dispatch date and quality condition and the responsible person for the review. For drugs using electronic drug tracking, the drug tracking code shall be scanned at the time of dispatch and the resulting data uploaded to the drug Drug PIATS platform.
Returns	There are strict controls on the process of returns for storage. Product quality management is involved in each step of returns for storage, from acceptance of returns, inspection of the returned goods, time limit for storage and shelving, to the handling of goods unqualified for return.

Table: Third-party Logistics Management

Risk control and management system	Operational risks shall be managed through cooperation with state-owned large-scale logistics companies or industry leading carriers, and bulk cargo risks shall be managed in cooperation with the carriers. Overall risks shall be effectively controlled through the use of tender invitations issued to carriers.
On-site operation standards	Safety checks shall be performed on vehicles and personnel prior to taking delivery; on-site operations shall ensure personnel safety, orderly operation and sanitary environment; grooming and attire of on-site operators shall be standardized and fire and safety measures shall be in place; on-site coordination between the carrier and driver for the taking of delivery and stock transfer between warehouse and carrier shall be ensured; and standards for stock loading and piling by carrier operators shall be met.
Controls over time limit for dispatch	General controls over time limits for delivery by third-party logistics service providers shall be maintained to ensure good customer experience; abnormal orders shall be identified in a timely manner and properly handled and the relevant data shall be reported daily and weekly; and assessments on the service standards of third-party logistics service providers shall be performed.

Case study: Crackdown action by Alibaba to clear out unqualified brands

Product quality and user experience has always been considered by Alibaba Group and Alibaba Health as the crucial foundation of platform operations. In 2016, Alibaba commenced its “Crackdown Action” for product quality management in respect of industries focused on user experience. The Tmall Pharmacy platform, part of which operations are outsourced to Alibaba Health, conducted several random inspections in 2016, during which the contact lenses of the three brands Lukoko, Ruier Kang (瑞爾康), and Le Sha (樂莎) each failed quality tests twice, following which such products were removed entirely from Alibaba’s Tmall e-commerce platform. Since the commencement of the “Crackdown Action”, product quality management has been further enhanced in respect of contact lens brands on Tmall platform to better protect consumer interests.

The Group provides after-sales service for pharmaceutical product orders through such means as Aliwangwang (阿里旺旺) and telephone, properly handling all sorts of before-sales, sales and after-sales issues in a patient and professional manner, including queries on promotional activities, changes of address, invoice and payment requests, logistics tracking queries, returns and exchanges, refunds and complaints; understanding information on customer service needs for effective follow-up; providing quality after-sales guidance and services; adequately managing customer reviews; and interpreting and analyzing customer reviews in a timely manner.

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3.3 Easy access to professional medical services

As the aging population of China continues to increase, convenient access to quality medical services has become a growing concern for the increasingly health-conscious Chinese public. Currently, premium medical resources in China are mainly concentrated in tier one cities in terms of geographic distribution. In many tier two or tier three cities, the standard of medical care and the number of hospitals fall far short of demand, especially in relation to aged patients who need to visit the hospital frequently. As a result, much time is wasted in the process of seeking medical consultation.

In this connection, the Group has been actively engaged with a number of hospitals and doctors to facilitate online health consultation services, which will allow patients to access medical services at home. We have also been actively exploring the "Internet+ medical care" model, which aims to simplify the procedures involved in medical consultation, so that doctors will be able to obtain the relevant health data of patients more quickly and the waiting time for patients will be shortened significantly.

3.3.1 Online health consultation

The Group has actively organized the provision of online health consultation by practicing doctors, pharmacists and other third-party professionals services in various areas and at different levels through customer-end applications such as the Ali Health, Taobao, Tmall and Alipay mobile applications, allowing users to secure real-time professional guidance with ease. During the year ended March 31, 2017, the Group provided more than 6 million sessions of online medical healthcare consultation services to individual users.

In the meantime, the Group has enhanced its management over the resident doctors providing the online consultation services, through the formulation and implementation of the "Administrative Rules for Signing on Alibaba Health Doctors" and "Administrative Rules for Retiring Alibaba Health Doctors from the Platform" to clearly stipulate qualification requirements for resident doctors, the process for joining, retiring or removed from the platform. We also conduct SOP training for resident doctors prior to their going online to provide the services to ensure that their services meet the required standards.

The Group has made improvements to its medical care after-sales services with the formulation and implementation of "Procedures for Handling Complaints and Refund Requests from Users of Alibaba Health Doctors' Consultation Platform" which stipulate the process for handling complaints and requests for refunds. Our operation staff track the status of service orders on a daily basis, including whether replies have been provided in a timely manner, and whether the quality of replies complies with the SOP. In case of unexpected situations, the doctors that provide the services will be contacted for timely resolution of the issue. In case of dissatisfaction with an individual doctor, our operation staff can offer compensation to the user quickly. Regular reviews are being conducted with randomly selected users for whom services are completed. Compensation is offered to users who indicate dissatisfaction in the interviews. As a result, our customer satisfaction ratio has been maintained at above 95%.

3.3.2 Promotion of tiered online medical care

The Group has made vigorous efforts to drive the trial implementation of a tiered online medical care system, which involves the use of Internet tools and basic medical testing equipment at village-level medical institutions and the development of a platform for remote joint consultation between village hospitals and county/provincial hospitals. This arrangement offers a fundamental solution to the shortage of medical care services in villages as it will enhance the servicing ability of basic level medical institutions while partially relieving the pressures faced by county/provincial hospitals.

Case study: Trial implementation of "tiered online medical care" in Zhijiang, Hubei

While the implementation of tiered online medical care is a key priority of the reform of China's medical care system, recently there has been increasing public interest in the role of the Internet in advancing reforms relating to tiered medical care. In October 2016, Alibaba Health launched a tiered online medical care project in a joint effort with the Zhijiang Municipal Department of Health and Family Planning. Under this trial implementation, we were responsible for the design of the technical proposals and the construction of the platform for tiered online medical care to connect nine specialist departments from four city public hospitals, and general practitioners from seven rural town hospitals and 185 village clinics (community health service stations) in Zhijiang, to facilitate inter-connection among local medical institutions and improve basic level medical service capability. The project is also Version 2.0 of the Alibaba Health Network Hospital project, pursuant to which village medical institutions are connected to community health service centers and public hospitals via the Internet, to enhance the overall efficiency of local medical resources, while facilitating the development and improvement of the tiered medical care system. As at March 31, 2017, the trial platform for tiered online medical care had effectively covered the entire Zhijiang city and greatly enhanced the city's medical service capability.

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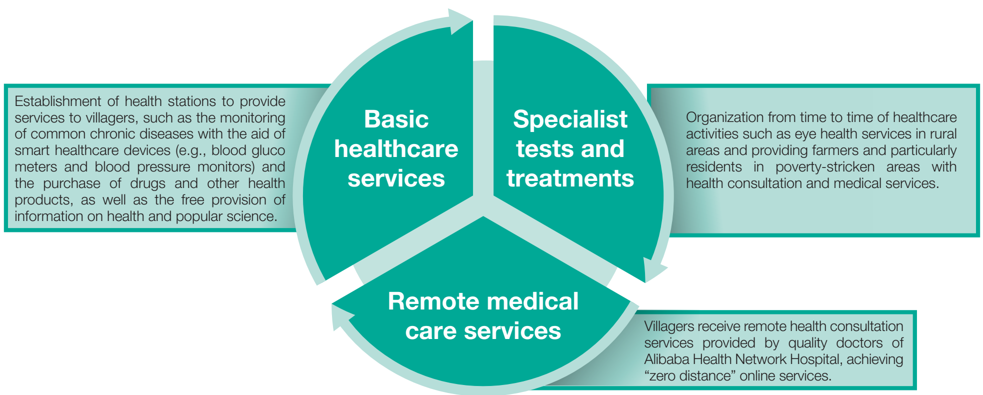
3.3.3 Health in the villages

The Group has established health ecology service centers in collaboration with Rural Taobao (cun.taobao.com) to explore the provision of health education among villagers by leveraging on Rural Taobao's local partner system. The services comprise dissemination of knowledge of common diseases, epidemic diseases, hygiene issues and prevention initiatives; and the gradual development of personalized health profiles for villagers. These initiatives are aimed at helping primary care doctors become more effective "health guardians", allowing rural areas to also benefit from the development of Internet medicine and providing villagers with access to daily health services that are enjoyed by urban residents at a relatively lower cost. As at March 31, 2017, the first group of 300 service centers had commenced operation, covering 20 provinces from Heilongjiang in the north to Guangxi in the south.

The three key service aspects in the establishment of the health ecology service centers are described as follows:



Case study: Ophthalmologists reaching out to villages to serve rural residents

Through the health ecology service centers, Alibaba Health launched the "Care for Villagers' Eye Health" campaign in a joint effort with Rural Taobao and Aier Eye Hospital^ (愛爾眼科). Ophthalmological check-ups including eyesight tests, slit lamp examination and cataract tests carried out on-site were conducted for 610 villagers from eight villages in Jianghua County, Hunan Province. Following the check-ups, 50 patients who were diagnosed with cataracts and 35 patients who were diagnosed with pterygium received free surgical treatment offered by Aier Eye Hospital^ and regained their ability to work afterwards. Through Alibaba Health's collaboration with Aier Eye Hospital^, ophthalmologists were lined up to provide eye health consultation and treatments to patients in villages and other impoverished areas with the aim of improving eye health in villages.

Case study: The "Health Services for Villages" (「送健康服務進村」) program

In November 2016, Alibaba Health launched its "Health Services for Villages" (「送健康服務進村」) project in collaboration with Rural Taobao, driving a healthcare service vehicle to rural areas for the first time, to provide blood, urine and color ultrasound tests for dozens of senior citizens in Houjing Village, Zhangzhou City, Fujian. Starting from November 11th, which was the date of the Tmall Global Gala, a convoy of healthcare service vehicles delivered healthcare services, such as body check-ups, Internet consultation, provision of supplementary healthcare knowledge and facilities, to villagers at close to 20,000 Rural Taobao village outlets.

"Our villagers had never been provided with full body check-ups at their own doorsteps. Occasional body check-up services conducted by the local hospital in the past had been limited to a few checks only, measuring height, weight and blood pressure, etc. This time round, the healthcare vehicle was fully equipped: it even brought along an X-ray examination unit, and offered all these checks at substantially discounted prices. Hence, our village authorities procured this service collectively for all seniors aged 80 or above. Our statistics indicate that villagers enrolling for the body check-ups included all seniors of the village aged 80 or above, and also members of households entitled to "five assurances" (五保户) and households earning sub-par income. Close to 90 per cent of the participants had never received a full body check-up before."

— Zeng Fucai, Secretary of Branch Village CPC Committee of Houjing Village

3.4 Multi-dimensional and smart personal health management

The Group has built a personal health management platform to consolidate online and offline medical health data and generate personal health profiles, for the purpose of providing personalized medical care and management of the full health cycle. On October 19, 2016, Alibaba Health joined forces with a host of smart medical and health equipment brands to launch the "Smart Care Program" (智能關愛計劃), through which health trend reports can be generated automatically based on users' health indicators (such as blood sugar, blood pressure, weight and temperature, etc.) recorded and uploaded in a timely manner through the smart healthcare devices, and medical doctors can be engaged as and when appropriate to provide remote health guidance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

"Smart Care Program" (智能關愛計劃)

Leveraging mobile Internet and data technologies, consumers' health data generated from health check-ups are uploaded to our platform from smart health devices via GPRS, Bluetooth or Wi-Fi, etc, and health trend reports are then automatically generated based on such data. These reports can then be used in subsequent, ongoing professional medical care and health management services. Through a complete health service model that combines smart health check devices with chronic disease/health management planning, Alibaba Health provides consumers with a recording tool for their electronic health profiles and facilitates timely intervention through back-end medical care and health management services, to enhance their ability to manage their own health.

Consumers are encouraged to upload their health data to the Alibaba Health service platform using their smart device at suggested intervals, and health trend reports generated through data analysis are then delivered to consumers and their medical care service providers. On the basis of the consumers' health data, their medical care service providers can subsequently provide standardized services as well as a range of value-added services, such as the provision of ongoing guidance, recommendations and consultations by professional medical care practitioners (including nutritionists and medical doctors) via the Internet or phone.

Case study: Caring for consumers' health through the "Smart Care Program"

In October 2016, Alibaba Health announced that it would offer healthcare equipment, such as smart blood glucometers, smart blood pressure monitors, smart body thermometers and smart body fat monitors, to consumers in collaboration with Ali Smart and renowned smart healthcare equipment and service providers including 3nod, Haier Medical and Zhang Shang Tang Yi^ (掌上糖醫), with the scope of the health management items offered practically covering all members of the family.

Alibaba Health

+

IOT service technology enterprises	Manufacturers of smart medical and healthcare equipment	Medical and healthcare service institutions
Provision of IOT service technologies enabling the collection of data such as those relating to the physical attributes and exercise of the user, as well as the visualization of such data for connection with other home appliances using Ali Smart and to channels such as Tmall Supermarket (chaoshi.tmall.com) and Mr. Fresh (miao.tmall.com), to facilitate a brand new healthy lifestyle based on smart devices for the user.	Enlargement of existing market through cooperation and achieving industry consolidation through the Ali Health brand, while optimizing their industrial structure with the aid of Internet technologies and data to focus premium resources on quality improvements and upgrades for essential products.	Engagement with precise user groups, improvement in efficiency of medical services with the aid of big data application analysis tools and enabling the focus of resources on enhancing the quality of medical and healthcare service products, in an upgrade from the mass supply of medical services to the provision of value-added medical services.

Case study: Upgraded blood sugar management services

According to the "Report on the Status of Nutrition and Chronic Diseases of Chinese Residents (2015)" (《中國居民營養與慢性病狀況報告》) published by the National Health and Family Planning Commission, there were approximately 100 million adult diabetic patients aged 18 or above in 2012. According to a survey on diabetes carried out as part of the initiative to monitor chronic diseases in China, among diabetic patients who were receiving medication, less than half were successful in blood sugar control. In the absence of scientific monitoring of the disease and effective health management, diabetic patients are susceptible to complications, which could be fatal in serious cases.

In 2016, Alibaba Health launched a smart blood glucometer in cooperation with a number of enterprises which specialize in the R&D of products for monitoring diabetes, as a flagship product for the first stage of its "Smart Care Program". The aim was to provide smart monitoring devices and professional blood sugar management services for diabetic patients in China. After a patient has purchased the smart blood glucometer and blood sugar management services under the "smart care program", the data generated from each blood sugar test will be automatically uploaded to the cloud computing platform and compiled into a personalized blood sugar trend report for the patient, which will be sent to the Alibaba Health APP. In this way, not only would the patient be able to read his/her blood sugar report and related health information in a timely manner, his/her family members and the third parties providing blood sugar-related services — such as doctors and nutritionists from Zhang Shang Tang Yi^ (掌上糖醫) — can also be informed of the latest changes in his/her blood sugar conditions via the APP and effectively intervene if necessary.

The involvement of Internet companies in personalized health management services can encourage increased use of smart devices by the patient, while driving brand companies engaged in the R&D and manufacturing of blood sugar monitoring devices and glucose test papers to become operators of "smart monitoring management + personalized health services".

4. HEALTH AS COMMUNITY WELFARE

Leveraging the strengths afforded by its platform and Internet technologies, the Group has been actively engaged in the development of a community health platform through multiple initiatives, such as providing search tools for difficult-to-find pharmaceutical products, health education and donations for disaster relief. The platform will facilitate consolidation of medical resources and better care for the sick, as we seek to offer new solutions to enhance the efficiency of public services and improve public health by bringing community welfare and healthcare together through collective community efforts.

4.1 Pharmaceutical search as community welfare

In early 2016, Alihealth worked with Sinopharm's yao123.com (國藥健康在線有限公司) to provide a free pharmaceutical search platform to the public in a joint effort to develop a fast and convenient pharmaceutical search system for community welfare purposes, so that patients and their families can find the drugs they need, which are often in short supply. This was the first non-profit making public pharmaceutical search platform in China.

Pharmaceutical products are often manufactured in limited quantities owing to the lack of raw materials, while there is often information asymmetry in relation to the distribution of drugs. As a result, patients are unable to effectively obtain in time the medicines they need, and the search for scarce pharmaceutical products has practically become a social problem. Friends and relatives of patients posting on Weibo and WeChat's (朋友圈) applications to ask for help in finding medicines has become a normal occurrence. As a preliminary attempt at tackling the difficulty of buying medicines, yao123.com provided data and information on drugs to, while Alibaba Health provided technical support for, the pharmaceutical search platform. In the future, the scope of the service will be further expanded to provide supplementary services such as online reservation, online registration and drug consultation.

4.2 Health education

Leveraging our strengths in Internet technologies and public information platforms, the Group has joined forces with numerous specialist medical institutions, including the National Center for AIDS/STD Control and Prevention under the Chinese Center for Disease Control and Prevention ("CDC AIDS/STD Control Center"), the Chinese Medical Association and others, to launch community medical care campaigns, such as in connection with AIDS prevention and iron deficiency anemia. We have also initiated joint online and offline community welfare efforts to raise public awareness for disease prevention in a major effort to promote medical care through community welfare.

4.2.1 Initiatives to tackle AIDS

In November 2016, the Group entered into strategic cooperation with the CDC AIDS/STD Control Center, pursuant to which the latest reports on data relating to the spread of AIDS and related national policies were announced to the public through inter-connected data sharing. As the exclusive point of access to information released by the CDC AIDS/STD Control Center, Tmall Pharmacy (yao.tmall.com) publishes nationwide information on "voluntary outpatient consultation and AIDS testing" and subject to protection of user privacy, directs groups who are susceptible to infection to free preliminary tests and consultation. Moreover, joint online and offline community welfare efforts were launched prior to critical periods, for example, winter and summer holidays for youngsters at school and times when adults are likely to engaged in high-risk behavior. Other initiatives included care for AIDS orphans and the offline community welfare Q&A contest themed "Love, not AIDS" (要愛不要艾). Internet technologies have thus helped to promote greater transparency of information on AIDS prevention and discourage AIDS taboos and AIDS phobia among the Internet population.

On December 1, 2016, World AIDS Day, Alibaba Health launched a "1+1>2" self-test service pack on yao.tmall.com. The service pack contained an instant saliva test device and a urine test device, and purchasers were encouraged to do the self-test and mail the test samples on an anonymous basis to the CDC AIDS/STD Control Center for examination at its specialized laboratory. Users might approach the Center to enquire the examination results. The self-test service pack was aimed at strengthening awareness and actions for self-testing AIDS prevention among frequent online consumers, which comprise mainly young people. Meanwhile, the examination results also allowed national monitoring agencies to be better informed about current practices in safe-sex protection, to facilitate the provision of more specific public services for AIDS prevention in the future.

4.2.2 Initiatives to tackle iron deficiency anemia

Iron deficiency anemia is mainly caused by imbalances between iron intake and iron loss, and is often associated with pregnancy and certain chronic diseases. According to statistical data generated from the 4th National Survey on Nutrition, 2 out of every 10 people in China are anemic, bringing the total number of patients in China suffering from iron deficiency anemia to close to 200 million, most of which are infants, women of childbearing age and aged persons. The percentage of pregnant women suffering from iron deficiency anemia reached 19.1%.

In May 2016, the Chinese Medical Association and yao.tmall.com jointly hosted the "2nd Cross-disciplinary Academic Forum on Iron Deficiency Anemia" at Alibaba Group's Xixi campus in Hangzhou. A number of top-notch domestic and international medical experts and academics attended the forum and engaged in academic research discussion on the impact of iron deficiency anemia on pregnant women and fetuses. The cross-disciplinary forum on iron deficiency anemia aimed to bring the attention of the medical profession to neglected areas, so that more professional explorations in the medical and healthcare service sector can be made to the benefit of more patients awaiting treatment.

4.2.3 Initiatives to tackle Type 1 diabetes

In China, many children suffering from Type 1 diabetes have been unable to get valid blood sugar tests because of financial reasons, resulting in undue delays for the best time for treatment. In 2016, the Group launched a care initiative for children suffering from Type 1 diabetes on Tmall Pharmacy (yao.tmall.com) in its first-ever joint effort with Johnson & Johnson Medical Companies. 100 "Diabetes Care Angels" were recruited on the platform and offered free provision of blood sugar testing supplies for one year. Meanwhile, volunteers provided care services to the families of diabetic child patients, offering one-on-one guidance in blood sugar management either at their homes or via remote devices. Leveraging the specialized expertise of Tmall Pharmacy, the Group has enhanced care and assistance for diabetic child patients and introduced new solutions for community medical welfare, allowing more people to benefit from medical care.

4.2.4 Live broadcast shows on health tips

The Group launched two health education programs entitled 《Dr. Chili》《麻辣醫生》and 《The Rumor Buster》 《滾蛋吧謠言》in early 2017. These programs were run by way of live broadcasts or recorded videos hosted by doctors, or specialized graphic/textual contents. Specialists from "3A" hospitals conducted health education from a professional perspective on topics attracting strong consumer interest, such as weight loss, infant care, and gynecology. The specialists also focused on correcting certain common misconceptions of health issues, such as the manner in which diseases such as H7N9 bird flu or hepatitis B are transmitted. The live program of 《Dr. Chili》 has been broadcast on a weekly basis and the 12 episodes shown over the past four months since its debut have attracted more than 1.30 million views in total. The professional, interactive education on popular health issues provided by the program has been positively rated by consumers.

4.3 Donations for disaster relief

The Group took immediate action in response to catastrophic incidents in 2016, losing no time in enquiring the needs of front-line medical institutions and making urgent dispatches of critical medical supplies to support the rescue efforts of local medical personnel. Meanwhile, staff donation initiatives were also actively organized.

Case study: Alibaba Health joined by platform partners in sending medical supplies to Funing

In June 2016, the districts of Funing and Sheyang in Yancheng City, Jiangsu were battered by a devastating tornado and hailstorm. Casualties were reported as houses collapsed in massive numbers. While the government authorities and the public were making huge efforts in disaster relief, the lack of medical resources remained the most pressing issue in the disaster-stricken areas. In view of the situation, Alibaba Health quickly lined up a number of partner suppliers on its platform, including Kangbai Medical Instruments, Yuyue Medical Equipment, Conba Pharmaceutical and others, to form the "Funing Relief Task Force", sourcing and delivering several thousand items of urgently required medical resources, such as wheelchairs, walking sticks, first-aid kits and blood pressure meters, to affected areas in Funing in an active attempt to take part in disaster relief.

5. COMPLIANT OPERATION

The Group has integrated social responsibility into its business operations by upholding the values of honesty, integrity and transparency and defending its bottom line of compliant operation. Internally, we care about the growth and development of our staff; and externally, we are also committed to adopting environmentally responsible behavior and ensuring green development, with an aim to protect planet Earth, our home.

5.1 Core Values

The Group has inherited from, and shares the six core values of, Alibaba Group, namely "customer first, teamwork, embrace change, integrity, passion and commitment". With our mission of "making good health achievable at the fingertips" and our vision of "facilitating medicines through big data and using the internet to change the face of healthcare, to provide fair, affordable and accessible medical and healthcare services to 1 billion people", the Group has thoroughly translated its values, mission and vision into concrete daily operations as well as into the behavioral creed of our staff. Our staff are required to affirm the value of integrity in dealing with external business partners and we have zero tolerance for unethical or illegal behavior. All our staff are also required to verify their compliance status with our "Code of Business Conduct".

We have established a whistleblowing mechanism for fraudulent or improper practices and encourage real-name reporting. An integrity and compliance team has been established responsible for handling incidents of fraudulent or improper practices incidents, such as making or accepting bribes, non-compliant investments, leakage of confidential information and abuse of power. In addition, an integrity task force under the risk management committee has been established, responsible for investigating corruption and bribery incidents, and any such incidents shall be reported to the CFO, CEO and external regulatory authorities in a timely manner. Training on anti-fraudulent and proper practices is provided to staff on a regular basis, to promote and educate on our values. During the reporting period, the Group has fully complied with the relevant laws and regulations in relation to bribery, extortion, fraud and money laundering.

Privacy protection of the Group's users/patients is governed by our "Data Security Policy" and its ancillary system. The policy sets out detailed performance requirements on data security, including privacy protection, in terms of structure, procedures and tools, and users'/patients' information is managed by adopting different classification levels. For example, all data and information with user's/patients' identification is classified as C3 (consumers' confidential data) or C4 (consumers' secret data) which is sensitive information. For our internal management, in addition to systematic authentication and authorization in place for access control on such information, the inputs and outputs of our data processing systems are recorded daily. Transfer of personal data of users/patients to a third party other than users/patients or the Company must undergo written review, and in any event the third party must be authorized by the user/patient. Disclosure shall strictly follow the principle of only disclosing what is "minimum and sufficient".

5.2 Strong talent pool

People are the greatest asset of a company. Under the centralized platform for recruitment and staff welfare of Alibaba Group, the Group's parent company, the Group has established its own system for providing training and development opportunities as well as competitive remuneration and comprehensive staff welfare based on the requirements of its own business nature, and created a free and comfortable working environment for its staff. The Group's building of a professional team for its Internet + Medical Treatment Operating Model is an illustration of such efforts.

5.2.1 Professional work by professionals

"Internet + Medical Treatment" is a brand new application of the Internet in medical care in the information age, which requires high standards of our employees' professional background. In particular, talent with backgrounds in the areas of Internet and medical treatment have been key human resources for the Group. For the year ended March 31, 2017, the Group attracted a number of information technology engineers as well as medical and healthcare experts, forming a quality professional team for its "Internet + Medical Treatment" Operation Model.

- *Recruitment Policy*

We have strictly complied with relevant laws and regulations and have entered into employment contracts with our employees in accordance with law. The Group applies the principles of openness, equity and anti-discrimination to recruitment, and all new employees must be above the minimum legal working age. For the year ended March 31, 2017, the number of full-time employees was 384, of whom 46% were female.

Table: Employee Structure (Number of employee)

Number of employees by management hierarchy	Senior management	19
	Middle management	90
	Junior staff	275
Number of employees by age	29 years of age or under	115
	30 years of age to 50 years of age	269
	51 years of age or above	0
Number of employees by gender	Male	208
	Female	176

- *Staff training*

A comprehensive training system has been established to provide ample training opportunities to our staff, to enhance their motivation to learn and facilitate their career success. Leveraging on the platform resources of Alibaba Group, our parent company, and integrating this with the key development factors for the development of staff capability, the Group formulates its staff training program on an annual basis for all-rounded training, including teamwork, flexibility, observation, systematic thinking and creativity, so as to effectively enhance staff capability and provide support for their career development, promoting mutual growth of employees and the Group.

All new staff members are provided induction training to promote our corporate culture, positive values to and introduce our business, and an induction training manual is distributed to the staff members so as to help them adapt to their new working environment in an effective and timely manner. "Ali Health Evening Training Courses" are provided to all of our staff members regularly, where internally selected experts and professionals from Alibaba Group, our parent company, are invited to be guest speakers in seminars on business, research and development, operation and policies of the Company, thereby exploring our employees' horizons and expanding their business knowledge and understanding.

The Group emphasizes management training and arranges for middle management to join Alibaba Group's "Swordsman" (「俠客行」) training which is aimed at enhancing their management knowledge and skills. Senior management is required to participate in monthly management meetings to enhance communication among senior management, clarify business and development direction and increase strategic leadership of senior management.

During the reporting period, the total training hours for staff members were 20,048.

5.2.2 Creating Better Workplace

The Group operates on a principle "Caring for people", and we consider people to be our most valuable asset. We are committed addressing staff requests, protecting their legal rights and launching recreational activities for them, to actively provide staff with a relaxing, comfortable and harmonious workplace.

- *Protection of Employees' Rights*

The Group values the protection of all our employees' legal rights by strictly observing the "Labor Law", the "Labor Contract Law" and the "Trade Union Law", particularly in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, other benefits and welfare, as well as preventing child and forced labour. Discrimination on any basis, such as on gender, race, religion, age and political affiliation is prohibited in hiring, remuneration, training and promotion; child labor or compulsory labor is prohibited; and we aim to ensure fair and equal promotion opportunities for all staff. We respect and encourage intelligent innovation by our staff by establishing and implementing a patent award system which sets out details of different levels of awards for patent application, acceptance of invention patent application and grant of invention patent.

In order to gain a better understanding of working status of junior staff and to receive staff feedback, each of our departments is assigned a senior human resources staff member responsible for effective communications with senior management and staff using multiple means, tracking the development of the department and its staff; and addressing specific issues encountered by them. Such direct and effective communication and feedback ensures the sustainable and healthy development of each of our departments and the Company.

- *Occupational Health and Welfare*

The Group cares for the physical and mental health of its staff and offers them annual health checks. To minimize the impact of air pollution on employees' health, in addition to purchasing eco-friendly office furniture and offering employees soups for lung cleansing and respiratory support, the ventilation system of our office has been upgraded. Also, the Group offers a number of staff welfare benefits, such as nutritious food for employees working overtime, provision of breastfeeding room for female employees, provision of extra leave days for parent-teacher meetings and approval of early leave for employees to return to their hometowns during the festive season.

The Group has established a staff welfare committee comprising of staff from each of the financial, administrative and research and development departments, responsible for the formulation of a program annually and the launch of various activities, such as Yoga, Tai Chi and "Healthy Party" (「健康派」).

- *Work-life Balance*

To promote work-life balance, the Group has established a staff activity committee responsible for organizing sports activities, such as badminton and swimming, as well as themed activities during holidays.

5.3 Going Green

The Earth is our homeland, and we acknowledge that environmental protection is our duty. Despite the Internet industry already generally requiring low energy consumption with low emissions, we have made our best effort to do our part for environmental protection in our business operations by observing the national environmental protection law and regulations relating to our industry, as well as initiating controls over pollution and the reduction of energy consumption. In addition, we offer green solutions to the community leveraging on our business and e-commerce platform with an aim to support environmental protection.

5.3.1 Green Solutions

We aspire to take up more social responsibility in the course of the development of our business. In response to the increasingly severe haze, the Company established a "haze team" comprising an "awakening" team, a technology team and an e-commerce team to put together a mobile application to raise awareness on environmental protection. The "awakening" team is responsible for raising haze prevention awareness among the public through publishing expert knowledge, the technology team is responsible for cooperation with national authorities to evaluate the effectiveness of a variety of air-pollution masks, and the e-commerce team is responsible for publishing information on the masks that have been reviewed as effective via our mobile platform for consumers' consideration.

Case study: Alibaba Health collaborated with authoritative third parties to conduct tests on air pollution masks, and published the results as a buying guide to anti-haze products

In 2016, Alibaba Health carried out a third-party professional test on six models of air-pollution masks, including Green Shield, 3M and Honeywell, commonly available in the market, in collaboration with the National Quality Supervision and Inspection Center for Labor Protection Articles^ (國家勞動保護用品質量監督檢驗中心). Tests were carried out on, among other criteria, protection effectiveness, filter effectiveness and breathability by employing various professional equipment, such as a fine particles generator and particulate mass monitor. Each review dimension was given a simple rating of 1 to 5 allowing the results to be understood at a glance. The test results were simultaneously uploaded to the "Quality Anti-Haze Products" page under the Ali Health APP for the convenience of consumers. Such tests on air pollution masks carried out by Alibaba Health in collaboration with a third party has, on the one hand, provided consumers with a straightforward benchmark for reference, while, on the other hand, has promoted the healthier development of a more compliant market for anti-haze products.

5.3.2 Green Operation

We have always regarded environmental protection as our responsibility, and we have strived to infuse the green concept into every stage of our operations, initiating control over pollution and reduction of energy consumption. Also, we have minimized the impact of our operations on the environment through waste minimization and resource maximization by waste reuse and recycling.

Table: Energy and Resource Consumption

Total electricity consumption	333,714 kWh
Total water consumption	4,005.5 tonnes
Total paper consumption	1.505 tonnes

* consumption intensity is not applicable as the Group's operations do not involve production or facility.

The Group's operations do not involve production of any hazardous waste. Non-hazardous waste produced mainly composes waste paper. To reduce consumption and waste, Alibaba Health draws up its procurement plan at the beginning of each year and monitors paper consumption monthly. To promote a paperless office, documents and the stamping of documents in our daily operation are managed through emails and a mobile APP. Staff members are encouraged to switch to video conferencing instead of business travel, through ranking recognition and rewards. During the reporting period, 325 video conferences in total were held. In addition, degradable materials are used by Alibaba Health for packaging retail medicines for express delivery, and packaging paper is sourced from Forest Stewardship Council (FSC) certified suppliers.

^ For identification purpose only

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Alibaba Health Information Technology Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Alibaba Health Information Technology Limited (the "Company") and its subsidiaries (the "Group") set out on pages 87 to 171, which comprise the consolidated statement of financial position as at 31 March 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. 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. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS — CONTINUED

Key audit matter	How our audit addressed the key audit matter
Impairment of an investment in an associate, Wanliyun	
During the year ended 31 March 2017, the Group acquired a 25% interest in an unlisted associate, 萬里雲醫療信息科技（北京）有限公司 (Wanliyun Medical Information Technology (Beijing) Co., Ltd[@])* ("Wanliyun"), with a cash consideration of RMB225,000,000. The carrying amount of the investment was RMB221,710,000 as at 31 March 2017. As Wanliyun incurred loss for the year ended 31 March 2017, there was an indication of impairment of the Group's investment in this associate. Accordingly, the Group performed an impairment assessment on its investment by comparing the carrying amount with the recoverable amount. The impairment assessment which is based on the discounted cash flows method requires management to use significant judgement and make estimations in respect of future market and economic conditions such as economic growth, expected inflation rates, revenue and margin development. The impact of impairment assessment is material to the consolidated financial statements. Relevant disclosures are included in note 3 to the financial statements. @ For identification purpose only	We performed the following procedures to address the key audit matter: — Evaluated the Group's policies and procedures for identifying triggering events for potential impairment of investments in associates; and — With the help of internal valuation specialists, we examined the Group's value-in-use methodologies and evaluated the assumptions used in the forecast cash flows, including discount rate and the long term growth rate, through comparison of current trading performance, and enquiry with management in respect of key growth and trading assumptions. We also tested the mathematical accuracy of management's model.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS — CONTINUED

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories	
As at 31 March 2017, the carrying amount of the Group's inventories before provision amounted to RMB152,816,000. The inventories are stated at the lower of cost and net realisable value. The determination of net realisable value, and obsolete and slow-moving inventory items involves management judgement. Specific factors management considered include the age and expiry date of the inventories, condition of the goods, historical and recent sales patterns, estimated selling price and cost to sales or disposal, and any other available information concerning the provision of the inventories. For the year ended 31 March 2017, impairment of inventories of RMB3,565,000 was made. Relevant disclosures are included in notes 3 and 16 to the financial statements.	We performed the following procedures to address the key audit matter: — Evaluated the Group's policies and procedures for identifying events for potential impairment of inventories; and — Understood management's assessment on estimated selling price and cost to sales or disposal based on historical and recent sales patterns, tested aging and expiry dates of the inventories and checked market sales price.

KEY AUDIT MATTERS — CONTINUED

Key audit matter	How our audit addressed the key audit matter
Measurement of share-based compensation expenses The Company has granted share-based awards to certain employees which resulted in the recognition of share-based compensation expenses of RMB110,324,000 which is material to the consolidated financial statements for the year ended 31 March 2017. Management has engaged an independent external expert to perform a valuation related to the share-based compensation expenses. Significant management judgement is involved in determining the fair value of the awards. Relevant disclosures are included in notes 3 and 27 to the financial statements.	We performed the following procedures to address the key audit matter: — Obtained and read the agreement of the share award scheme effective during the year; — For each batch of grants made during the year, checked the approvals and evaluated the terms against the scheme plans; — Obtained and read the valuation reports of the valuer engaged by management regarding fair value estimation of the awards; — Enquired with management about and tested assumptions used in the model, including the dividend yield and forfeiture rate; and — Involved our internal valuation specialists to evaluate the valuation model and estimations used in the valuation model, including time to maturity and volatility. We also tested the mathematical accuracy of the valuation model.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 THE DIRECTORS 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 HKFRSs issued by the HKICPA 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 HKSAs 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

As part of an audit in accordance with HKSAs, we exercise professional judgement 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.

- 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 the 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 the 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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

From the matters communicated with the 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 Wong Man Kit.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

16 May 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended March 31, 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	**475,078**	56,595
Cost of revenue		**(287,835)**	(18,602)
Gross profit		**187,243**	37,993
Operating expenses:			
Fulfilment	6	**(67,768)**	—
Sales and marketing expenses		**(113,090)**	(80,787)
Administrative expenses		**(95,740)**	(91,797)
Product development expenses		**(108,580)**	(76,153)
Other income and gains	5	**17,354**	14,702
Other expenses		**(24,679)**	(26,143)
Interest on bank loans		**(6,886)**	—
Share of profits or losses of:			
A joint venture		**9,480**	11,892
Associates		**(4,433)**	13,176
LOSS BEFORE TAX	7	**(207,099)**	(197,117)
Income tax expense	10	**(1,554)**	(1,851)
LOSS FOR THE YEAR		**(208,653)**	(198,968)
Attributable to:			
Owners of the parent		**(207,626)**	(191,608)
Non-controlling interests		**(1,027)**	(7,360)
		(208,653)	(198,968)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	11	**RMB(2.54) cents**	RMB(2.34) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended March 31, 2017

	2017 *RMB'000*	2016 *RMB'000*
LOSS FOR THE YEAR	**(208,653)**	(198,968)
Other comprehensive income may be reclassified to profit or loss in subsequent periods:		
Translation from functional currency to presentation currency	**62,550**	49,876
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**62,550**	49,876
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(146,103)**	(149,092)
Attributable to:		
Owners of the parent	**(145,076)**	(141,732)
Non-controlling interests	**(1,027)**	(7,360)
	(146,103)	(149,092)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2017

	Notes	**March 31, 2017** **RMB'000**	March 31, 2016 RMB'000
NON-CURRENT ASSETS			
Property and equipment	12	**5,065**	6,546
Goodwill	13	**19,123**	—
Investment in a joint venture	14	**42,644**	87,064
Investments in associates	15	**524,801**	108,802
Long-term receivables	18	**54,304**	—
Pledged deposits	19	**222,848**	—
Long-term deposits	19	**—**	110,250
Total non-current assets		**868,785**	312,662
CURRENT ASSETS			
Inventories	16	**151,505**	—
Trade receivables	17	**38,501**	106
Prepayments, deposits and other receivables	18	**39,835**	14,824
Financial asset at fair value through profit or loss	20	**10,300**	—
Restricted cash	19	**914**	—
Cash and cash equivalents	19	**569,860**	1,020,558
Total current assets		**810,915**	1,035,488
CURRENT LIABILITIES			
Trade payables	21	**125,862**	3,751
Other payables and accruals	22	**189,462**	55,358
Deferred revenue	23	**—**	86,873
Advance from customers		**38,148**	39,878
Total current liabilities		**353,472**	185,860
NET CURRENT ASSETS		**457,443**	849,628
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,326,228**	1,162,290
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	24	**200,000**	—
Deferred tax liabilities	25	**6,566**	7,019
Total non-current liabilities		**206,566**	7,019
Net assets		**1,119,662**	1,155,271

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — CONTINUED

March 31, 2017

	Notes	**March 31, 2017** **RMB'000**	March 31, 2016 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	**72,481**	72,305
Treasury shares	26	**(91)**	—
Reserves	28	**1,105,446**	1,149,055
		1,177,836	1,221,360
Non-controlling interests		**(58,174)**	(66,089)
Total equity		**1,119,662**	1,155,271

WU Yongming
Director

WANG Lei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended March 31, 2017

		Attributable to owners of the parent											
	Notes	Share capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	General reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At April 1, 2016		72,305	1,863,621*	–	33,979*	77,335*	20,860*	37,472*	13,468*	(897,680)*	1,221,360	(66,089)	1,155,271
Loss for the year		–	–	–	–	–	–	–	–	(207,626)	(207,626)	(1,027)	(208,653)
Other comprehensive loss for the year:													
Translation from functional currency to presentation currency		–	–	–	–	–	62,550	–	–	–	62,550	–	62,550
Total comprehensive loss for the year		–	–	–	–	–	62,550	–	–	(207,626)	(145,076)	(1,027)	(146,103)
Share-based compensation expenses	27	–	–	–	–	–	–	110,324	–	–	110,324	–	110,324
Exercise of share options	26	–	249	–	–	–	–	(79)	–	–	170	–	170
Vested awarded shares transferred to employees	26	85	43,350	–	–	–	–	(43,435)	–	–	–	–	–
Issue of shares	26	91	–	(91)	–	–	–	–	–	–	–	–	–
Contribution of interest free loan from parent		–	–	–	(8,942)	–	–	–	–	–	(8,942)	8,942	–
At March 31, 2017		72,481	1,907,220*	(91)	25,037*	77,335*	83,410*	104,282*	13,468*	(1,105,306)*	1,177,836	(58,174)	1,119,662
At April 1, 2015		72,305	1,863,621	–	33,979	77,335	(29,016)	–	13,468	(706,072)	1,325,620	(58,729)	1,266,891
Loss for the year		–	–	–	–	–	–	–	–	(191,608)	(191,608)	(7,360)	(198,968)
Other comprehensive loss for the year:													
Translation from functional currency to presentation currency		–	–	–	–	–	49,876	–	–	–	49,876	–	49,876
Total comprehensive loss for the year		–	–	–	–	–	49,876	–	–	(191,608)	(141,732)	(7,360)	(149,092)
Share-based compensation expenses	27	–	–	–	–	–	–	37,472	–	–	37,472	–	37,472
At March 31, 2016		72,305	1,863,621	–	33,979	77,335	20,860	37,472	13,468	(897,680)	1,221,360	(66,089)	1,155,271

* These reserve accounts comprise the consolidated reserves of RMB1,105,446,000 (March 31, 2016: RMB1,149,055,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31, 2017

	Notes	**2017** **RMB'000**	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(207,099)**	(197,117)
Adjustments for:			
Interest on bank loans		**6,886**	—
Share of profits of a joint venture		**(9,480)**	(11,892)
Share of losses/(profits) of associates		**4,433**	(13,176)
Bank interest income	5	**(11,567)**	(14,518)
Other interest income	5	**(404)**	—
(Gain)/loss on disposal of items of property and equipment	7	**(17)**	2,827
Gain on disposal of a subsidiary	5	**(4,550)**	—
Depreciation	7	**4,618**	3,550
Impairment of trade receivables	7	**2,710**	3,455
Impairment of other receivables	7	**1,706**	1,250
Impairment of inventories	7	**3,565**	—
Foreign exchange differences, net		**17,298**	12,075
Share-based compensation expenses	7	**110,324**	37,472
		(81,577)	(176,074)
Increase in trade receivables		**(41,105)**	(2,491)
Increase in prepayments, deposits and other receivables		**(16,833)**	(726)
Increase in inventories		**(152,176)**	—
Increase in trade payables		**121,464**	98
Increase/(decrease) in other payables and accruals		**26,728**	(5,016)
(Decrease)/increase in deferred revenue		**(86,873)**	52,433
(Decrease)/increase in advance from customers		**(1,730)**	1,704
Exchange differences		**(2,349)**	(1,246)
Cash used in operations		**(234,451)**	(131,318)
Interest received		**9,088**	14,164
Income taxes paid		**(269)**	(21)
Net cash flows used in operating activities		**(225,632)**	(117,175)

CONSOLIDATED STATEMENT OF CASH FLOWS — CONTINUED

Year ended March 31, 2017

	Notes	**2017** **RMB'000**	2016 RMB'000
Net cash flows used in operating activities		**(225,632)**	(117,175)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment	12	**(2,140)**	(8,736)
Proceeds from disposal of items of property and equipment		**76**	—
Increase in restricted cash and pledged time deposits		**(223,462)**	—
Acquisition of subsidiaries	29	**(19,675)**	—
Increase in financial assets at fair value through profit or loss		**(10,300)**	—
Subscription of new shares in associates		**(320,255)**	—
Decrease/(increase) of time deposits with original maturity over three months when acquired		**416,390**	(412,297)
Net cash flows used in investing activities		**(159,366)**	(421,033)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of options		**170**	—
New bank loans		**200,000**	—
Repayment of bank loans		**(735)**	—
Interest paid		**(6,584)**	—
Net cash flows from financing activities		**192,851**	—
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(192,147)**	(538,208)
Effect of foreign exchange rate changes		**47,589**	39,040
Cash and cash equivalents at beginning of year		**714,418**	1,213,586
CASH AND CASH EQUIVALENTS AT END OF YEAR		**569,860**	714,418
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**145,225**	142,516
Non-pledged time deposits with original maturity of three months or less when acquired	19	**424,635**	571,902
Non-pledged time deposits with original maturity over three months and within twelve months when acquired		**—**	306,140
Cash and cash equivalents as stated in the consolidated statement of financial position	19	**569,860**	1,020,558
Non-pledged time deposits with original maturity over three months and within twelve months when acquired		**—**	(306,140)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**569,860**	714,418

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

1. CORPORATE AND GROUP INFORMATION

Alibaba Health Information Technology Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business of the Company is located at 17th to 19th Floors, Building B, Greenland Center, Beijing, the People's Republic of China ("PRC").

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are primarily engaged in pharmaceutical e-commerce, medical services network business and the operation of product tracking platforms in the PRC.

In the opinion of the directors, the Company's immediate holding company is Perfect Advance Holding Limited ("Perfect Advance"), which is incorporated in the British Virgin Islands, and the ultimate holding company is Alibaba Group Holding Limited ("Alibaba Holding", together with its subsidiaries, "Alibaba Group").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Alibaba Health (Hong Kong) Technology Company Limited ("Alibaba Health (Hong Kong)")	Hong Kong	HK$1,000,000	–	100	Investment holding and engaging in pharmaceutical e-commerce
中信二十一世紀(中國)科技有限公司 (CITIC 21CN (China) Technology Company Limited@)*#	PRC/Mainland China	RMB226,000,000	–	100	Provision of product tracking platform services
中信國檢信息技術有限公司 (CITIC Credit Information Technology Co., Ltd.@) ("CCIT")*^$	PRC/Mainland China	RMB60,000,000	–	50	Provision of product tracking platform services
阿里健康科技(中國)有限公司 (Alibaba Health Technology (China) Limited@)*# (Formerly known as Alibaba Health Technology (Beijing) Co., Ltd.@)	PRC/Mainland China	RMB175,424,056	–	100	Providing telemedicine service and comprehensive member service to users and engaging in pharmaceutical e-commerce

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

1. CORPORATE AND GROUP INFORMATION — CONTINUED

Information about subsidiaries — continued

Particulars of the Company's principal subsidiaries are as follows: — continued

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
阿里健康大藥房醫藥連鎖有限公司 (Alibaba Health Pharmaceutical Chain Co., Ltd.@)*$ (Formerly known as Guangzhou Wu Qian Nian Pharmaceutical Chain Co., Ltd.@)	PRC/Mainland China	RMB120,000,000	—	100	Pharmacy business
杭州禮和醫藥有限公司 (Hangzhou Lihe Pharmaceutical Co., Ltd.@) ("Lihe")*$	PRC/Mainland China	RMB1,700,000	—	100	Pharmaceutical products trading and healthcare service business
弘云久康數據技術(北京)有限公司 (Hongyun Jiukang Data Technology (Beijing) Co., Ltd.@) ("Hongyunjiukang")*&$	PRC/Mainland China	RMB1,000,000	—	100	Investment holding

@ For identification purposes only

* The statutory financial statements of these subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Registered as wholly-foreign-owned enterprises under PRC law.

$ Registered as limited liability companies under PRC law.

^ CCIT is accounted for as a subsidiary of the Group because the percentage of voting power attributable to the Group is 80% due to an entrustment arrangement between the Group and a 30% shareholder of CCIT, pursuant to which the shareholder entrusted all his voting right to the Group.

& The Company does not have legal ownership in the equity of Hongyunjiukang. However, under certain contractual agreements (including power of attorney agreement, loan agreement, equity option agreement, equity interest pledge agreement and exclusive technical consulting and services agreement) entered into with the registered owners of the entity, the Company through its indirectly wholly-owned subsidiary controls the entity by way of controlling the voting rights, governing the financial and operating policies, appointing or removing the majority of the members of its controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of the entity to the Company and/or its indirectly owned subsidiary. As a result, the entity is treated as a subsidiary of the Company and its financial statements have been consolidated by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial asset at fair value through profit or loss, which has been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended March 31, 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

The Company has set up two trusts (the "Trusts") for the purpose of purchasing, administering and holding the Company's shares for the share award scheme adopted on November 24, 2014 (the "Share Award Scheme", note 27). The Group has the power to govern the financial and operating policies of the Trusts and derive benefits from the services of the employees who have been awarded the awarded shares through their continued employment with the Group. The assets and liabilities of the Trusts are included in the consolidated statement of financial position and the shares held by the Trusts are presented as a deduction in equity as shares held for the share award scheme.

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

2.1 BASIS OF PREPARATION — CONTINUED

Basis of consolidation — continued

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits/accumulated losses, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs

Other than as explained below regarding the impact of the applicable standards, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES — CONTINUED

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments to HKFRS 5 are as follows:

HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[2]
Annual Improvements to HKFRSs 2014–2016 Cycle	*Amendments to the following three HKFRSs:* *— HKFRS 12 Disclosure of Investments in Other Entities*[1] *— HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards*[2] *— HKAS 28 Investments in Associates and Joint Ventures*[2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from April 1, 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS — CONTINUED

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from April 1, 2018. The Group is currently assessing the impact of the standard and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The Group expects to adopt the amendments upon the effective date to be specified by the HKICPA.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on April 1, 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS — CONTINUED

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on April 1, 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from April 1, 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from April 1, 2017.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and a joint venture

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and a joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associates or a joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or a joint venture are eliminated to the extent of the Group's investments in associates or a joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or a joint venture is included as part of the Group's investments in associates or a joint venture.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Business combinations and goodwill — continued

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of lease terms or $33^1/_3$%
Computer equipment, furniture and fixtures	20%–$33^1/_3$%
Motor vehicles	20%–$33^1/_3$%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents equipment under installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the costs of equipment. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial asset at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial asset at fair value through profit or loss

Financial asset at fair value through profit or loss include financial assets held for trading and financial asset designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are effective hedging instruments as defined by HKAS 39.

Financial asset at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial asset designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Investments and other financial assets — continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred assets to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Impairment of financial assets

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value, and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and bank loans.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest on bank loans in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or losses is recognised in the statement of profit or losses on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Income tax — continued

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and a joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and a joint venture deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) Product tracking platform service

The Group renders series of services through its product tracking platforms to the customers, including product tracking, and providing recall and enforcement information. The service is rendered over a period of time. Revenue is recognised over the period when the underlying services are provided.

(b) Pharmacy business which includes:

Outsourced and value-added services to Tmall Entities

The Group provides outsourced and value-added services to Tmall Entities (浙江天貓網絡有限公司 (Zhejiang Tmall Network Co., Ltd*) and 浙江天貓技術有限公司 (Zhejiang Tmall Technology Co., Ltd*)) in relation to certain categories of products or services sold on or provided on Tmall. The outsourced and value-added services provided by the Group includes merchants' business development, merchant customer services, marketing event planning for merchants and technical support and assistance to the Tmall Entities' business team. Such service revenue is determined as a percentage of the fees paid by the merchants to the Tmall Entities in respect of the value of completed sales of products or services under certain categories on Tmall. The revenue from these services is recognised when services are rendered and the underlying transaction of merchants is completed.

Business-to-customer ("B2C") pharmacy business

The Group is engaged in the sale of over-the-counter drugs and other health related goods to individual customers through its online store on Tmall.com ("Tmall") and its offline pharmacy outlets. The revenue from B2C pharmacy business is recognised when the over-the-counter drugs and other health related goods are delivered to individual customers, either by third party couriers or at the offline outlets. Revenue from B2C pharmacy business is recorded net of discounts.

Centralised procurement and distribution business

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

* For identification purpose only

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Cost of service

Costs of services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads cost for technical support.

Share-based payments

The Company operated a share option scheme, which became effective on August 29, 2013 and was terminated in November 2014, and adopted a share award scheme on November 24, 2014, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date. The fair value of share options is determined using a binomial model and the fair value of restricted share units ("RSUs") is determined with reference to the market price of the underlying shares, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Share-based payments — continued

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options and/or awards is reflected as additional share dilution in the computation of loss per share.

Other employee benefits

Pension schemes

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 statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Full-time employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a defined contribution scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the defined contribution scheme which includes pension, medical care, unemployment insurance, employee housing fund and other welfare. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the defined contribution scheme. The Group has no legal obligation for the benefits beyond the contributions made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Company's functional currency is HK$, while these financial statements are presented in RMB, which is the Company's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Service period of the product Identification, authentication and tracking system ("PIATS") business

The Group provides PIATS service and renders service principally to the drugs industry in the PRC. In respect of certain customers, the Group estimated and determined the service period based on the Group's business plan and foreseeable circumstances. As the service period is an accounting estimate, the Group will continue to review and assess such estimation from time to time, as the Group continues its operation of the PIATS service.

Impairment of investments in associates

The Group assesses whether there are any indicators of impairment for investments in associates at the end of each reporting period. Investments in associates are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying amount of an investment in an associate exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the associate and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes provision for expired and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest selling prices and current market conditions. If the market condition was to deteriorate so that the actual provision might be higher than expected, the Group would be required to revise the basis of making the provision and its future results would be affected.

3. SIGNIFICANT ACCOUNTING ESTIMATES — CONTINUED

Estimation uncertainty — continued

Impairment of trade receivables

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. When there is objective indication of impairment loss, the Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial conditions of its customers deteriorate, the actual impairment loss may be higher than expected, the Group would be required to revise the basis of making the allowance.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. No deferred tax asset was recognised in the consolidated statement of financial position at March 31, 2017 in relation to the estimated unused tax losses. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Measurement of share-based compensation expenses

The Company adopted a share award scheme. Share-based compensation expenses is recorded net of estimated forfeitures in the consolidated statement of profit or loss and as such is recorded for those share-based awards that are expected to vest. Determining the fair value of share options requires significant judgement. The Company estimated the fair value of its share options using the binomial model, which requires the Group to make estimates about inputs, such as expected volatility, expected dividend yield, exercise multiple, risk-free interest rate and expected forfeiture rate, and hence it is subject to uncertainty.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at March 31, 2017 was RMB19,123,000. Further details are given in note 13 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

4. OPERATING SEGMENT INFORMATION

During the year ended March 31, 2017, the Group was primarily engaged in pharmaceutical e-commerce, intelligent medicine and the operation of product tracking platforms in the PRC. Given that the intelligent medicine business was still in an early stage of development during the year, the chief operating decision makers of the Company consider that the Group's operations currently comprise primarily two segments as follows:

(a) the pharmaceutical e-commerce segment consists of operating the B2C pharmacy business, providing outsourced and value-added services to the Tmall Entities, centralised procurement and distribution business and other related services; and

(b) the product tracking platforms segment provides system services of product identification, authentication and tracking.

For the year ended March 31, 2016, the Group had only one single operating and reportable segment, the product tracking platforms segment, and all of the Group's operating results were generated from this single segment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment gross profit.

The Group does not allocate any assets or liabilities to its operating segments as management do not believe that allocating these assets is useful in evaluating these segments' performance. Accordingly, the Group has not made disclosure of total assets/liabilities by reportable segment.

Year ended March 31, 2017

	Product tracking platforms *RMB'000*	**Pharmaceutical e-commerce** *RMB'000*	**Total** *RMB'000*
Segment revenue:			
Revenue from external customers	**96,305**	**378,773**	**475,078**
Cost of revenue	**(10,045)**	**(277,790)**	**(287,835)**
Segment gross profit	**86,260**	**100,983**	**187,243**
Other segment information:			
Impairment of trade receivables	**(2,710)**	**—**	**(2,710)**
Impairment of other receivables	**(1,706)**	**—**	**(1,706)**
Impairment of inventories	**—**	**(3,565)**	**(3,565)**

4. OPERATING SEGMENT INFORMATION — CONTINUED

Geographical information

Substantially all of the Group's revenue and non-current assets were derived from and located in the PRC and, therefore, no geographical segment information is presented.

Information about a major customer

During the years ended March 31, 2017 and 2016, there was no revenue derived from transactions with a single external customer which individually amounted to 10% or more of the Group's revenue.

5. REVENUE AND OTHER INCOME

The Group is primarily engaged in pharmaceutical e-commerce (which includes operating the B2C pharmacy business, providing outsourced and value-added services to the Tmall Entities, centralised procurement and distribution business and other services), intelligent medicine business and the operation of product tracking platforms in the PRC.

An analysis of revenue, other income and gains is as follows:

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Product tracking platforms	**96,305**	56,595
Pharmaceutical e-commerce business:		
B2C pharmacy business	**291,048**	—
Provision of outsourced and value-added services to Tmall Entities	**40,341**	—
Centralised procurement and distribution business	**22,638**	—
Others	**24,746**	—
	378,773	—
	475,078	56,595
Other income and gains		
Bank interest income	**11,567**	14,518
Other interest income *(note 18)*	**404**	–
Gain on disposal of a subsidiary *(note 30)*	**4,550**	—
Gain on disposal of items of property and equipment	**17**	—
Others	**816**	184
	17,354	14,702

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

6. FULFILMENT

Fulfilment primarily consists of those costs incurred in warehousing, shipping, operating and customer services, which are associated with the Group's B2C online pharmacy business of over-the-counter drugs and other health related products.

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	**2017** **RMB'000**	2016 RMB'000
Auditor's remuneration		**1,144**	737
Cost of goods sold*		**249,856**	—
Cost of services provided* (excluding employee benefit expense and share-based compensation expenses)		**33,241**	17,989
Depreciation	12	**4,618**	3,550
(Gain)/loss on disposal of items of property and equipment		**(17)**	2,827
Minimum lease payments under operating leases for office buildings		**11,965**	15,489
Impairment of trade receivables**	17	**2,710**	3,455
Impairment of other receivables**	18	**1,706**	1,250
Impairment of inventories*		**3,565**	—
Employee benefit expense (including directors' and chief executive's remuneration — note 8):			
Wages and salaries		**130,363**	105,052
Pension scheme contributions***		**9,993**	9,484
Share-based compensation expenses	27	**110,324**	37,472
		250,680	152,008
Foreign exchange differences, net**		**19,761**	17,832

* These items are included in "Cost of revenue" in the consolidated statement of profit or loss.

** These items are included in "Other expenses" in the consolidated statement of profit or loss.

*** At March 31, 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2016: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Fees	**926**	687
Other emoluments:		
Salaries, allowances and benefits in kind	**1,050**	334
Performance related bonuses	**—**	21
Share-based compensation expenses	**8,386**	6,137
Pension scheme contributions	**48**	—
	9,484	6,492
	10,410	7,179

During the year ended March 31, 2017 and 2016, one director of the Company was granted share options and RSUs, in respect of his services to the Group, under the share award scheme of the Company, further details of which are set out in note 27 to the financial statements. The fair value of such options and RSUs, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year ended March 31, 2017 and 2016 is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Mr. Wong King On, Samuel	**419**	295
Mr. Yan Xuan	**250**	196
Mr. Luo Tong	**257**	196
	926	687

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION — CONTINUED

(b) Executive directors and non-executive directors

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonus *RMB'000*	Share-based compensation expenses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2017						
Executive directors:						
Dr. Wang Jian[3]	–	–	–	–	–	–
Mr. Wang Lei[2]	–	990	–	8,386	48	9,424
Ms. Chen Xiao Ying[6]	–	–	–	–	–	–
	–	990	–	8,386	48	9,424
Non-executive directors:						
Mr. Zhang Yong[4]	–	–	–	–	–	–
Mr. Chen Jun[4]	–	–	–	–	–	–
Mr. Chia Pun Kok[3]	–	–	–	–	–	–
Mr. Yu Feng[4]	–	–	–	–	–	–
Mr. Wu Yongming[1]	–	–	–	–	–	–
Mr. Tsai Chung, Joseph[5]	–	–	–	–	–	–
Ms. Huang Aizhu[5]	–	–	–	–	–	–
Mr. Kang Kai[5]	–	60	–	–	–	60
	–	60	–	–	–	60
	–	1,050	–	8,386	48	9,484

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION — CONTINUED

(b) Executive directors and non-executive directors — continued

	Fees	Salaries, allowances and benefits in kind	Performance related bonus	Share-based compensation expenses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2016						
Executive directors:						
Dr. Wang Jian[3]	–	–	–	–	–	–
Mr. Wang Lei[2]	–	334	21	6,137	–	6,492
Ms. Chen Xiao Ying[6]	–	–	–	–	–	–
	–	334	21	6,137	–	6,492
Non-executive directors:						
Mr. Zhang Yong[4]	–	–	–	–	–	–
Mr. Chen Jun[4]	–	–	–	–	–	–
Mr. Chia Pun Kok[3]	–	–	–	–	–	–
Mr. Yu Feng[4]	–	–	–	–	–	–
Mr. Wu Yongming[1]	–	–	–	–	–	–
Mr. Tsai Chung, Joseph[5]	–	–	–	–	–	–
Ms. Huang Aizhu[5]	–	–	–	–	–	–
Mr. Kang Kai[5]	–	–	–	–	–	–
	–	–	–	–	–	–
	–	334	21	6,137	–	6,492

1 Appointed on April 17, 2015

2 Appointed on April 17, 2015, also appointed as the chief executive

3 Resigned on April 17, 2015

4 Resigned on September 7, 2015

5 Appointed on September 8, 2015

6 Resigned on August 18, 2016

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2016: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2016: four) non-director, highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 *RMB'000*	2016 *RMB'000*
Salaries, allowances and benefits in kind	**2,155**	4,562
Performance related bonuses	**381**	—
Share-based compensation expenses	**15,873**	14,117
Pension scheme contributions	**82**	136
Termination benefit	**4,435**	—
	22,926	18,815

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
HK$4,500,001 to HK$5,000,000	**—**	1
HK$5,000,001 to HK$5,500,000	**2**	1
HK$5,500,001 to HK$6,000,000	**—**	1
HK$6,000,001 to HK$6,500,000	**1**	—
HK$6,500,001 to HK$7,000,000	**—**	1
HK$9,500,001 to HK$10,000,000	**1**	—
	4	4

During the year ended March 31, 2016 and March 31, 2017, share options and RSUs were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. The fair value of such options and RSUs, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current and prior years are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

	2017	2016
	RMB'000	*RMB'000*
Current — Mainland China		
Charge for the year	**1,738**	—
Under provision in prior years	**269**	6
Deferred *(note 25)*	**(453)**	1,845
Total tax charge for the year	**1,554**	1,851

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2016: Nil).

In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for two PRC subsidiaries which are entitled to a preferential tax rate at 15% for the three years ending December 31, 2017 and ending December 31, 2018, respectively.

Deferred income tax represents the withholding tax on the distributable profits of the Group's PRC associates and joint venture.

The share of tax attributable to a joint venture amounting to approximately RMB2,677,000 (2016: RMB3,735,000) is included in "Share of profits of a joint venture" in the consolidated statement of profit or loss.

The share of tax (credit)/charge attributable to associates amounting to approximately RMB(245,000) (2016: RMB906,000) is included in "Share of profits or losses of associates" in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

10. INCOME TAX — CONTINUED

A reconciliation of the tax expense applicable to loss before tax at the statutory rate for the jurisdiction in which the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2017		2016	
	RMB'000	**%**	*RMB'000*	%
Loss before tax	**(207,099)**		(197,117)	
Tax at the statutory tax rate of Mainland China	**(51,775)**	**25.0**	(49,280)	25.0
Effect of different tax rates of subsidiaries operating in Hong Kong	**4,442**	**(2.1)**	4,000	(2.0)
Lower tax rate enacted by local authority	**13,101**	**(6.3)**	12,176	(6.2)
Income not subject to tax	**(2,538)**	**1.2**	(2,327)	1.2
Expenses not deductible for tax	**32,916**	**(15.9)**	19,341	(9.8)
Adjustments in respect of current tax of previous periods	**269**	**(0.1)**	6	—
Research and development super deduction	**(1,310)**	**0.6**	(2,784)	1.4
Tax losses utilised from previous periods	**(14,305)**	**6.9**	—	—
Tax losses and deductible temporary differences not recognised	**21,161**	**(10.2)**	25,141	(12.7)
Profits attributable to a joint venture	**(1,271)**	**0.6**	(2,973)	1.5
Losses/(profits) attributable to associates	**1,317**	**(0.6)**	(3,294)	1.7
Withholding tax on the distributable profits of the Group's PRC joint venture	**(200)**	**0.1**	527	(0.3)
Withholding tax on the distributable profits of the Group's PRC associates	**(253)**	**0.1**	1,318	(0.7)
Tax charge at the Group's effective rate	**1,554**	**(0.8)**	1,851	(0.9)

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of RMB207,626,000 (2016: RMB191,608,000), and the weighted average number of ordinary shares of 8,178,983,926 (2016: 8,172,644,639) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended March 31, 2016 and 2017 in respect of a dilution as the impact of the share options and RSUs outstanding had no dilutive effect on the loss per share amounts presented.

12. PROPERTY AND EQUIPMENT

	Leasehold improvements *RMB'000*	Computer equipment, furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
March 31, 2017				
At March 31, 2016 and at April 1, 2016:				
Cost	6,397	29,263	208	35,868
Accumulated depreciation and impairment	(769)	(28,536)	(17)	(29,322)
Net carrying amount	5,628	727	191	6,546
At April 1, 2016, net of accumulated depreciation and impairment	5,628	727	191	6,546
Additions	757	1,383	—	2,140
Acquisition of subsidiaries *(note 29)*	—	852	192	1,044
Disposals	—	(59)	—	(59)
Depreciation provided during the year *(note 7)*	(2,223)	(2,330)	(65)	(4,618)
Exchange realignment	—	12	—	12
At March 31, 2017, net of accumulated depreciation and impairment	4,162	585	318	5,065
At March 31, 2017:				
Cost	6,912	31,743	406	39,061
Accumulated depreciation and impairment	(2,750)	(31,158)	(88)	(33,996)
Net carrying amount	4,162	585	318	5,065

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

12. PROPERTY AND EQUIPMENT — CONTINUED

	Leasehold improvements *RMB'000*	Computer equipment, furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
March 31, 2016					
At March 31, 2015 and at April 1, 2015:					
Cost	8,648	35,031	1,406	41	45,126
Accumulated depreciation and impairment	(7,026)	(32,541)	(1,379)	—	(40,946)
Net carrying amount	1,622	2,490	27	41	4,180
At April 1, 2015, net of accumulated depreciation and impairment	1,622	2,490	27	41	4,180
Additions	6,332	2,196	208	—	8,736
Disposals	—	(2,800)	(27)	—	(2,827)
Depreciation provided during the year *(note 7)*	(2,326)	(1,207)	(17)	—	(3,550)
Transfers	—	41	—	(41)	—
Exchange realignment	—	7	—	—	7
At March 31, 2016, net of accumulated depreciation and impairment	5,628	727	191	—	6,546
At March 31, 2016:					
Cost	6,397	29,263	208	—	35,868
Accumulated depreciation and impairment	(769)	(28,536)	(17)	—	(29,322)
Net carrying amount	5,628	727	191	—	6,546

13. GOODWILL

	Note	**2017** **RMB'000**	2016 RMB'000
Cost and net carrying amount at April 1		**—**	—
Acquisition of subsidiaries	*29*	**19,123**	—
Cost and net carrying amount at March 31		**19,123**	—

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") for impairment testing:

- Trading of over the counter pharmaceutical products cash-generating unit; and
- Centralised procurement and distribution of medical instruments business cash-generating unit.

Trading of over the counter pharmaceutical products cash-generating unit

The recoverable amount of the Trading of over the counter pharmaceutical products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 18.9%. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%, which approximates the long term average growth rate of the over-the-counter pharmaceutical products trading industry.

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13. GOODWILL — CONTINUED

Centralised procurement and distribution of medical instruments business cash-generating unit

The recoverable amount of the centralised procurement and distribution of medical instruments business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 20% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%, which approximates the long term average growth rate of the medical instrument trading industry.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Trading of over-the-counter pharmaceutical products 2017 *RMB'000*	**Centralised procurement and distribution of medical instruments business 2017** *RMB'000*	**Total 2017** *RMB'000*
Carrying amount of goodwill	**13,607**	**5,516**	**19,123**

Assumptions were used in the value in use calculation of the trading of over-the-counter pharmaceutical products and centralised procurement and distribution of medical instruments business cash-generating units. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

Growth rates — The growth rates used to extrapolate the cash flows beyond the five-year period are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU.

14. INVESTMENT IN A JOINT VENTURE

	2017	2016
	RMB'000	*RMB'000*
Share of net assets	**42,644**	87,064

Particulars of the Group's joint venture are as follows:

			Percentage of			
Name	**Particulars of capital held**	**Place of registration and business**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
北京鴻聯九五信息產業有限公司 ("Beijing Honglian 95 Information Industries Company Limited"@) ("HL95")*	Registered capital of RMB1 each	PRC/Mainland China	49	49	49	Provision of telecommunications/ information value added services

@ For identification purposes only

* The statutory financial statements were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

The above investment is indirectly held by the Company.

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14. INVESTMENT IN A JOINT VENTURE — CONTINUED

The following table illustrates the summarised financial information in respect of HL95 adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2017 ***RMB'000***	2016 *RMB'000*
Cash and cash equivalents	**88,628**	95,454
Other current assets	**267,856**	193,129
Current assets	**356,484**	288,583
Non-current assets	**40,353**	41,873
Bank Loan	**(10,000)**	—
Other current liabilities	**(188,245)**	(151,469)
Current liabilities	**(198,245)**	(151,469)
Non-current liabilities	**(111,565)**	(1,306)
Net assets	**87,027**	177,681
Reconciliation to the Group's investment in the joint venture:		
Proportion of the Group's ownership	**49%**	49%
Group's share of net assets of the joint venture	**42,644**	87,064
Carrying amount of the investment	**42,644**	87,064
Revenue	**1,424,381**	1,228,344
Depreciation and amortisation	**(8,453)**	(13,104)
Interest expenses	**(157)**	(228)
Tax	**(5,464)**	(7,622)
Profit and total comprehensive income for the year	**19,346**	24,270
Dividend received	**53,900**	—

15. INVESTMENTS IN ASSOCIATES

	2017	2016
	RMB'000	*RMB'000*
Share of net assets	**230,080**	108,802
Goodwill on acquisition	**294,721**	—
Total	**524,801**	108,802

Particulars of the Group's principal associates are as follows:

Name	**Particulars of capital held**	**Place of registration and business**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
東方口岸科技有限公司 (Dongfang Customs Technology Company Limited@) ("Dongfang Customs")*	Registered capital of RMB1 each	PRC/Mainland China	30	Operation of platforms for electronic customs processing
萬里雲醫療信息科技(北京)有限公司 (Wanliyun Medical Information Technology (Beijing) Co., Ltd@)* ("Wanliyun") *(note i)*	Registered capital of RMB1 each	PRC/Mainland China	25	Construction of medical platforms and provision of related services
A company in respective of medical business @*^ *(note ii)*	Registered capital of RMB1 each	PRC/Mainland China	10	Provision of medical self-service equipment and smart healthcare solutions

@ For identification purposes only

* The statutory financial statements of the above associates were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

^ The company in respective of medical business is accounted for as an associate of the Group because the Group is in a position to exercise significant influence. The Group has 20% voting rights in the board meeting and has veto rights in both board meeting and shareholders' meeting of this company.

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15. INVESTMENTS IN ASSOCIATES — CONTINUED

The above investments are indirectly held by the Company.

Note i: On March 28, 2016, Alibaba Health Technology (China) Co., Ltd., the Company's wholly-owned subsidiary, entered into a capital injection agreement with Wanliyun, a company established in the PRC with limited liability, and China Resources Wandong Medical Equipment Company Limited ("Wandong Medical"), a company established in the PRC and the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600055), pursuant to which Alibaba Health Technology (China) Co., Ltd. shall inject RMB225,000,000 in cash to Wanliyun, of which approximately RMB2,667,000 will be contributed to Wanliyun's registered capital, and the remaining amount will be contributed to its capital reserve. Upon completion of the transaction on April 22, 2016, Wanliyun was held as to 75% by Wandong Medical and 25% by Alibaba Health Technology (China) Co., Ltd., respectively.

The cash consideration was RMB225,000,000, with RMB112,500,000 paid on April 27, 2016 and the remaining RMB112,500,000 paid on October 27, 2016.

Note ii: On December 21, 2016, Hongyunjiukang, a company controlled by the Group, entered into a capital injection agreement with the company in respective of medical business, which was established in the PRC with limited liability, and the then shareholders of this company ("Original Shareholders"), pursuant to which Hongyunjiukang shall inject RMB211,110,000 in cash to the company. Upon completion of the transaction on December 28, 2016, the company was held as to 90% by the Original Shareholders and 10% by Hongyunjiukang, respectively.

A cash consideration of RMB105,555,000 was paid on December 28, 2016, while the remaining RMB105,555,000 was included in other payables and accruals as at March 31, 2017 and shall be paid at the earlier of December 31, 2017 and the completion date of the next round of fund raising by the investee.

15. INVESTMENTS IN ASSOCIATES — CONTINUED

The following table illustrates the summarised financial information in respect of Dongfang Customs adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2017 *RMB'000*	2016 *RMB'000*
Cash and cash equivalents	**275,176**	234,828
Other current assets	**53,449**	63,737
Current assets	**328,625**	298,565
Non-current assets	**119,765**	148,885
Current liabilities	**(70,802)**	(74,261)
Non-current liabilities	**(21,590)**	(10,517)
Net assets	**355,998**	362,672
Reconciliation to the Group's investment in an associate:		
Proportion of the Group's ownership	**30%**	30%
Group's share of net assets of the associate	**106,799**	108,802
Carrying amount of the investment	**106,799**	108,802
Revenue	**101,391**	112,956
Interest income	**2,105**	1,227
Depreciation and amortisation	**(8,680)**	(8,680)
Tax	**328**	(3,020)
Profit and total comprehensive income for the year	**11,247**	43,920
Dividend receivable	**5,377**	—

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15. INVESTMENTS IN ASSOCIATES — CONTINUED

The following table illustrates the summarised financial information in respect of Wanliyun adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2017 *RMB'000*
Cash and cash equivalents	199,116
Other current assets	19,126
Current assets	218,242
Non-current assets, excluding goodwill	10,228
Goodwill on acquisition of the associate	165,918
Non-current assets	176,146
Current liabilities	(5,201)
Non-current liabilities	(100)
Net assets	389,087
Net assets, excluding goodwill	223,169
Reconciliation to the Group's investment in the associate:	
Proportion of the Group's ownership	25%
Group's share of net assets of the associate	55,792
Goodwill on acquisition	165,918
Carrying amount of the investment	221,710

	For the period from April 22, 2016 to March 31, 2017 *RMB'000*
Revenue	12,786
Interest income	74
Depreciation and amortisation	(722)
Tax	91
Loss and total comprehensive loss for the year	(13,159)
Dividend received	—

15. INVESTMENTS IN ASSOCIATES — CONTINUED

The following table illustrates the summarised financial information of the associate in respective of medical business adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2017 *RMB'000*
Cash and cash equivalents	67,123
Other current assets	309,691
Current assets	376,814
Non-current assets, excluding goodwill	648,582
Goodwill on acquisition of the associate	128,803
Non-current assets	777,385
Current liabilities	(189,950)
Non-current liabilities, excluding non-current financial liability	(159,073)
Non-current financial liability	(75,368)
Net assets	729,808
Net assets, excluding goodwill and intercompany financial liability	674,895
Reconciliation to the Group's investment in the associate:	
Proportion of the Group's ownership	10%
Group's share of net assets of the associate	67,489
Goodwill on acquisition	128,803
Carrying amount of the investment	196,292

	For the period from December 28, 2016 to March 31, 2017 *RMB'000*
Revenue	69,063
Interest income	73
Depreciation and amortisation	(381)
Tax	1,237
Loss and total comprehensive loss for the year	(45,179)
Dividend received	—

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16. INVENTORIES

	2017 RMB'000	2016 RMB'000
Trading stock	**151,505**	—

17. TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**63,904**	22,799
Impairment	**(25,403)**	(22,693)
	38,501	106

The Group's trading terms with some of its customers are on credit. The Group provides a credit period of 30 days to 90 days. Trade receivables are settled in accordance with the terms of the respective contracts. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	**38,501**	4
3 to 12 months	**—**	102
	38,501	106

17. TRADE RECEIVABLES — CONTINUED

The movements in the provision for impairment of trade receivables are as follows:

	2017 *RMB'000*	2016 *RMB'000*
At April 1	**22,693**	19,238
Impairment losses recognised *(note 7)*	**2,710**	3,455
Amount written off as uncollectible	**—**	—
At March 31	**25,403**	22,693

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately RMB25,403,000 (2016: RMB22,693,000) with a carrying amount before provision of approximately RMB25,403,000 (2016: RMB22,693,000). The individually impaired trade receivables relate to customers that were in default and the full amount of the receivables is not expected to be recoverable.

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 *RMB'000*	2016 *RMB'000*
Neither past due nor impaired	**38,501**	—
Past due but not impaired	**—**	106
	38,501	106

Included in the Group's trade receivables are amounts due from subsidiaries of Alibaba Group of RMB25,375,000 (2016: Nil), which are repayable on credit terms similar to those offered to the major customers of the Group.

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18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES AND LONG-TERM RECEIVABLES

	2017 *RMB'000*	2016 *RMB'000*
Current:		
Prepayments	**20,218**	3,602
Deposits and other receivables	**22,280**	12,179
	42,498	15,781
Impairment	**(2,663)**	(957)
	39,835	14,824
Non-current:		
Long-term receivables *(note i)*	**54,304**	—
	94,139	14,824

Note i: Long-term receivables consist of a loan to the Group's joint venture, HL95, amounting to RMB53,900,000 and related interest receivable of RMB404,000. HL95 declared a dividend of RMB53,900,000 to the Group and the dividend was loaned back to HL95. An interest income of RMB404,000 was earned by the Group during the year ended March 31, 2017. The loan was unsecured and bore interest at a rate of 3% per annum.

The movements in provision for impairment of other receivables during the year are as follows:

	2017 *RMB'000*	2016 *RMB'000*
At April 1	**957**	150
Impairment losses recognised *(note 7)*	**1,706**	1,250
Amount written off as uncollectible	**—**	(443)
At March 31	**2,663**	957

The individually impaired other receivables of RMB2,663,000 (2016: RMB1,250,000) relate to debtors that were in default and the outstanding receivables are not expected to be recovered.

Included in the Group's prepayment and other receivables are amounts due from subsidiaries of Alibaba Group and dividend receivable from an associate of the Group, Dongfang Customs, of RMB761,000 (2016: Nil) and RMB4,839,000 (2016: Nil), respectively. These balances are unsecured, interest-free and have no fixed terms of repayment. Dongfang Customs declared dividend of RMB5,377,000 to the Group and a 10% withholding tax of RMB537,700 was levied and paid by Dongfang Customs.

19. CASH AND CASH EQUIVALENTS, RESTRICTED CASH, PLEDGED DEPOSITS AND LONG-TERM DEPOSITS

	2017	2016
	RMB'000	*RMB'000*
Cash and bank balances	**145,225**	142,516
Restricted cash	**914**	—
Time deposits with original maturity of three months or less when acquired	**424,635**	571,902
Time deposits with original maturity over three months when acquired	**222,848**	416,390
Total	**793,622**	1,130,808
Less: Restricted cash and pledged deposits:		
Long-term pledged time deposits for long term bank loans *(note i)*	**(222,848)**	—
Other restricted cash	**(914)**	—
	569,860	1,130,808
Less: Long-term deposits	**—**	(110,250)
Cash and cash equivalents	**569,860**	1,020,558

Note i: The balance represented time deposits and related interest income pledged for the bank borrowings. For details, please refer to note 24 to the financial statements.

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB placed in the PRC amounted to approximately RMB129,059,000 (2016: RMB116,256,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one month and two years depending on the immediate cash requirements of the Group, and earn interest at the respective term deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. Time deposits with original maturity over one year when acquired were classified as long-term deposits under non-current assets.

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20. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	RMB'000	*RMB'000*
Financial asset at fair value through profit or loss	**10,300**	—

In connection with the capital injection in a company in respective of medical business, an associate of the Group, as further explained in note 15 to the financial statements, Hongyunjiukang, a subsidiary of the Company and shareholder of the associate, is entitled to withdraw a portion of its investment cost of RMB73,890,000 (representing 3.5% ownership interests) in the associate at a minimum return of 8% interest per annum if the associate failed to achieve certain pre-determined operating targets in each of the three years ending December 31, 2018.

Upon initial recognition, the Group's put option was deemed at held for trading and measured at fair value through profit or loss.

The fair value of put option was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Expected volatility (%)	62
Expected dividend (%)	0.00
Exercise probability	30%
Withdrawal ownership	30%
Risk-free interest rate (%)	2.785

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

21. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 *RMB'000*	2016 *RMB'000*
Within 3 months	**125,079**	1,447
3 to 12 months	**4**	822
Over 12 months	**779**	1,482
	125,862	3,751

The trade payables are non-interest-bearing and are normally settled on terms of 30 days to 90 days.

Included in the Group's trade payables are amounts due to subsidiaries of Alibaba Group of approximately RMB4,635,000 (2016: Nil), which are repayable on credit terms similar to those offered by the related companies to their major customers.

22. OTHER PAYABLES AND ACCRUALS

	2017 *RMB'000*	2016 *RMB'000*
Other payables	**157,433**	34,288
Accruals	**32,029**	21,070
	189,462	55,358

Other payables are non-interest-bearing and have an average term of three months.

Included in the Group's other payables are amounts due to subsidiaries of Alibaba Group, an associate of the Group and HL95, a joint venture of the Group, of approximately RMB1,463,000 (2016: RMB120,000), RMB105,555,000 (2016: Nil) and RMB4,627,000 (2016: RMB581,000).

NOTES TO FINANCIAL STATEMENTS

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23. DEFERRED REVENUE

	2017	2016
	RMB'000	*RMB'000*
Deferred revenue from the product tracking platform service, current portion	**–**	86,873

24. INTEREST-BEARING BANK LOANS

	2017		
	Effective interest rate (%)	**Maturity**	***RMB'000***
Non-current			
Bank loan — secured	**5.05**	**April 26, 2018**	**100,000**
Bank loan — secured	**5.05**	**October 10, 2018**	**100,000**
			200,000

	2017	2016
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
In the second year	**200,000**	—
	200,000	—

Note:

The Group's bank loans are secured by the pledge of certain of the Group's time deposits and related interest income accrued as of March 31, 2017, which amounted to approximately RMB222,848,000.

25. DEFERRED TAX

Deferred tax liabilities

	Withholding taxes on distributable profits of the Group's PRC joint venture and associates *RMB'000*
At April 1, 2015	5,174
Deferred tax charged to the statement of profit or loss *(note 10)*	1,845
Gross deferred tax liabilities at March 31, 2016 and April 1, 2016	7,019
Deferred tax credited to the statement of profit or loss *(note 10)*	(453)
Gross deferred tax liabilities at March 31, 2017	6,566

Deferred tax assets have not been recognised in respect of the following items:

	2017 ***RMB'000***	2016 *RMB'000*
Tax losses	**844,453**	782,508
Impairment of trade receivables and other receivables	**28,066**	24,092
	872,519	806,600

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25. DEFERRED TAX — CONTINUED

Deferred tax liabilities — continued

The Group has tax losses arising in Hong Kong of approximately RMB523,279,000 (2016: RMB493,997,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of RMB321,174,000 (2016: RMB288,511,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after March 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries, joint venture and associates established in Mainland China in respect of earnings generated from January 1, 2008.

At March 31, 2017 and 2016, there were no unremitted earnings of the Group's subsidiaries established in Mainland China. At March 31, 2017 and 2016, respectively, there were unremitted earnings shared by the Group of approximately RMB65,660,000 and RMB70,190,000 of the Group's associates and joint venture established in Mainland China in respect of earnings generated from January 1, 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

26. SHARE CAPITAL

Shares

	2017 *RMB'000*	2016 *RMB'000*
Issued and fully paid:		
8,192,736,918 (2016: 8,172,644,639) ordinary shares of HK$0.01 each	**72,481**	72,305

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** *RMB'000*	**Share premium** *RMB'000*	**Treasury shares** *RMB'000*	**Total** *RMB'000*
At March 31, 2015, April 1, 2015 and March 31, 2016	8,172,644,639	72,305	1,863,621	—	1,935,926
Share options exercised *(note a)*	38,000	—	249	—	249
Vested awarded shares transferred to employees *(note b)*	9,752,649	85	43,350	—	43,435
Issue of shares *(note c)*	10,301,630	91	—	(91)	—
At March 31, 2017	8,192,736,918	72,481	1,907,220	(91)	1,979,610

Notes:

(a) On June 10, 2016 and July 19, 2016, 38,000 shares of HK$0.01 each were issued at the price of HK$5.184 (approximately to RMB4.438) per share upon exercise of share options by the option holders.

(b) On April 21, 2016, July 19, 2016, August 24, 2016 and November 2, 2016, 9,752,649 shares of HK$0.01 each were issued and transferred to employees upon vesting of restricted share units.

(c) On March 15, 2017, 10,301,630 shares of HK$0.01 each were issued for restricted share units to be vested before September 15, 2017. The 10,301,630 shares were held by the Trusts and were transferred from share capital to treasury shares upon the issue of new shares.

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27. SHARE-BASED COMPENSATION COSTS

Share award scheme

On November 24, 2014 (the "Adoption Date"), the Group adopted a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. An award ("Award") granted under the Share Award Scheme may either take the form of a RSU, being a contingent right to receive shares of the Company which are awarded under the Share Award Scheme or an option to subscribe for or acquire shares of the Company which are granted under the Share Award Scheme.

Share options and RSUs granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. All grants of share options and RSUs to connected persons shall be subject to compliance with the requirements of the Listing Rules, including the prior approval of the shareholders according to Chapter 14A of the Listing Rules. For the avoidance of doubt, any grant of share options to any connected person of the Company is fully exempted from the compliance with Chapter 14A of the Listing Rules pursuant to Rule 14A.92 of the Listing Rules. Any grant of RSUs to any connected person of the Company will constitute a connected transaction of the Company and shall therefore be subject to compliance with Chapter 14A of the Listing Rules (unless an exemption applies).

In addition, any share options and RSUs granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer and (iii) the nominal value of the shares.

The total number of shares in respect of which Awards may be granted under the Share Award Scheme and any other share award schemes of the Company shall not exceed 3% of the shares in issue as at the Adoption Date (the "Scheme Mandate Limit"), or 3% of the shares in issue as at the new approval date of the renewed Scheme Mandate Limit. Subject to the restrictions specified under Chapter 17 of the Listing Rules, there is no other restrictions on the maximum number of shares to be granted to each eligible participants under the Share Award Scheme.

The Awards do not confer rights on the holders to dividends or to vote at shareholders' meetings.

27. SHARE-BASED COMPENSATION COSTS — CONTINUED

Share award scheme — continued

Movements in the number of Awards granted under the Share Award Scheme during the year and their related weighted average fair values are as follows:

	Weighted average exercise price of share options	Number of options	Number of RSUs
	HK$ per share	*'000*	*'000*
Outstanding at April 1, 2015	—	—	—
Granted during the year	6.59	44,566	22,946
Forfeited during the year	10.18	(12,381)	(3,602)
Outstanding at March 31, 2016 and April 1, 2016	5.21	32,185	19,344
Granted during the year	5.09	35,888	43,395
Forfeited during the year	5.32	(9,334)	(8,073)
Exercised or vested during the year	5.18	(38)	(9,752)
Outstanding at March 31, 2017	5.12	58,701	44,914

The weighted average grant date fair value per unit for options at March 31, 2017 was RMB2.33 (2016: RMB2.14) and the weighted average grant date fair value per unit for RSUs at March 31, 2017 was RMB4.32 (2016: RMB4.34).

For share options outstanding at the end of the reporting period, the exercise prices range from HK$3.61 to HK$5.558. The exercise period of the options is from the vesting date to 10 years from the grant date. As at March 31, 2017, the remaining vesting periods for the options and RSUs granted range from 1 month to 46 months (2016: 1 month to 42 months).

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27. SHARE-BASED COMPENSATION COSTS — CONTINUED

Share award scheme — continued

The fair value of share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Options granted in 2017	Options granted in 2016
Fair value of the Company's shares as at the grant date	**HK$3.57–HK$5.39**	HK$4.96–HK$5.55
Expected volatility (%)	**70**	70
Expected dividend (%)	**0.00**	0.00
Exercise multiple	**2.2–2.8**	2.2–2.8
Exercise price	**HK$3.61–HK$5.558**	HK$5.184–HK$5.55
Risk-free interest rate (%)	**0.94–1.31**	1.46–1.74
Forfeiture rate (%)	**20–30**	20–30

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The fair values of the RSUs granted during the years ended March 31, 2017 and March 31, 2016 were determined based on the market value of the Company's shares at the respective grant dates.

Total share-based compensation expenses recorded by the Group under the Share Award Scheme are as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Cost of revenue	**956**	234
Sales and marketing expenses	**36,243**	9,937
Administrative expenses	**34,842**	15,268
Product development expenses	**36,405**	12,033
Fulfilment	**1,878**	—
Total	**110,324**	37,472

27. SHARE-BASED COMPENSATION COSTS — CONTINUED

Share award scheme — continued

At the end of the reporting period, the Company had 58,701,100 share options and 44,914,455 RSUs outstanding under the Share Award Scheme. The exercise in full of the outstanding share options and RSUs would, under the present capital structure of the Company, result in the issue of 90,219,925 additional ordinary shares of the Company and additional share capital of HK$902,199 (equivalent to approximately RMB782,043) (before issue expenses), the purchase of 3,094,000 existing shares from the market and release of 10,301,630 shares from treasury shares. The purchase of 3,094,000 existing shares was for RSUs to be vested by connected persons of the Group. Please refer to note 33(c) for details. For details of the release of 10,301,630 shares from treasury shares, please refer to note 26(c).

At the date of approval of these financial statements, the Company had approximately 51,684,100 share options and 22,619,795 RSUs outstanding under the Share Award Scheme, which represented approximately 1.83% of the Company's shares in issue as at that date.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 91 of the financial statements.

The Group's contributed surplus represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefor.

General reserve represents the share of PRC statutory reserves from the joint venture before the year ended March 31, 2013. PRC statutory reserves are required to be maintained under the relevant PRC laws applicable to the joint venture of the Group.

29. BUSINESS COMBINATIONS

(1) Acquisition of Alibaba Health Pharmaceutical Chain Co., Ltd.

On August 16, 2016, the Group acquired a 100% equity interest in Alibaba Health Pharmaceutical Chain Co., Ltd. from certain individual sellers (together, the "Sellers"). Alibaba Health Pharmaceutical Chain Co., Ltd. is principally engaged in the retail of pharmaceutical products and traditional Chinese medicine beverages in the PRC and operates a retail pharmacy chain in the PRC. The Company's mission is to build an online community where it will connect participants in China's healthcare market. The Company believes that its acquisition of Alibaba Health Pharmaceutical Chain Co., Ltd. will enable it to engage in the online retail pharmaceutical business to provide more products and services to end consumers. The purchase consideration for Alibaba Health Pharmaceutical Chain Co., Ltd. was in the form of cash of RMB16,800,000, of which RMB13,800,000 in total were paid on July 15, 2016 and August 17, 2016, and the remaining RMB3,000,000 will be paid after certain conditions are fulfilled.

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29. BUSINESS COMBINATIONS — CONTINUED

(1) Acquisition of Alibaba Health Pharmaceutical Chain Co., Ltd. — continued

The fair values of the identifiable assets and liabilities of Alibaba Health Pharmaceutical Chain Co., Ltd. as at the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*
Property and equipment	223
Inventories	2,948
Prepayments, deposits other receivables	2,102
Cash and cash at banks	826
Short term bank loans	(735)
Other payables	(126)
Trade payables	(2,045)
Total identifiable net assets at fair value	3,193
Goodwill on acquisition	13,607
Total purchase consideration satisfied by cash	16,800

The Group incurred transaction costs of RMB450,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss for the year ended March 31, 2017.

None of the goodwill recognised is expected to be deductible for income tax purposes.

29. BUSINESS COMBINATIONS — CONTINUED

(1) Acquisition of Alibaba Health Pharmaceutical Chain Co., Ltd. — continued

An analysis of the cash flows in respect of the acquisition of Alibaba Health Pharmaceutical Chain Co., Ltd. is as follows:

	RMB'000
Cash consideration paid	(13,800)
Cash and bank balances acquired	826
Net outflow of cash and cash equivalents included in cash flows from investing activities	(12,974)
Transaction costs of the acquisition included in cash flows from operating activities	(450)
	(13,424)

Since the acquisition, Alibaba Health Pharmaceutical Chain Co., Ltd. contributed RMB286,250,000 to the Group's revenue and loss of RMB11,688,000 to the consolidated loss for the year ended March 31, 2017.

Had the combination taken place at the beginning of the period, the revenue from continuing operations of the Group and the loss of the Group for the year would have been RMB479,678,000 and RMB209,103,000, respectively.

(2) Acquisition of Lihe

On September 23, 2016, the Group acquired a 100% equity interest in Lihe from a third party. The purchase consideration for Lihe was in the form of cash, and was fully paid on September 19, 2016. Lihe is principally engaged in centralised procurement and distribution business. The total fair value of the identifiable net assets of Lihe as at the date of acquisition was approximately RMB2,334,000 and the goodwill on acquisition was RMB5,516,000.

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March 31, 2017

29. BUSINESS COMBINATIONS — CONTINUED

(2) Acquisition of Lihe — continued

The fair values of the identifiable assets and liabilities of Lihe as at the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*
Property and equipment	821
Prepayments, deposits other receivables	491
Cash and cash at banks	1,149
Restricted cash	300
Other payables	(427)
Total identifiable net assets at fair value	2,334
Goodwill on acquisition	5,516
Total purchase consideration satisfied by cash	7,850

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of Lihe is as follows:

	RMB'000
Cash consideration	(7,850)
Cash and bank balances acquired	1,149
Net outflow of cash and cash equivalents included in cash flows from investing activities	(6,701)
Transaction costs of the acquisition included in cash flows from operating activities	—
	(6,701)

Since the acquisition, Lihe contributed RMB25,004,000 to the Group's revenue and loss of RMB356,000 to the consolidated loss for the year ended March 31, 2017.

Had the combination taken place at the beginning of the period, the revenue from continuing operations of the Group and the loss of the Group for the year would have been RMB477,355,000 and RMB209,290,000, respectively.

30. DISPOSAL OF A SUBSIDIARY

	Note	**2017** **RMB'000**	2016 RMB'000
Net assets disposed of:			
Cash and bank balances		**30**	—
Prepayments and other receivables		**28**	—
Inventories		**54**	—
Trade payables		**(1,398)**	—
Accruals and other payables		**(3,234)**	—
		(4,520)	—
Gain on disposal of a subsidiary	*5*	**4,550**	—
		30	—

	2017 **RMB'000**	2016 RMB'000
Satisfied by:		
Cash	**30**	—

廣東天圖科技有限公司 (Guangdong Grand Cycle Technology Company Limited*) ("Grand Cycle"), a wholly-owned subsidiary of the Group, was engaged in software development and system integration services. Grand Cycle was disposed of during the year at a cash consideration of RMB30,000.

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017 **RMB'000**	2016 RMB'000
Cash consideration	**30**	—
Cash and bank balances disposed of	**(30)**	—
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**—**	—

* For identification purpose only.

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31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office buildings under operating lease arrangements, which are negotiated for terms ranging from 6 months to 63 months.

At March 31, 2017, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	2017	2016
	RMB'000	*RMB'000*
Within one year	**14,312**	12,845
In the second to fifth years, inclusive	**11,404**	15,386
Over five years	**80**	—
	25,796	28,231

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	2017	2016
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Acquisition of an associate	**—**	225,000
Capital injection of an investment	**50,000**	—
	50,000	225,000

33. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2017	2016
	RMB'000	*RMB'000*
Rental and management fee paid to a subsidiary of Alibaba Group *(note i)*	**34**	432
Legal service fee and accounting service fee paid to a subsidiary of Alibaba Group *(note i)*	**1,045**	1,200
Technical service fee payable to certain subsidiaries of Alibaba Group *(note ii)*	**2,274**	—
Promotion service purchased from an associate of Alibaba Holding *(note iii)*	**500**	—

Notes:

(i) The sharing of service fee between the Group and a subsidiary of Alibaba Holding was conducted on a cost basis.

(ii) The technical support service fee charges were based on the direct costs incurred, plus a mark-up.

(iii) The transactions were made according to the terms in the agreement signed between the Group and the associate of Alibaba Holding.

(b) On May 30, 2016, CITIC 21CN Technology and 阿里雲計算有限公司 (Alibaba Cloud Computing Ltd.*) ("Alibaba Cloud"), a subsidiary of Alibaba Group, entered into the Second Renewed Cloud Computing Service Agreement for a term of one year that runs retrospectively from April 1, 2016 to March 31, 2017, pursuant to which Alibaba Cloud provided certain cloud computing services to the Group. During the year, a service fee of RMB7,838,000 (2016: RMB7,687,000) was charged by Alibaba Cloud to the Group. As at March 31, 2017, a service fee payable to Alibaba Cloud included in the Group's trade payables amounted to RMB2,320,000 (2016: RMB120,000). Further details of the transaction were set out in the announcements of the Company dated April 21, 2015 and May 30, 2016. On March 13, 2017, Alibaba Health Technology (China) Co., Ltd., an indirectly wholly-owned subsidiary of the Company, and Alibaba Cloud entered into the Third Renewed Cloud Computing Service Agreement for a term of one year, commencing from April 1, 2017 to March 31, 2018. Further details of the transactions were set out in the announcement of the Company dated March 13, 2017.

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33. RELATED PARTY TRANSACTIONS — CONTINUED

(I) Transactions with related parties — continued

(c) On July 29, 2016, the Company granted a total of 2,509,000 share options, with an exercise price of HK$5.558 per share, and 1,065,000 RSUs to Mr. Wang Lei, the chief executive officer of the Company and executive directors of the Company, Ms. Ma Li, Mr. Meng Changan, Mr. Wang Peiyu and Mr. Li Yipeng, each of them either being a director of a subsidiary or certain subsidiaries of the Company, under the Share Award Scheme. Further details of the transactions were set out in the announcement of the Company dated July 29, 2016.

On February 22, 2017, the Company granted a total of 2,029,000 RSUs to Ms. Lew Aishan, Nicole, a director of two subsidiaries of the Company and a supervisor of a subsidiary of the Company, under the Share Award Scheme. Further details of the transaction were set out in the announcement of the Company dated February 22, 2017.

(d) On April 3, 2015, April 1, 2016, November 7, 2016 and September 1, 2016, the Group entered into certain promotion service agreements and call center outsourcing service agreements with HL95 and one of its subsidiaries, pursuant to which HL95 will provide certain promotion service and call center services to the Group. The terms of the agreements are approximately one year commencing on the agreement date. During the year ended March 31, 2017, promotion service fees and call center service fees of RMB5,455,000 (2016: RMB5,758,000) were charged by HL95 and one of its subsidiaries to the Group. As at March 31, 2017, service fees payable to HL95 included in the Group's other payables and accruals amounted to RMB4,627,000 (2016: RMB581,000).

(e) On August 24, 2016, Alibaba Health Technology (China) Co., Ltd., an indirectly wholly-owned subsidiary of the Company, and the Tmall Entities, members of Alibaba Group, entered into a services agreement, pursuant to which the Group agreed to provide certain outsourced and value-added services in accordance with the terms and conditions of the services agreement. The Tmall Entities shall pay the Group a service fee amounting to 21.5% of the fees paid by the merchants to the relevant Tmall Entities in respect of the value of the completed sales of products or services under certain categories on Tmall. The transaction was approved by the Company's independent shareholders at a special general meeting. The term of the services agreement was from September 13, 2016 to March 31, 2017. Further details of the transaction were set out in the announcement of the Company dated August 24, 2016. For the year ended March 31, 2017, a service income of RMB42,301,000 (2016: Nil) was charged by the Group to the Tmall Entities. As at March 31, 2017, service fees receivable from the Tmall Entities included in the Group's accounts receivable amounted to RMB24,827,000 (2016: Nil). Certain of the above-mentioned service income included 21.5% of the fees paid by Alibaba Health Pharmaceutical Chain Co., Ltd., an indirectly wholly-owned subsidiary of the Company, to the Tmall Entities in respect of the value of the completed sales of products. A net service income of RMB40,341,000 was recorded in the consolidated statement of profit or loss. On March 10, 2017, Alibaba Health Technology (China) Co., Ltd. and the Tmall Entities renewed the services agreement for one year from April 1, 2017 to March 31, 2018. Further details of the transaction were set out in the announcement of the Company dated March 10, 2017.

33. RELATED PARTY TRANSACTIONS — CONTINUED

(I) Transactions with related parties — continued

(f) On July 12, 2016, Alibaba Health Pharmaceutical Chain Co., Ltd. entered into a Tmall services agreement with the Tmall Entities, pursuant to which the Tmall Entities will provide internet information and other related services to the Group. The term of the Tmall services agreement was from July 12, 2016 to December 31, 2016. Further details of the transaction were set out in the announcement of the Company dated August 16, 2016. On December 31, 2016, the Company, 阿里巴巴網絡中國有限公司 (Alibaba.com China Limited*), and 淘寶中國控股有限公司 (Taobao China Holding Limited*) entered into a service framework agreement, pursuant to which relevant entities# of Alibaba Group will provide to the Group internet information related software technical services and other related services. The contract commenced from March 11, 2017, being the date following approval at the special general meeting on March 10, 2017 and will end on March 31, 2018. For the year ended March 31, 2017, a service fee of RMB12,653,000 (2016: Nil) was charged to the Group. 21.5% of the above-mentioned service fee was paid to Alibaba Health Technology (China) Co., Ltd., an indirectly wholly-owned subsidiary of the Company. A net service fee of RMB10,693,000 was recorded in the consolidated statement of profit or loss. As at March 31, 2017, deposits due from the Tmall Entities included in the Group's prepayments and other receivables amounted to RMB185,000 (2016: Nil).

Relevant entities referred to 阿里巴巴(中國)網絡技術有限公司 (Alibaba (China) Technology Co., Ltd.*), 杭州阿里巴巴廣告有限公司 (Hangzhou Alibaba Advertising Co., Ltd.*), 淘寶中國控股有限公司 (Taobao China Holding Limited*), the Tmall Entities and their respective affiliates, collectively.

(g) On August 4, 2016, 杭州阿里媽媽軟件服務有限公司 (Hangzhou Alimama Software Services Co., Ltd.*) ("Alimama"), a subsidiary of Alibaba Holding, and Alibaba Health Technology (China) Co., Ltd., an indirectly wholly-owned subsidiary of the Company, entered into an Agency Agreement to provide marketing service to Alibaba Health Technology (China) Co., Ltd. and its contracted clients for a term of nine months from July 1, 2016 to March 31, 2017. In return of the actual marketing expenses incurred by Alibaba Health Technology (China) Co., Ltd. and its contracted clients, Alibaba Health Technology (China) Co., Ltd. would be entitled to receive certain incentive fees. Further details of the transaction were set out in the announcement of the Company dated January 6, 2017. For the year ended March 31, 2017, a marketing service expense of RMB755,000 (2016: Nil) was charged by Alimama to the Group and an incentive fee of RMB517,000 (2016: Nil) was charged by the Group to Alimama. As at March 31, 2017, a prepayment paid to Alimama included in the Group's prepayments and other receivables amounted to RMB575,000 (2016: Nil), and the incentive fee receivable from Alimama included in the Group's accounts receivable amounted to RMB548,000 (2016: Nil).

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33. RELATED PARTY TRANSACTIONS — CONTINUED

(I) Transactions with related parties — continued

(h) On September 20, 2016, 浙江菜鳥供應鏈管理有限公司 (Zhejiang Cainiao Supply Chain Management Co., Ltd.*) ("Cainiao"), a subsidiary of Alibaba Group, and Alibaba Health (Hong Kong), a wholly-owned subsidiary of the Company, entered into a Service Agreement, pursuant to which Cainiao will provide bonded warehouse services, customs clearance services and distribution services. The term of the Service Agreement was one year commencing on April 1, 2016 to March 31, 2017. During the year ended March 31, 2017, a logistics and warehousing service fee of RMB957,000 (2016: Nil) was charged by Cainiao.

(i) On January 1, 2017, HL95 entered into a loan agreement with Alibaba Health (Hong Kong), a wholly-owned subsidiary of the Company, pursuant to which Alibaba Health (Hong Kong) agreed to provide a loan of RMB53,900,000 to HL95 for the three years ending December 31, 2019, which is unsecured and bears interest at a rate of 3% per annum.

* For identification purposes only.

The related party transactions in respect of items (a)(i), (a)(ii), (b), (c) and (e) to (h) above for the current year also constitute continuing connected transactions or connected transactions as defined in Chapter 14A of the Listing Rules.

(II) Compensation of key management personnel of the Group

	2017 ***RMB'000***	2016 *RMB'000*
Short-term employee benefits	**5,973**	4,893
Share-based compensation expenses	**21,902**	16,141
Pension scheme contributions	**155**	118
Total compensation paid to key management personnel	**28,030**	21,152

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets — loans and receivables

	March 31, 2017	March 31, 2016
	RMB'000	*RMB'000*
Trade receivables	**38,501**	106
Financial assets included in prepayments, deposits and other receivables	**19,617**	11,222
Cash and cash equivalents	**569,860**	1,020,558
Restricted cash and pledged deposits	**223,762**	—
Long-term receivables	**54,304**	—
Long-term deposits	**—**	110,250
	906,044	1,142,136

Financial assets — financial asset at fair value through profit or loss

	Held for trading	
	March 31, 2017	March 31, 2016
	RMB'000	*RMB'000*
Financial asset at fair value through profit and loss	**10,300**	—

Financial liabilities — Financial liabilities at amortised cost

	March 31, 2017	March 31, 2016
	RMB'000	*RMB'000*
Trade payables	**125,862**	3,751
Interest-bearing bank loans	**200,000**	—
Financial liabilities included in other payables and accruals	**157,433**	48,303
	483,295	52,054

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35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amount		**Fair value**	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Pledged deposits, non-current portion	**222,848**	—	**222,848**	—
Long-term receivables	**54,304**	—	**54,304**	—
Long-term deposits	**—**	110,250	**—**	110,250
	277,152	110,250	**277,152**	110,250
Financial liabilities				
Interest-bearing bank loans	**200,000**	—	**200,000**	—

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits, long-term receivables and deposits and interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans as at March 31, 2017 was assessed to be insignificant.

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS — CONTINUED

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at March 31, 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial asset at fair value through profit or loss	—	—	10,300	10,300

The Group did not have any financial assets measured at fair value as at March 31, 2016.

The Group did not have any financial liabilities measured at fair value as at March 31, 2017 and 2016.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

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35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS — CONTINUED

Assets for which fair values are disclosed:

As at March 31, 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Long-term receivables	—	—	54,304	54,304
Pledged deposits, non-current portion	—	222,848	—	222,848

As at March 31, 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Long-term deposits	—	110,250	—	110,250

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS — CONTINUED

Liabilities for which fair values are disclosed:

As at March 31, 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank loans	—	—	200,000	200,000

The Group did not have any financial liabilities for which fair values are disclosed as at March 31, 2016.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and term deposits. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and long-term deposits, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

The Group places its cash deposits with major international banks in Hong Kong and state-owned banks in Mainland China. This investment policy limits the Group's exposure to concentrations of credit risk.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — CONTINUED

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from the Group's cash and bank balances denominated in currencies other than the functional currencies of the operating units.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of cash and bank balances).

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in loss before tax
	%	*RMB'000*
2017		
If the Hong Kong dollar weakens against RMB	**1**	**2,218**
If the Hong Kong dollar strengthens against RMB	**(1)**	**(2,218)**
2016		
If the Hong Kong dollar weakens against RMB	1	2,877
If the Hong Kong dollar strengthens against RMB	(1)	(2,877)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2017	
	Less than 1 year or on demand	**1 to 5 years**
	RMB'000	***RMB'000***
Interest-bearing bank loans	**10,100**	**203,265**
Trade payables	**125,862**	**—**
Financial liabilities included in other payables and accruals	**157,433**	**—**
	293,395	**203,265**

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — CONTINUED

	2016 Less than 1 year or on demand *RMB'000*
Trade payables	3,751
Financial liabilities included in other payables and accruals	48,303
	52,054

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new issues of shares.

NOTES TO FINANCIAL STATEMENTS

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37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	March 31, 2017	March 31, 2016
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Property and equipment	**—**	6
Investments in subsidiaries	**582,720**	176,459
Pledged deposits	**222,848**	—
Long-term deposit	**—**	110,250
Total non-current assets	**805,568**	286,715
CURRENT ASSETS		
Prepayments and other receivables	**4,922**	2,353
Cash and cash equivalents	**435,240**	903,453
Total current assets	**440,162**	905,806
CURRENT LIABILITIES		
Other payables and accruals	**23,825**	16,331
Due to subsidiaries	**12,626**	3,498
Total current liabilities	**36,451**	19,829
NET CURRENT ASSETS	**403,711**	885,977
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,209,279**	1,172,692
Net assets	**1,209,279**	1,172,692
EQUITY		
Share capital	**72,481**	72,305
Treasury shares	**(91)**	—
Reserves	**1,136,889**	1,100,387
Total equity	**1,209,279**	1,172,692

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY — CONTINUED

A summary of the Company's reserves is as follows:

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Employee share-based compensation reserve RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve# RMB'000	Accumulated losses RMB'000	Total RMB'000
At April 1, 2015		1,863,621	57,741	–	10,752	(62,546)	(741,973)	1,127,595
Loss for the year		–	–	–	–	–	(111,638)	(111,638)
Other comprehensive income for the year:								
Translation from functional currency to presentation currency		–	–	–	–	46,958	–	46,958
Total comprehensive income/(loss) for the year		–	–	–	–	46,958	(111,638)	(64,680)
Share-based compensation expense	27	–	–	37,472	–	–	–	37,472
At March 31, 2016		1,863,621	57,741	37,472	10,752	(15,588)	(853,611)	1,100,387
Loss for the year		–	–	–	–	–	(147,415)	(147,415)
Other comprehensive income for the year:								
Translation from functional currency to presentation currency		–	–	–	–	73,508	–	73,508
Total comprehensive income/(loss) for the year		–	–	–	–	73,508	(147,415)	(73,907)
Share-based compensation expenses	27	–	–	110,324	–	–	–	110,324
Exercise of share options	26	249	–	(79)	–	–	–	170
Vested awarded shares transferred to employees	26	43,350	–	(43,435)	–	–	–	(85)
At March 31, 2017		1,907,220	57,741	104,282	10,752	57,920	(1,001,026)	1,136,889

The exchange fluctuation reserve represents the difference arising from translating the financial statements from HK$ into RMB, the Company's presentation currency.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on May 16, 2017.

FINANCIAL SUMMARY

	Year ended March 31,				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Restated)	(Restated)	(Restated)
RESULTS					
Revenue	**475,078**	56,595	29,744	21,990	13,024
Loss before tax	**(207,099)**	(197,117)	(83,178)	(26,898)	(33,728)
Taxation	**(1,554)**	(1,851)	(927)	(768)	(161)
Loss for the year	**(208,653)**	(198,968)	(84,105)	(27,666)	(33,889)
Attributable to:					
Owners of the parent	**(207,626)**	(191,608)	(81,221)	(31,360)	(33,889)
Non-controlling interests	**(1,027)**	(7,360)	(2,884)	3,694	—
	(208,653)	(198,968)	(84,105)	(27,666)	(33,889)

	As at March 31,				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Restated)	(Restated)	(Restated)
ASSETS AND LIABILITIES					
Total assets	**1,679,700**	1,348,150	1,408,721	395,312	319,782
Total liabilities	**(560,038)**	(192,879)	(141,830)	(113,686)	(89,870)
	1,119,662	1,155,271	1,266,891	281,626	229,912
Equity attributable to owners of the parent	**1,177,836**	1,221,360	1,325,620	337,471	289,451
Non-controlling interests	**(58,174)**	(66,089)	(58,729)	(55,845)	(59,539)
	1,119,662	1,155,271	1,266,891	281,626	229,912