大健康
UNIVERSAL HEALTH

UNIVERSAL HEALTH INTERNATIONAL GROUP HOLDING LIMITED
大 健 康 國 際 集 團 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2211

2018/19
ANNUAL REPORT

CONTENTS

Company Profile

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

Universal Health International is one of the leading pharmaceutical retailers and distributors in the Northeast of the People's Republic of China (the "**PRC**" or "**China**"). The Group has distinguished pharmaceutical retail chain network in the Northeast China and it is also the largest privately operated pharmaceutical distributor in the Northeast China. As of the date of this annual report, the Group operated 850 retail pharmacies, mainly located in the Northeast China, and had approximately 3,800 active distributors and 5,628 full-time staff. In addition, the Group has set up five large-scale logistics storage centers in Shijiazhuang, Shenyang, Changchun, Harbin and Jiamusi, and has established a high-quality distribution system radiating across the country and covering the northeastern region of the PRC.

As a basic business segment, the Group's main product categories for pharmaceutical retail and distribution (including import and export trade) include prescribed drugs, non-prescribed drugs (Chinese patent medicines, chemical preparations, antibiotics and biochemical drugs), traditional Chinese medicine decoction pieces, biological products, protein assimilation preparations, peptide hormones, blood products, disinfection products, medical equipment, family planning supplies (contraceptives and utensils), prepackaged foods, dairy products (including infant formula milk powder), nutritional foods, health care products, stereotyped packaging cosmetics, daily necessities, etc.

The Group will continue leveraging on the core advantages of branded products, expanding the scope of cooperation on branded products, leveraging on institute training, and providing more value-added service to employees, customers and consumers. The Group also enriches the product mix by introducing more health care products based on the expertise in pharmaceutical retail and distribution, so as to promote the concept of the universal health industry. Meanwhile, the Group actively explores upstream ecological chain, covering the construction for Chinese herbal medicines base and the production of plant capsule.

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

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

Independent Non-executive Directors:

Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie
Mr. Zou Haiyan

AUDIT COMMITTEE

Mr. Zou Haiyan *(Chairman)*
Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Ge Junming
Mr. Zhao Zehua

COMPANY SECRETARY

Mr. Ge Junming

REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS

No. 14-1
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Liaoning Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITOR

Mazars CPA Limited

STOCK CODE

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

INVESTOR RELATIONS

ir@uhi-group.com

COMPANY'S WEBSITE

www.uhighl.com

Financial Highlights

	Unit	**For the year ended 30 June 2019** *(Audited)*	For the eighteen months ended 30 June 2018 *(Audited)*
Revenue	RMB million	**2,424.4**	3,968.9
Gross profit	RMB million	**326.8**	652.1
Operating loss	RMB million	**(281.6)**	(966.2)
Loss for the year/period	RMB million	**(267.1)**	(924.8)
EBITDA(1)	RMB million	**(252.2)**	(369.1)
Basic loss per share(2)	RMB cents	**(8.58)**	(33.67)
Gross margin	%	**13.5**	16.4
Operating loss margin	%	**(11.6)**	(24.3)
Net loss margin	%	**(11.0)**	(23.3)

	Unit	**As at 30 June 2019** *(Audited)*	As at 30 June 2018 *(Audited)*	Change
Current ratio(3)	times	**4.8**	5.4	-0.6
Trade receivables turnover(4)	days	**28.7**	23.1	+5.6
Inventory turnover(5)	days	**52.7**	57.2	-4.5
Trade payables turnover(6)	days	**28.6**	26.6	+2.0
Return on equity(7)	%	**(15.4)**	(47.8)	+32.4 pp
Return on total assets(8)	%	**(13.3)**	(41.5)	+28.2 pp

Financial Highlights

Notes:

1. EBITDA is calculated by adjusting loss before interests, tax, depreciation and amortisation, excluding the effect of share of post-tax results of joint ventures and an associate, share-based payment expenses, impairment loss or its reversal on goodwill and other intangible assets and impairment loss or its reversal on investment in an associate.

2. Basic loss per share is calculated by dividing loss attributable to owners of the Company by weighted average number of ordinary shares (the weighted average number of shares for the year ended 30 June 2019 was 3,097,517,000, versus 2,723,838,000 for the eighteen months ended 30 June 2018).

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

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

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

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

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

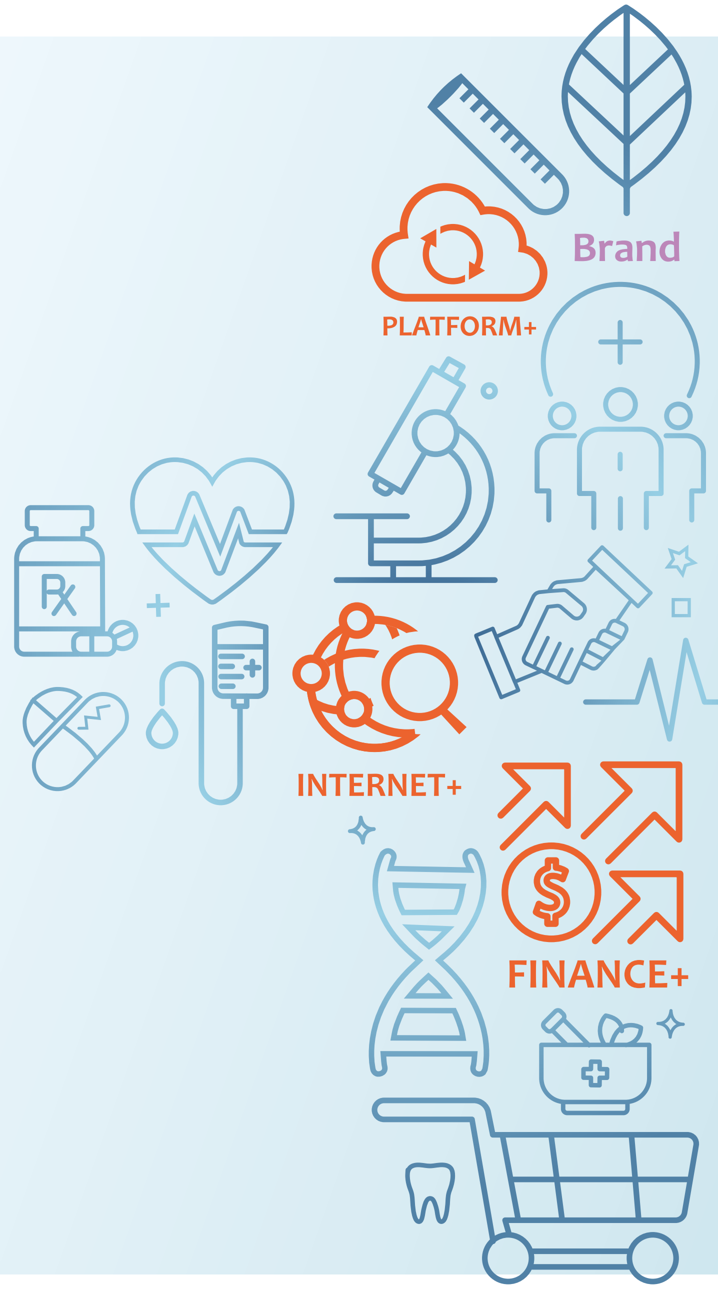
8. Return on total assets is calculated by dividing loss for the year/period by total assets.

Chairman's Statement

Dear Shareholders,

I, on behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, am glad to express my sincere gratitude to the shareholders of the Company (the "**Shareholder(s)**") and all who give strong support, understanding and encouragement to the Company. I would like to take this opportunity to present the annual report of the Group for the year ended 30 June 2019 (the "**Year**").

Focus in Development
Progress in Stability



Chairman's Statement

Macro Environment

In 2018, deglobalization has become a trend all over the world, while populism and political conflicts along the borders are on the rise. All these created a great impact on the economic operation, and under the circumstances, the global economy explicitly shows new traits such as "differentiation" and these "opposition". In 2019, the global economy has fallen back slightly but there is still economic growth. The International Monetary Fund has cut its growth forecasts for the global economy down to 3.2% for this year.

With the trade war initiated by Trump administration, the Sino-US trade friction continues to escalate. To cope with the intricate global environment and the arduous national transformation and development stabilization, during 2018 and the first half of 2019, China has adhered to a fundamental of making progress whilst maintaining stability, maintaining the economy operating within the reasonable range, and overall has been developing stably.

Business Review

The Group is principally engaged in the distributions and retails of drugs and other pharmaceutical products in the northeastern region of the PRC, striving to be an international brand operator of universal health. Owing to the continuous downturn pressure on regional real economy in the northeastern region of the PRC, the Group continued to apply various promotion initiatives and offer special discounts to consumers and expand sales channels, implement the idea of platform co-building, promote the diversification of operation varieties, and actively restrain the diminishing rate in retail and distribution. Meanwhile, the Group continued to explore the combination of "Internet + Universal Health" with the real economy and strengthen cooperation with Hong Kong Cross-Border E-commerce Association and other industrial platforms, with an aim to explore the opportunity of international cooperation in universal health industry.

During the Year, the revenue of the Group amounted to RMB2,424.4 million (Eighteen months ended 30 June 2018: RMB3,968.9 million). Loss attributable to equity owners of the Company amounted to RMB265.6 million (Eighteen months ended 30 June 2018: RMB917.0 million), which was caused by the weak performance of the Group during the Year due to the economic downturn in northeastern region of the PRC and the strategic transformation of the Group.

During the Year, the Group further acquired 7.4% equity interest in Jilin Jintian Universal Health Group Capsules Limited* (吉林金天大健康集團膠囊有限公司) ("**Jilin Jintian**"), thereby owning 43.78% of the shares of that company. This acquisition showed the strong confidence of the Group in the capsule industry. As part of the strategies of the Group, it realized ecological merger and acquisition of resources of upstream and downstream of the pharmaceutical sector and was beneficial for improving competitiveness of the Group, improving the overall interest of the Group and providing solid foundation for internationalization strategy in a positive manner.

Chairman's Statement

Outlook and Strategies

Along with the development of the global economy, the expansion of population, the increase of ageing society and the rise of awareness of health, the global pharmaceutical industry has maintained a rapid growth for decades. It has been reported that the demand for global pharmaceutical market will reach USD1,224.9 million in 2019, whereas the average compound growth rate during 2015 to 2019 maintained between 4% and 5%; the growth of pharmaceutical demand in emerging markets are particularly significant, the growth of pharmaceutical markets in Asia (excluding Japan), Africa, Australia during 2014 to 2019 reached 6.9% to 9.9%, which is more than the global expectation for the same period of 4.8%.

China is the largest emerging market in the global pharmaceutical industry. In 2018, the development of China's pharmaceutical industry is looking good, the key indication all had different degree of elevation. Moving into 2019, with the promotion of the "Belt and Road" initiative on all fronts, Healthy China 2030 Plan will be implemented comprehensively, the demand of global market will rebound, the consumption of healthcare in China will be increased and accelerated, pharmaceutical industry will be growing rapidly, profit will be steady, enterprise innovation will be actively accelerated, the industry will reshuffle and along with other trends. However, there are problems including critical export situation, interruptions of supply of pharmaceutical products and huge difficulty in the evaluation of generic drug consistency.

Environmental, Social and Governance

The environmental, social and governance compliance and how the Group can benefit the community through its business promotes healthy and orderly development of the Group. The Group actively communicates with stakeholders on the issues of concern, principally regarding topics on the environment, employees, customers, supply chain, anti-corruption and even community participation, demonstrating how much effort the Group has made to create a greater economic value for stakeholders.

I would like to take this opportunity to extend my sincere gratitude to the Board, management members and staff for their dedication and support to our Group's strategies and business development.

Jin Dongtao
Chairman

Hong Kong
26 September 2019

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

Industry Overview

Faced with a complicated international environment and a challenging and onerous mission of domestic reform and stable development, China adhered to the principle of steady progress in 2018 and the first half of 2019.

According to the China's National Bureau of Statistics, the GDP of 2018 was RMB90.03 trillion, representing a year-on-year increase of 6.6%. The National Bureau of Statistics of China said that the main expected targets for China's economic and social development in 2018 were completed, the three tough battles were off to a good start, the supply-side structural reforms were further advanced, the reform and opening up was intensified, the people's lives continued to improve, while the national economy maintained a reasonable level of stability and progress.

The market size of China's pharmaceutical industry has been expanding gradually over the years, yet at the same time the growth rate is decreasing year by year. In 2018, the main business income of pharmaceutical industry reached RMB2,398.6 billion, a year-on-year increase of 12.6%. The total profit of pharmaceutical manufacturing industry reached RMB309.42 billion in 2018, increased by 9.5%.

In the first half of 2019, China's GDP reached RMB45.09 trillion, a year-on-year increase of 6.3% at comparable prices. This growth rate is in line with the expected development target of 6.0% to 6.5% at the beginning of the year, but the growth rate has decreased compared with the past, which is the lowest GDP growth rate since 1990. The business income and total profit of pharmaceutical industry were RMB1.22 trillion and RMB160.82 billion, representing an increase of 8.5% and 9.4% year-on-year respectively. The total retail sales of social consumer goods was RMB19.52 trillion, up 8.4% year-on-year. The national online retail sales increased by 17.8% to RMB4.82 trillion, of which the online retail sales of physical goods increased by 21.6% to RMB3.82 trillion, accounting for 19.6% of the total retail sales of social consumer goods.

The pharmaceutical industry is an important part of China's national economy. It plays a pivotal role in the entire consumer market and is the most fundamental and also a core part of the universal health industry. Looking back over the past year, factors such as Sino-US trade friction, vaccine incidents, quantity procurement, medical insurance control fees, and bidding price reduction brought mixed prospects to the pharmaceutical industry.

Since 2018, there has been frequent introduction of policies in the pharmaceutical industry, most of the pharmaceutical companies have been affected and productivity has declined. The income of the core business of the pharmaceutical industry continued to grow, mainly due to the volume of tenders for some products of pharmaceutical companies and the new medical insurance. The transformation of the drug marketing model brought about an increase in apparent income and the price increase of some products.

Management Discussion and Analysis

On 28 August 2018, the General Office of the State Council issued the "Notice on Main Tasks of Healthcare System Reform in the Second Half of 2018", proposing 50 tasks in the second half of 2018, including: adjust the national essential drug list, formulate and guide the national essential drug system, and promote the priority use of essential drug; promote the development of "Internet + medical health"; strengthen the monitoring and early warning of the shortage of supply of medicines in the country, and establish a system for the suspension of production of out-of-stock drugs and drug substance; formulate the guidance documents for the classification and management of retail pharmacies; cooperate with the anti-cancer drug tax reduction policy, promote the centralized procurement of anti-cancer drugs in the medical insurance catalogues of all provinces (autonomous regions and municipality), negotiate the introduction of exclusive anti-cancer drugs which are not within the medical insurance catalogue into the medical insurance, deepen the reform of medical insurance payment methods, etc.

The year 2018 marks the fully launch of the "Two Invoices System". Since its implementation, the entire pharmaceutical circulation landscape has undergone major adjustments. Corporations have accelerated the integration of upstream and downstream resources in the industry, and there were frequent overseas mergers and acquisitions in the capital market.

In the first half of 2019, the medical reform has been further deepened. There were frequent introduction of policies in the field of medicine and health, the pace of reform has been accelerated in the medical reform. On 17 January 2019, the General Office of the State Council published the "Pilot Program of the Centralized Procurement and Use of Drugs Organized by the State", and carried out the pilot work in 11 cities such as Beijing, Tianjin and Shanghai. On 12 March 2019, Mr. Ma Xiaowei, director of the National Health Commission, said in an interview in the Great Hall of the People, the scope of the "4+7" procurement will be further expanded and promoted nationwide. On 17 April 2019, the National Healthcare Security Administration issued the "Work Plan for 2019 National Medical Insurance Drug Catalogue Adjustment". The catalogue adjustment aims to optimize the structure of medicines, improve the level of protection of the medical insurance drugs as well as alleviate the problem of difficulty and cost in the usage of drug of the insured persons. On 28 May 2019, the National Health Commission and the National Administration of Traditional Chinese Medicine jointly issued the "Pilot Work Plan for Urban Medical Complex Construction" and the "Notice on Promoting the Construction of a Compact County Health Community".

In the future, with the implementation of policies such as quantity procurement and national promotion, it is expected that the pharmaceutical industry will still be under greater performance pressure. However, as the pharmaceutical industry began to vigorously implement the healthy China 2030 strategy, it promoted supply-side structural reforms, the "Belt and Road" initiative has been promoted on all fronts, the growth rate of the pharmaceutical market in the developed economies has rebounded; the demand for the pharmaceutical market in emerging economies has been strong; domestic health consumption has been upgraded; and various policy benefits persist. It is expected that China's pharmaceutical industry will see a good general operation trend, and will maintain a development trend at a relatively high speed.

Management Discussion and Analysis

Business Review

During the Year, under the leadership of Mr. Jin Dongtao, the chairman of the Group (the "**Chairman**"), and with the efforts of all employees, the Group has been actively promoting the development of traditional physical retail chain stores and distribution network while facing intensive competition. Meanwhile, the Group endeavored to explore new business model to facilitate the Group's "Supply-side" structural transformation and upgrading. During the Year, the Group acquired additional 7.4% equity interest in Jilin Jintian and in turn owned 43.78% of its shares, which would further leverage on the integration of upstream resources to construct a universal health ecosystem. After the acquisition, the Group continued to classify with Jilin Jintian as an associate. In addition, the Company has granted 300,000,000 share options under the rules of the share option scheme of the Company amended and effective on 20 December 2018 (the "**Share Option Scheme**") during the Year to cope with the downward pressure of the regional economy and the industry and enhance the unity of the operation team.

Management Discussion and Analysis

The Golden Rules (王道哲學)

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

Chain Retail Business

During the Year, the Group committed to issue-specific management, continued to keep the division of strategic stores and non-strategic stores and conducted reasonable adjustments and reformatory elimination in line with the market competition and development. During the Year, 67 stores have been closed in due course. As such, the Group had 850 stores in total at the end of the Year, including 584 strategic stores (2018: 648 strategic stores) and 266 non-strategic stores (2018: 269 non-strategic stores). Meanwhile, due to the continuous downturn of regional real economy with the northeastern region of the PRC and the strategic transformation of the Group, the Group recorded sales revenue for retail business of RMB1,096.0 million for the Year (Eighteen months ended 30 June 2018: RMB1,896.8 million).

Nationwide Distribution Business

During the Year, the Group had approximately 3,800 distribution customers and 5 large-scale distribution hubs. The Group made appropriate promotion in its distribution system, and continued to optimise screening and maintaining of quality distributors. Although, the responsible teams of the Group constantly strived to explore market potential, subject to the development environment of real economy and the transformation of the Company's strategies, the Group recorded sales revenue for distribution business of RMB1,328.4 million for the Year (Eighteen months ended 30 June 2018: RMB2,072.1 million).

Direct-supply and Sales Model

The Group's direct-supply model effectively addressed the issue of traditional heavily overlapped sales process, as well as simplified the supply chain to improve sales efficiency and profitability and provided a higher profit margin from the high-margin products of the Group. Meanwhile, the marketing model advanced to accord with the "Two Invoices System" carried out by the Chinese government so as to reduce the effect of the policy change of the Group. During the Year, the Group's management took all necessary actions to safeguard the direct supply of branded products, and its direct-supply model covered 29 provinces in China.

Branded Products Operation

The Group continued to maintain the operational pattern of the original branded products and adjusted the brand structure according to actual operational requirements to eliminate certain non-applicable products and add new products, so as to maintain the competitiveness of the original branded products, on the other hand, increase the influence of new branded products. During the Year, a net decrease of 649 products was recorded. Hence, there were 1,092 branded products in total for the benefit of the Group in operation at the end of the Year.

Management Discussion and Analysis

Warehouse Construction

The logistics warehouse center in Jiamusi, Heilongjiang Province is a large-scale pharmaceutical and diversified commodity distribution logistics warehouse center integrated with "Business, Logistics and Information" in the eastern area of Heilongjiang Province and plays an important role in optimising distribution system of the Group. By then, the Group has set up five large-scale logistics distribution centers in Shijiazhuang, Shenyang, Changchun, Harbin and Jiamusi, and has established a high-quality distribution system radiating across the whole country and covering the northeastern region of the PRC and has provided a solid foundation for the industrial upgrading of the logistic park.

Brand Promotion

With traditional advantages in continuous brand promotion and marketing, the Group strengthened the influence and competitiveness of the Company and mitigated the further decline in operating performance. During the Year, promotional activities have been launched for product brands and enterprise brands by continuously leveraging on traditional media, including televisions, broadcasts, newspapers, vehicle advertisement, billboards and leaflets, along with new media platforms including internet and WeChat. In addition, the Group has participated in the charity to enhance the reputation of the Company and practice its corporate social responsibilities.

Institute Training

According to the characteristics of new era, new economy, new technology and new retail, the Group continued to optimise the training activities of the institute and made best use of the business institute on the Group's business development, talent nurturing and public welfare promotion. Moreover, the Group takes the advantage of the lead in establishing business institute in the industry, strengthened its cohesion as well as enhanced and transformed the mode of thinking of employees in response to the transformation and upgrade of the Company's business. During the Year, the Company held 162 internal trainings in total.

Membership Service

During the Year, the Group had provided follow-up services and promotion benefits for approximately 1.6 million offline members, enhancing the sense of affiliation and positivity of members while boosting their loyalty, and thus promoting a healthy image of the Company. Meanwhile, the Group provided social value-added services in various aspects such as the provision of public toilets, cold shelters and lost children service centres and continued to launch the public welfare activities such as "Love China", with a view to build up its positive corporate image.

Industry Alliance

The Company had proactively participated in the alliance activities, the Chairman and vice chairman, chief operating officer attended the tours and forums organised by the alliance on behalf of the Group, to seize the theme of era development, keep abreast of the industry information, promote development of branded products, strengthen the Company's interaction and exchange with industry alliance and enhance the Group's influence. Meanwhile, leveraging on the China's national strategic guidance of "Healthy China (健康中國)", "Beautiful China (美麗中國)", "Belt and Road (一帶一路)" and "Guangdong-Hong Kong-Macao Greater Bay Area (粵港澳大灣區)", the Company gathered experience and focused on the technological innovation to seek further transformation and upgrade of the Company's business.

Management Discussion and Analysis

Acquisition

In April 2019, the Group entered into the agreement with an independent third party, pursuant to which the Group acquired additional 7.4% equity interest of Jilin Jintian (the "**Acquisition**"). Jilin Jintian is an advanced capsules production corporation in the northeastern region of the PRC. The acquisition has further enhanced the integration of the upstream and downstream resources. It is in the interest of the Group's strategy to consolidate resources of upstream and downstream of the pharmaceutical sector for the better development and use of the platform of the Group, and will be beneficial for the development of the Group and further enhance its performance. The acquisition was completed in May 2019 and the Group holds 43.78% equity interest in the Jilin Jintian in aggregate upon completion. The Group continued to classify Jilin Jintian as an associate.

Share Option Scheme

In order to enhance the cohesion of the management team, motivate the initiatives and creativity of the staff, retain the key staff and build a friendly upstream and downstream ecosystem amidst an environment with increasing pressure from regional economic reform, concentration of the industry as well as intensifying competition, in March 2019, the Board resolved that an aggregate of 300,000,000 share options (the "**Share Options II**") were granted to 50 eligible participants, including 4 executive Directors, 3 independent non-executive Directors and an associate of an executive Director (the "**Grantees**"), all of which were accepted by the Grantees. The Grantees are entitled, subject to the terms and conditions of offer and upon exercise, to subscribe for a total of 300,000,000 shares of the Company (the "**Share(s)**"), representing approximately 9.87% of the total 3,040,537,670 Shares in issue as at the date of offer. Each Share Option shall entitle the Grantees to subscribe for one Share upon exercise of such Share Option at a subscription price of HKD0.074 per Share.

Financial Review

The Group recorded revenue of RMB2,424.4 million for the year ended 30 June 2019 (Eighteen months ended 30 June 2018: RMB3,968.9 million). Loss attributable to owners of the Company was RMB265.6 million for the Year (Eighteen months ended 30 June 2018: RMB917.0 million). Loss per share for the Year was RMB8.58 cents (Eighteen months ended 30 June 2018: RMB33.67 cents). The loss attributable to owners of the Company was mainly due to the continuous downturn pressure on regional real economy in the northeastern region of the PRC, the Group continued to apply various promotion initiatives and offer special discounts to consumers and actively restrain the diminishing rate in retail and distribution and resulted in a decrease in gross profit.

Revenue

For the year ended 30 June 2019, the Group recorded revenue of RMB2,424.4 million (Eighteen months ended 30 June 2018: RMB3,968.9 million). The decline in the performance of the Group's retail and distribution businesses for the Year was mainly due to the market doldrums as a result of the continuous downturn of regional real economy in the northeastern region of the PRC and the competition has intensified, meanwhile, some of the stores were closed in the Year due to structural adjustment, affecting the performance of the Group for the Year.

Management Discussion and Analysis

Analysis of revenue by business segment

	Revenue (RMB million)		Percentage (%) of total revenue		
	For the year ended 30 June 2019	For the eighteen months ended 30 June 2018	**For the year ended 30 June 2019**	For the eighteen months ended 30 June 2018	Change
Retails I	**925.4**	1,596.4	**38.2**	40.2	-2.0 pp
Retails II	**170.6**	300.4	**7.0**	7.6	-0.6 pp
	1,096.0	1,896.8	**45.2**	47.8	-2.6 pp
Distributions	**1,328.4**	2,072.1	**54.8**	52.2	+2.6 pp
	2,424.4	3,968.9	**100.0**	100.0	

Retail Business Segment

The Group operates two retails reportable segments: retails with strategic stores ("**Retails I**") and retails consisting of non-strategic stores ("**Retails II**"). Retails I are retail business with higher future development potential and strategic focus by the Group when allocating the resources, while Retails II are retail business located in remote areas with lower strategic importance and lower growth potential. The Group will timely redesignate the strategic stores to non-strategic stores or close non-strategic stores by assessing the market competition and development. The decline in performance of the retail business was mainly due to the decline of the people's purchasing power in traditional channels in the northeastern region of the PRC and weaker than expected performance of the retail channel during the Year.

As at 30 June 2019, the Group had 850 (2018: 917) retail pharmacies in total, of which 654 (2018: 692) located in Heilongjiang, 128 (2018: 137) in Liaoning, 67 (2018: 86) in Jilin and 1 (2018: 2) self-operated retail pharmacy in Hong Kong. In addition, the Group had 1 (2018: 1) supermarket in Shenyang as at 30 June 2019, mainly for selling healthcare products and consumer goods. The performance of the supermarket was included and monitored in Retails I.

Distribution Business Segment

Prudent approach has been adopted in running the distribution business of the Group. The Group took appropriate actions to mitigate credit risks by strengthening the credit management of sales and minimising trade receivables in order to lower the risk of bad debts.

During the Year, the Group had a nationwide distribution network covering approximately 3,800 active customers (Eighteen months ended 30 June 2018: 6,200), among which approximately 2,500 pharmaceutical retailers, hospitals and clinics (Eighteen months ended 30 June 2018: 4,100) and approximately 1,300 distributors (Eighteen months ended 30 June 2018: 2,100).

Management Discussion and Analysis

Gross profit

Gross profit of the Group for the year ended 30 June 2019 was RMB326.8 million (Eighteen months ended 30 June 2018: RMB652.1 million). Overall gross margin decreased from 16.4% to 13.5%. The gross margin dropped mainly due to the Group has applied various promotion initiatives and put more effort on different promotional campaigns with special discounts offered to consumers in order to ease the decrease in revenue and to maintain relative competitiveness during the Year, meanwhile, revenue and gross margin of the Group's high-margin products decreased, which resulted in a decrease in gross margin of the Group for the Year.

Analysis of gross profit by business segment

	Gross profit (RMB million)		Gross margin (%)		
	For the year ended 30 June 2019	For the eighteen months ended 30 June 2018	**For the year ended 30 June 2019**	For the eighteen months ended 30 June 2018	Change
Retails I	**214.1**	420.4	**23.1**	26.3	-3.2 pp
Retails II	**37.1**	80.7	**21.7**	26.9	-5.2 pp
	251.2	501.1	**22.9**	26.4	-3.5 pp
Distributions	**75.6**	151.0	**5.7**	7.3	-1.6 pp
	326.8	652.1			

The Group's high-margin products consist of licensed products and products with exclusive distribution rights. During the Year, revenue of the Group's high-margin products was RMB142.9 million and the gross margin of these high-margin products decreased from 33.8% to 28.9%. This is mainly attributable to the increase in cost of purchase. As at 30 June 2019, the Group had 445 (2018: 303) types of licensed products and 647 (2018: 1,438) types of products with exclusive distribution rights.

Selling and marketing expenses

Selling and marketing expenses for the Year was RMB551.0 million (Eighteen months ended 30 June 2018: RMB955.7 million) and accounted for 22.7% (Eighteen months ended 30 June 2018: 24.1%) of the Group's revenue. The Group's selling and marketing expenses recorded a decrease as compared to the eighteen months ended 30 June 2018, was mainly due to decrease in employee benefit expenses, rental expenses, advertising and other marketing expenses, etc.

Management Discussion and Analysis

Administrative expenses

Administrative expenses for the Year was RMB79.5 million (Eighteen months ended 30 June 2018: RMB146.6 million) and accounted for 3.3% (Eighteen months ended 30 June 2018: 3.7%) of the Group's revenue. The Group's administrative expenses recorded a decrease as compared to the eighteen months ended 30 June 2018, was mainly due to the decrease in amortisation of intangible assets and employee benefit expenses, etc.

Finance income – net

Net finance income for the Year was RMB11.3 million (Eighteen months ended 30 June 2018: RMB0.8 million). Net finance income was recorded an increase as compared to the eighteen months ended 30 June 2018, which was mainly due to the increase in exchange gains.

Income tax (expenses) credit

Income tax expenses for the Year was RMB3.2 million (Eighteen months ended 30 June 2018: income tax credit of RMB39.1 million). The effective income tax rate for the Year was 1.2% (Eighteen months ended 30 June 2018:-4.1%).

Acquisition of equity interest of Jilin Jintian

On 29 April 2019, the Group further acquired 7.4% equity interest in Jilin Jintian through the issuance of 547,296,781 consideration shares of the Company. The acquisition was completed in May 2019, and Jilin Jintian is owned as to 43.78% in aggregate by the Group upon completion. The Group continued to classify Jinlin Jintian as an associate.

Merger and acquisition of Jilin Jintian helps integrate commercial and production resources of the Group and gives full play to advantages of pharmaceutical industry in northeast China, so as to inject a new force for the Group's future development.

Disposal of subsidiaries

On 2 October 2018, Heilongjiang Jintian Aixin Pharmaceutical Distribution Co., Ltd. (黑龍江省金天愛心醫藥經銷有限公司), a wholly-owned subsidiary of the Group, entered into a share transfer agreement with Ms. Cao Lijuan (曹麗娟) ("**Ms. Cao**"), who was a non-controlling shareholder of Hegang Ji Shi Tang Pharmacy Chain Co., Ltd.* (鶴崗市濟世堂醫藥連鎖零售有限公司) ("**Hegang**"), pursuant to which the Group agreed to sell and Ms. Cao agreed to purchase 51% equity interests of Hegang (the "**Disposal of Hegang**"), at a total consideration of RMB7.5 million. The completion of the Disposal of Hegang took place on 9 October 2018.

On 20 December 2018, Neo Century Holdings Limited (新世紀控股有限公司), a wholly-owned subsidiary of the Group, entered into a share transfer agreement with an independent third party, Allways Health-Care Corporation Limited ("**Allways**") (永盛國際企業有限公司), pursuant to which the Group agreed to sell and Allways agreed to purchase 100% equity interests of Hong Kong Wing Ming Medical Limited (香港永明藥業有限公司) (the "**Disposal of Wing Ming**"), at a total consideration of RMB7.5 million. The completion of the Disposal of Wing Ming took place on 1 April 2019. In April 2019, the Group completed the disposal of 51% equity interests in three drug stores, namely Suibin Lao Bai Xing Drug Store, Suibin Bai Xing Drug Store and Suibin Jintian Drug Store to their non-controlling shareholders at a consideration of Nil.

Management Discussion and Analysis

Aggregate gain on disposal of subsidiaries amounting to RMB7.9 million was recognised as other gain in the profit or loss, details are set out in Note 34 to the consolidated financial statements.

Liquidity and Capital Resources

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

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

As at 30 June 2019, the Group's unpledged cash and cash equivalents totalled RMB628.5 million (2018: RMB929.2 million), and the Group's net current assets were RMB1,018.0 million (2018: RMB1,287.4 million).

During the Year, net cash flows used in operating activities amounted to RMB309.2 million (Eighteen months ended 30 June 2018: RMB183.8 million). The incessant increase in net cash flows used in operating activities was mainly attributable to the Group's weakening operating performance.

During the Year, the Group had capital expenditure of RMB3.9 million (Eighteen months ended 30 June 2018: RMB124.6 million).

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

The Group mainly operates in the PRC, with most of its transactions denominated and settled in Renminbi. The Group's currency risk arises from certain bank deposits that are denominated in Hong Kong dollars and United States dollars. As at 30 June 2019, the Group had RMB628.5 million in cash and bank balances of which the equivalent of RMB3.7 million was denominated in Hong Kong dollars and United States dollars.

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

Capital Structure

As at 30 June 2019, the capital structure of the Company was constituted of 3,587,834,451 ordinary shares of USD0.001 each. Details of movements in the share capital of the Company during the Year are set out in Note 21 to the consolidated financial statements.

Management Discussion and Analysis

During the Year, the Company granted a total of 300,000,000 Share Options to 50 eligible Grantees which include 4 executive Directors, 3 non-executive Directors and an associate (as defined under Rule 17.06A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")) of an executive Director, all accepted by the Grantees and the rules under the Share Option Scheme.

The Grantees are entitled, subject to the terms and conditions of offer and upon exercise, to subscribe for a total of 300,000,000 Shares, representing approximately 9.87% of the total 3,040,537,670 Shares in issue as at the date of offer. Each Share Option shall entitle the Grantees to subscribe for one Share upon exercise of such Share Option at a subscription price of HKD0.074 per Share. Details are set out in Note 23(a) to the consolidated financial statements.

As at 30 June 2019, the Group had no interest-bearing bank borrowings and no bank borrowings carried annual interest rates (2018: Nil).

The gearing ratio of the Group as at 30 June 2019, calculated as net debt divided by sum of total equity and net debt, was N/A (2018: N/A).

Contingent Liabilities and Pledge of Assets

As at 30 June 2019, the Group had no significant contingent liabilities (2018: Nil).

As at 30 June 2019, notes payable of the Group was secured by the time deposits of the Group with net aggregate booking value of RMB38.1 million (2018: RMB45.1 million).

Human Resources

As at 30 June 2019, the Group had 5,628 (2018: 6,068) full-time employees in Hong Kong China and the mainland China with total employee benefit expenses (including share based payment expenses) amounted to RMB308.2 million for the Year (Eighteen months ended 30 June 2018: RMB497.8 million). Employees are paid according to their positions, performance, experience and prevailing market practices, and are provided with management and professional training. The Group has implemented a number of initiatives to enhance the productivity of its employees. In particular, the Group conducts periodic performance reviews on most of the employees, and their compensation is tied to their performance. Further, the Group's compensation structure is designed to incentivize its employees to perform well by linking a portion of their compensation to their performance and the overall performance of the Group. The performance-based portion depends on the employee's job function and seniority. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme, as well as life insurance and medical insurance. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of China. The Company has adopted a Share Option Scheme on 18 November 2013 (as amended on 20 December 2018) and a share award plan for the purpose of providing incentives to participants for their contributions to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Management Discussion and Analysis

Future Plan

The management of the Company will take the Golden Rules as its guidelines, follow the leadership of the Chairman in strategic plan, stabilize and optimize the existing retail chain network and distribution system and strive for breakthrough and integration advantages in the development of platform cooperation, logistic upgrade and universal health industry fund, respectively. After certain years of the ongoing economic transformation, the Company has adopted the multilateral cooperation by employing the "Partners$^+$ Mechanism" and continues to take a leading position in Chinese medicine industry chain and industrial merger and acquisition. The details are as follow:

Reform the Institutional Mechanism and Promote the Partners$^+$ Mechanism and Expand the Extended Space

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

In terms of chain development, we develop our brand-new cooperative chain stores with our partnership mind, expand our chained space regionally, and enhance our competitiveness, forming a new network perspective through the extension.

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

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

Management Discussion and Analysis

Explore "N+" Strategy, Cultivate New Business Model and Create New Driver for Internal Development

The Company develops a new channel featuring "single system incorporating industry-wide products", increasing its introduction of new formats and new counters in its chain store system as well as developing new brands and products in its distribution system, i.e. the new sales ecosystem of "new commerce, new retails, new technologies and new finance"; therefore by leveraging the development trend of traditional industries and grafting the new economic model, the Group will make efforts to facilitate the structural transformation of the Group's operation and anchor a new development cycle with the wing of new engine for the Company, so as to maintain itself as one of the industrial leaders in terms of ecological integration of industry, finance and capital.

Improve the "Tencent Mini Apps" application, enrich the promotion of new sales channels, online and offline linkage

The Company explores the basic usage of the "Mini Apps" and increases the licenses of the subsidiaries regarding the "Qualification Certificate for Providing Internet Pharmaceutical Information Services" to develop the application scenarios of "Mini Apps" for respective stores. It is the first to realize the advantages of terminal promotion through the application of the "Mini Apps", and can purchase and pay for the commodities by mobile phone, thus to improve the convenience of the public, to form a further integration of online and offline physical stores, and to build a new competitive advantage of the Company under the informatization.

Enhance logistic levels, develop external economy

The headquarters of the Company is located in the eastern central region of Heilongjiang, adjacent to the trade ports with Russia (such as Tongjiang and Fuyuan). The Company increases its effort to increase the capacity of logistics warehousing at the headquarters, establish a storage and transportation base for trade transit. It would further achieve the joint delivery effect of the Group's four major logistics centers in Harbin, Changchun, Shenyang and Shijiazhuang, take advantage of the trading of rich resources in the Russian Far East, as well as increase the categories of and substitute traditional Chinese herbal medicines, luxury medicines and other trading items. The diffusion of market from the frontier to the inland region will have significant significance in building a new economic access model and enhancing economic and social efficiency.

Plan for Universal Health Industry Fund, Explore Financial and Capital Advantages, and Expanding Fundamental Services for the Industry

The Company strives to establish universal health industry fund to look for the combination between industry and finance. The universal health industry witnesses an accelerated development phase supported by the following three engines: (1) domestic potential demand for health care and medical treatment increased due to ageing population and environmental pollution; (2) the raising health awareness of the public increased health care expenditures; and (3) the government policy promoted the construction of "Healthy China". The planning and establishment of the universal health industry fund, through professional operation to seek suitable universal health enterprises, could reserve high-quality targets for merger and acquisition for the Company and lay a foundation for the Company to further expand in the universal health field by investment and education.

* *For identification purpose only*

Environmental, Social and Governance Report

With reference to its own experience, the Company primarily adopts the principles and basis of Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules as its standards, with an aim to establish a sound environmental, social and governance structure.

The Group is principally engaged in the distributions and retails of drugs and other pharmaceutical products in the northeastern region of the PRC. The Group employs the Direct-supply Model in the sales and promotion of high-margin products including licensed products and the products with exclusive distribution rights. The Group employs Original Equipment Manufacturers (OEM) and does not directly participate in the production process, therefore, there is no emission of waste and greenhouse gas, water and land pollution and the generation of hazardous and non-hazardous waste, etc. in respect to production process. This report elaborates the Group's performance in fulfilling its corporate social responsibility arisen from operations in the mainland China and Hong Kong of the PRC during the year ended 30 June 2019.

Environmental, Social and Governance Report

The Group is committed to creating values for stakeholders and the community by a responsible mode of operation, and its major objectives are to maintain the sustainable development of the following factors: (I) environmental aspect; (II) working environment; (III) operational management; and (IV) community participation/public welfare.

Stakeholders	Issue of concern	Communication channel
Government and market regulators	• Compliance operation • Tax payment • Promote regional economic development and employment	• On-site inspections and checks • Work reports preparation and submission for approval • Annual, interim reports and other published information
Shareholders and investors	• Return on investment • Information disclosure and transparency • Protect of shareholders' interests	• Annual general meeting and other shareholder meetings • Annual, interim reports and other published information • The Company's website • The Company's contact information
Employees	• Career development opportunities • Health and safety	• Training and incentive scheme • Health guidelines
Peer/industry associations	• Experience sharing and co-operations	• Industry alliance • Industry conference and seminars
Suppliers/partners	• Long-term partnership • Honest co-operation • Fair and open • Risk reduction	• Tendering process • Regular meeting • Strategic cooperation • Synergetic development
Customers	• Safe and high-quality products • Business ethics • Member activities	• Customer service hotline • After-sales service
Public and communities	• Social responsibilities • Community involvement	• Various charity projects • Concern on environmental impact • The public welfare brand "Love China" of the Group

Environmental, Social and Governance Report

(I) Environmental Aspect

The Group only sells and markets our licensed products under our Direct-supply Model. The Group believes that our Direct-supply Model enables us to streamline our distribution and supply chain by eliminating or reducing intermediaries and enhance distribution efficiency and profitability, as well as reducing environmental emissions in sale process. The Group does not directly participate in manufacturing drugs, there is no productive resource consumption for the Group. The Group actively responds to environmental issues and is committed to reducing the impact of business on the environment in its day-to-day operations through a series of policies and measures. The following are the main policies and measures of the Group for the implementation of environmental protection.

Reduce Emission

In respect of drug storage, the Group abides by Good Supplying Practice ("**GSP**") as required by competent authority of China, the primary productive consumption is limited to the use of electricity. In terms of transportation, the Group mainly relies on third party transportation agencies in the process of purchase. Under the conditions permitting, the Group will give priority to cooperation with local suppliers to reduce the energy consumption of the transportation process. Only ordinary office work and storage and delivery of goods will involve usage and consumption of natural resources of the Group with a small portion of use of its own vehicles.

The pollutant emission generated by use of vehicles of the Group

			Emission indicators (emission/revenue RMB million)	
Reporting items	**Emission types**	**Emission during the Year**	**During the Year**	For the eighteen months ended 30 June 2018
Vehicle travelling	Nitrogen oxides(NOx)	1,868.9 kg	**0.771**	0.709
Vehicle travelling	Particulate matter	158,824.3 pcs	**66**	63
Automotive fuel	Sulphur oxides(SOx)	3.4 kg	**0.001**	0.001
Automotive fuel	Carbon dioxide(CO_2)	542,828.3 kg	**223.9**	218.2

Environmental, Social and Governance Report

Reduction of Greenhouse Gas Emission

- *Reduction of business trips*

  The Group understands that long travelling for business trips will increase energy consumption and lead to an increase in greenhouse gas emissions. Consequently, the Group actively reduces the number of business trips and alternatively uses other effective means of communication by teleconference or video conference to replace meetings and trainings which need long travelling.

- *Promotion of Environmental Protection Education to Stakeholders*

  At present, the Group engages 5 manufacturers of pharmaceutical products and health care products (including Heilongjiang Baitai Pharmaceutical Company Limited* (黑龍江百泰醫藥有限公司), Chengde Yushi Jindan Pharmaceutical Company Limited* (承德御室金丹藥業有限公司), Yushi (Beijing) Group Tonghua Yushi Pharmaceutical Company Limited* (御室(北京)集團通化御室藥業股份有限公司), Anhui Jifeng Pharmaceutical Co., Limited* (安徽濟豐藥業有限公司) and Gaitianli Pharmaceutical Holding Group East China Pharmaceutical Company Limited* (蓋天力醫藥控股集團華東藥業有限公司)) to manufacture our licensed products according to the design and packing requirements specified by the Group. The Group is committed to promoting the importance of energy-saving and emission reduction in its manufacturers and, therefore, the requirements on the manufacturers should comply with national environmental protection regulations and to use environmental friendly material on packaging to the greatest extent. Among which, the manufacturers of the licensed products have obtained all necessary licenses will be noted on the terms of the purchase orders, permits and certification, including Good Manufacturing Practice Certification (藥品生產品質監管規範認證).

  The Group raises employees' awareness of environmental protection through induction training and slogan. Moreover, training procedures are formulated to incorporate the concept of environmental protection into the employee's annual training program, which ensures effective implementation of the relevant energy-saving and emission reduction measures.

Environmental, Social and Governance Report

Resource Usage

- *Save electricity and water*

  The Group actively advocates the concept of "green office" and implements a series of measures to save energy in the office, including cultivating the energy-saving awareness of employees and encouraging them to save electricity and water voluntarily such as turning off the power immediately after use and setting a reasonable temperature of air conditioner, and reduce wastage.

- *Save paper*

  In daily operation, the Group actively promotes the electronic use of documents, uses computer archives instead of paper documents, and implements paperless office as much as possible to reduce the use of paper office supplies. Meanwhile, the Group requires employees to use double-sided printing and recycle used paper that has been used on one side.

The management has regularly reviewed resource use policies and usage, and does not find violations of waste.

The resources usage on operation of the Group

		Resources usage amount indicators (Usage amount/revenue RMB million)	
Resources usage	**Usage amount during the Year**	**During the Year**	For the eighteen months ended 30 June 2018
Electricity	1,997,074 degree	**823.7**(note)	214.3
Petrol	230,012 litre	**94.9**	92.4
Water	5,809 m^3	**2.4**	3.6

Note: The increase in the usage amount of electricity during the Year was mainly due to the use of the logistics building located in Jiamusi, Heilongjiang Province during the whole Year, which was used for about half year for the eighteen months ended 30 June 2018.

Environmental, Social and Governance Report

The Environment and Natural Resources

In order to use all resources including energy, water and other natural resources much effectively and deliberately, we formulated series of policies for energy and water conservation, which offer more specific advice and measures on management to employees.

Measure	Measure details
Green office	• Encouraging paperless office for electronic documentation • Setting air conditioners to keep the temperature at 25°C • Turning off unused equipment or lighting system
Green operation	• For the non-hazardous solid waste, such as domestic waste and waste packaging, etc., the Group will deliver them to Health Authority for handling to prevent environmental pollution upon collection. • Some unqualified products found in product test and the obsolete drugs produced during the storage are destroyed under the supervision of the quality department
Promoting environmental protection to manufacturers and green purchase	• Complying with environmental protection laws and regulations as well as the environmental protection standards of the Group • Choosing local suppliers at priority and manufacturing licensed brand products based on design and packaging requirements prescribed by the Group when meeting the Company's requirements
Providing environmental protection training to employees	• Providing environmental protection training for new joiners • Actively reducing the number of business trips and encouraging employees by teleconferences or video conferences to replace meetings which need long travelling • Encouraging employees to reduce the use of vehicles

Warehouse Construction

The Group builds a logistics warehouse to analyze information through modern system management analysis, and realize the generalizable, controllable, intelligent and informative logistics, on the one hand, improve the turnover rate and accuracy of warehouse; on the other hand, reduce logistics cost and improve operation efficiency, and reduce environmental pressure as a whole, improve corporate profits and realize more abundant social values. These infrastructure, management experience and expertise will be fully opened to partners, enabling partners to reduce logistics costs.

(II) Working Environment

Employment and Labor Standards

As of 30 June 2019, the Group had 5,628 employees, of which 99.8% located in mainland China.

The Group is in strict compliance with local employment laws and regulations, including but not limited to Chapter 57 Employment Ordinance in Hong Kong, Labor Law of Macao and Labor Law of the PRC, Labor Contract Law of the PRC, Law of the PRC on Protection of Minors, Regulations on Prohibiting Use of Child Labor (State Council Order No. 364) and Special Provisions on Labor Protection of Females (State Council Order No. 619):

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

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

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

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

The working hours applied to the staff of the Group are in compliance with the relevant requirements of the employment laws and regulations. The Group's all businesses are prohibited from employing child labor or forced labor. The Group has complied with relevant laws and regulations of prevention of child and compulsory labor. We perform strict examination in the process of recruitment to avoid hiring child labor in any workplace. Furthermore, we will hold regular meeting with management of all departments to review whether there exists forced labor and also understand the situation from the employees. Any detected employment of child labor or forced labor will be dealt with seriously, such as stopping the work of child labor, criticism and reduction of wages or bonus of the person in charge of the recruitment, as the case may be, with respect to related department and even dismissal in severe cases.

The Group has established and implemented a set of human resources management policies and procedures in place with the aim to provide ideal working environment to its staff. Further, the Group's compensation structure is designed to incentivize its employees to perform well by linking a portion of their compensation to their performance and the overall performance of the Group. The Group has implemented a Share Option Scheme in March 2019 for enhancing cohesion and maintaining competitiveness. The performance-based portion depends on the employee's job function and qualification.

Environmental, Social and Governance Report

Total number of employees by gender, category and age group

Gender	Category	Age group (years old)	Number at 30 June 2019	Number at 30 June 2018
Female	Management	50 or above	**41**	39
		40-49	**89**	75
		30-39	**61**	73
		18-29	**15**	20
	General staff	50 or above	**263**	230
		40-49	**1,487**	1,503
		30-39	**1,931**	2,123
		18-29	**884**	1,121
Male	Management	50 or above	**41**	31
		40-49	**62**	65
		30-39	**55**	61
		18-29	**11**	17
	General staff	50 or above	**34**	38
		40-49	**213**	209
		30-39	**354**	363
		18-29	**87**	100
		Total	**5,628**	6,068

Employee turnover by gender, category and age group

Gender	Category	Age group (years old)	Employee turnover during the Year	Employee turnover for the eighteen months ended 30 June 2018
Female	Management	50 or above	**2**	0
		40-49	**6**	3
		30-39	**12**	3
		18-29	**1**	1
	General staff	50 or above	**6**	3
		40-49	**136**	40
		30-39	**195**	102
		18-29	**49**	32
Male	Management	50 or above	**1**	0
		40-49	**14**	1
		30-39	**7**	1
		18-29	**0**	0
	General staff	50 or above	**5**	4
		40-49	**1**	13
		30-39	**5**	17
		18-29	**0**	3
		Total	**440**	223

Environmental, Social and Governance Report

Health and Safety

The Group establishes management policies and procedures for human resources, formulates system of occupational health and safety and takes various steps, aiming to provide the employees with an ideal and safe working environment. For this purpose, the Group also persists in putting resources on improving occupational safety and environmental protection awareness as well as employee development. Our Code of Business Conduct, available in the staff handbook, communicates to our employees the Group's emphasis on ethical business conduct. The Code of Business Conduct applies to all employees and covers areas including, among other things, health, safety and financial integrity, etc.

Working Environment

The Group assesses safety of working environment. The Group implements relevant national regulations on occupational safety and social insurance and formulates corresponding operating rules to manage and control the health and safety hazards posed to the employees, and also formulates relevant contingency and precautionary measures. For example, in business premises and offices, the Group provides relevant staff with necessary labor protection resources, white gowns for salesperson and the necessary education on computer operation and water and electricity safety. Moreover, the Group regularly monitors the compliance status including fire-fighting equipment and regular cleaning of the air conditioning system and replacement of relevant components to ensure good in-door air quality for protection of employees' health. The Group should report and supervise rectification in event of non-compliant situation. In terms of labor insurance, the Group provides social insurance for employees, including employment injury insurance. In terms of commercial insurance, Directors and senior management are insured of liability insurance.

Work-Life Balance

The Group is not just concerned with the occupational health and safety of the employees; it is also concerned with the psychological well-being and need of private life of the employees. Hence, the Group devises various categories of leaves relating to an employee's family life, and makes provision for early leave, flexible vacation, etc. to align with the roles of an employee in his/her family. In addition, the Group will arrange a variety of activities to ease the employees' pressure and enrich employees' life outside of work, such as arrangement of festival celebration activities, sport competitions, etc.

During the Year, no work-related death or injury occurred with respect to any employees within the Group.

Development and Training

The Group has implemented a number of initiatives to enhance the productivity of our employees. Among which, Jintian Institute is an internal training institution first set up in the industry, and subsequently introduced to China Business School Education Group Limited, which established in Hong Kong and is also our training institution.

Environmental, Social and Governance Report

Jintian Institute

Jintian Institute is an in-house training and development centre, providing systematic and comprehensive training to our employees as well as our important distribution customers periodically. These training courses focus on the promotion of employee's sales skills and deepening the understanding of enterprise culture of the Group. Jintian Institute provides certain training programmes and courses covering various aspects of business operations of the Group, including but not limited to, medical and nutrition knowledge, store operations and procedures, sales and marketing techniques, customer interaction and service skills. Jintian Institute also provides training to our management team in areas such as business process and planning, leadership development, effective communication and management skills. Another key function of the Jintian Institute is to organise events and seminars to promote corporate values of the Group: goal-orientation, teamwork and collectivism. In the meanwhile, the Group also provides continuous training for Directors and senior management on relevant laws and regulatory update as well as business matters related to the Group, to develop and refresh their knowledge and skills.

These trainings include seminars and workshop on leadership development, corporate governance practices as well as updates on regulatory development and requirements. Through these training programmes, our employees are able to master standard operating procedures of the Group, communicate effectively with customers and acquire a better understanding of customers' preferences. Jintian Institute also helps us to build an experienced, loyal and focused workforce.

During the Year, the Group provided 162 sessions of training to employees through Jintian Institute with up to 8,916 participants, with an aim to make active efforts for improving staff quality and management performance, and adapt to the new norm of the economic development.

Details for employees receiving training from Jintian Institute

Category	**Participants during the Year**	Participants during the eighteen months ended 30 June 2018
Senior Management Personnel	**62**	184
Middle Management Personnel	**116**	316
Salespersons	**8,738**	20,083
Total	**8,916**	20,583

Encouragement for External Learning

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

Peer/Industry Associations

China Medical Pharmaceutical Material Association (中國醫藥物資協會) was established in 1989, which was a national, non-profit making social entities Class I corporate organization approved to be registered by the Ministry of Civil Affairs of the PRC (中國民政部), Business supervisory unit is State-owned Assets Supervision and Administration Commission of The State Council. The Group's Chairman, Mr. Jin Dongtao is vice chairman of the China Medical Pharmaceutical Material Association. The Group's senior management and employees participate in the training and offline activities of the association on an irregular basis.

(III) Operational Management

Supply Chain Management

In order to enhance operation and management, the Group works on simplifying the supply chain management; as well as diversifying supplier channels to reduce purchase cost and building a structure that combines upstream and downstream through mergers and acquisitions. Out of all the Group's suppliers, 743 are manufacturers and 726 are distributors. For the year ended 30 June 2019 and for the eighteen months ended 30 June 2018, 26.7% and 28.4% products were purchased directly from the manufacturers respectively.

Product Quality and Safety

For the responsibility in product sales, the Group pays attention to the quality management, complaint handling and customer privacy protection.

At present, the Group engages several manufacturers of pharmaceutical products and health care products to manufacture our licensed products according to the design and packing requirements specified by us. All the manufacturers of the licensed products have obtained all necessary licenses, permits and certification, including Good Manufacturing Practice Certification. The Group also requires suppliers to meet the national Good Manufacturing Practice.

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

Anti-corruption

The Group is committed to promoting ethical business practices and full compliance with the law wherever we do business. There are strict internal guidelines within the Group which prohibit the employees' involvement in illegal activities, such as bribery, extortion, money laundering and fraud. The Group often participates in the training plans provided through Jintian Institute, which allows our employees to possess rich experiences in many aspects of Direct-supply Model, such as medical product manufacturing, purchasing and quality control, pharmacy operation and marketing.

Environmental, Social and Governance Report

The Group has in place a "whistle-blowing" policy and system for our employees to report suspected criminal acts including corruption, money laundering and frauds. During the Year, there is no corruption case reported, or legal case regarding corrupt practices or money laundering brought against the Group.

(IV) Community Participation/Public Welfare

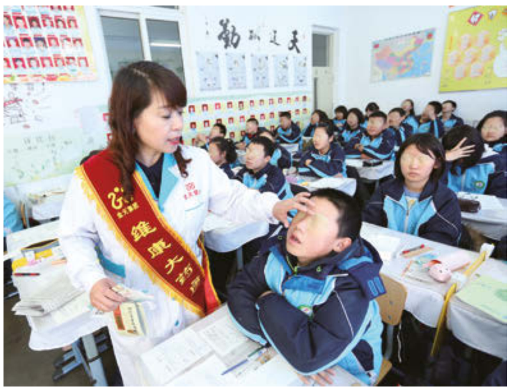
In order to increase the participation in social activities, the Group endeavors to launch more activities for community members and promote the development of public welfare brand "Love China". At the same time, the Group strives to strengthen corporate governance and integrate its corporate development with public welfare.

The Group is committed to creating sustainable development value through economic, social and environmental aspects to fulfil its corporate social responsibility and achieve long-term sustainable growth of shareholder value. The management of the Group reviews the policy implementation, monitors and measures the progress from time to time to ensure its stated goals achieved in an effective manner.

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

Member Activities

During the Year, the branches of the Group intensified member activities, including ongoing member discounts and festival activities, provision of cold shelters in winter, provision of shelter and other support for the lost child as well as other social value-added services, which further improved the cohesion of the members and their willingness to consume. As of 30 June 2019, we had approximately 1.6 million offline members, the average consumption of members reached RMB363 and the Group held 672 sessions of membership activities in total.



Environmental, Social and Governance Report

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

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

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

* *For identification purpose only*

Report of the Directors

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

Principal Activities

The principal activity of the Company is investment holding and the Group is principally engaged in the distribution and retail of drugs and other pharmaceutical products in the northeastern region of the PRC. Analysis of the principal activities of the Group during the Year is set out in the Note 10 to the consolidated financial statements.

Results

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on pages 89 to 90 of this annual report.

Key Financial Performance Indicators

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

Relationship with Stakeholders

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

Principal Risk and Uncertainties the Group Facing

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

Final Dividend

The Board does not recommend the payment of any final dividend for the year ended 30 June 2019 (Eighteen months ended 30 June 2018: Nil).

Business Review and Outlook

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

Report of the Directors

Environmental Policies and Performance

One of the fundamental tasks of the senior management of the Group is leading the Group to protect the environment. The Group, as a corporate citizen, fulfills social responsibility, strengthens corporate governance, promotes healthy and orderly development of the Group, and further creates economic value and social benefits for clients, upstream suppliers, downstream distributors, Shareholders, potential investors, management, employees, communities and even the environment and other stakeholders.

Compliance with Laws and Regulations

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

Closure of the Register of Members

The register of members of the Company will be closed from Monday, 9 December 2019 to Thursday, 12 December 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming annual general meeting (the "**AGM**") of the Company to be held on Thursday, 12 December 2019. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, 6 December 2019.

Summary of Financial Information

A summary of the results and of the assets and liabilities of the Group for the last five financial years are set out on page 196 of this annual report. This summary does not form part of the audited consolidated financial statements.

Major Customers and Suppliers

During the Year, the purchase from the Group's five largest suppliers contributed 10.0% of the total cost of sales and the sale to the Group's five largest customers contributed 2.3% of the total revenue.

Save as disclosed hereinafter, none of the Directors or any of their respective close associates or, so far as the Directors were aware, any Shareholder who owned 5% of the number of issued shares of the Company as at 30 June 2019, had any interest in any of our five largest suppliers or customers for the year ended 30 June 2019 and for the eighteen months ended 30 June 2018.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Year are set out in Note 7 to the consolidated financial statements.

Report of the Directors

Share Capital

Details of movements in the share capital of the Company during the Year are set out in Note 21 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Group and the Company during the Year are set out on page 92 and in Note 37(a) to the consolidated financial statements respectively.

Distributable Reserves

As at 30 June 2019, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law of the Cayman Island, amounted to approximately RMB964.1 million (2018: RMB926.4 million).

Directors

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

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

Independent Non-executive Directors:
Mr. Cheng Sheung Hing
Ms. Chiang Su Hui Susie
Mr. Zou Haiyan

In accordance with Article 16.18 of the Articles of Association, Mr. Jin Dongtao, Mr. Sun Libo and Mr. Cheng Sheung Hing shall retire by rotation and being eligible, have offered themselves for re-election at the forthcoming AGM.

Report of the Directors

Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 70 to 77 of this annual report.

Confirmation of Independence of Independent Non-Executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors are independent.

Directors' Service Contracts and Letters of Appointment

Executive Directors

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

Independent Non-executive Directors

Each of the independent non-executive Directors, namely, Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Mr. Zou Haiyan, has entered into a letter of appointment with the Company for an initial term of three years from 18 November 2013, 18 November 2013 and 20 July 2017 respectively, which continues thereafter until termination by either party giving notice in writing to the other party.

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

Controlling Shareholders' Interests in Contracts

Save as disclosed in this annual report, there was no contract of significance between the Company or its holding company or any of its subsidiaries and any controlling shareholder or any of its subsidiaries for the Year.

During the Year, none of the Company or any of its subsidiaries has entered into any contract of significance for the provision of services by any controlling shareholders or any of its subsidiaries.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

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

Report of the Directors

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the Year.

Emolument Policy

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

Remuneration of Directors and Five Individuals with Highest Emoluments

Details of the emoluments of the Directors and five highest paid individuals are set out in Note 36 and Note 27(a) to the consolidated financial statements respectively.

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

Changes in Information of Directors

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

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

As at 30 June 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

Report of the Directors

Name of Director	Nature of interest	Number and class of Shares/ underlying Shares	Approximate percentage of shareholding
Jin Dongtao	Founder of a discretionary trust *(Note 2)*	562,014,953 (Long Position)	15.66%
	Beneficial owner *(Notes 1 & 3)*	9,168,000 (Long Position)	0.26%
	Interest of spouse *(Notes 1 & 4)*	7,234,000 (Long Position)	0.20%
Zhao Zehua	Beneficial owner *(Notes 1 & 5)*	7,234,000 (Long Position)	0.20%
Jin Dongkun	Beneficial owner *(Notes 1 & 6)*	5,800,000 (Long Position)	0.16%
Sun Libo	Beneficial owner *(Notes 1 & 6)*	5,800,000 (Long Position)	0.16%
Cheng Sheung Hing	Beneficial owner *(Notes 1 & 7)*	500,000 (Long Position)	0.01%
Chiang Su Hui Susie	Beneficial owner *(Notes 1 & 7)*	500,000 (Long Position)	0.01%
Zou Haiyan	Beneficial owner *(Notes 1 & 7)*	500,000 (Long Position)	0.01%

Notes:

1) In September 2017, the Company granted a total of 200,000,000 share options (the "**Share Options I**") to 20 eligible participants which include 4 executive Directors and an associate (as defined under Rule 17.06A of the Listing Rules) of an executive Director. All the Share Options I were accepted by the grantees under the rules of the Share Option Scheme.

   In March 2019, the Company granted a total of 300,000,000 share options (the "**Share Options II**") to 50 eligible participants which include 7 Directors and an associate (as defined under Rule 17.06A of the Listing Rules) of an executive Director. All the Share Options II were accepted by the grantees under the rules of the Share Option Scheme.

2) Mr. Jin Dongtao is the settlor, protector and a beneficiary of a discretionary trust pursuant to a trust deed dated 6 November 2013 with Credit Suisse Trust Limited acting as trustee (the "**Family Trust**"), which holds the entire issued share capital of Global Health Century International Group Limited ("**Global Health**") through 1969 JT Limited. Global Health holds the entire issued share capital of Asia Health Century International Inc. ("**Asia Health**"), which held 562,014,953 Shares in the Company.

Report of the Directors

3) Mr. Jin Dongtao beneficially owned 3,368,000 Shares and was the grantee of 2,800,000 Share Options I and 3,000,000 Share Options II granted under the Share Option Scheme. Pursuant to the Share Option Scheme, 5,800,000 Shares will be issued upon exercise of such Share Options.

4) Ms. Chen Xiaoyan, the spouse of Mr. Jin Dongtao, beneficially owned 1,434,000 Shares and was the grantee of 2,800,000 Share Options I and 3,000,000 Share Options II granted under the Share Option Scheme. Pursuant to the Share Option Scheme, 5,800,000 Shares will be issued upon exercise of such Share Options. Accordingly, Mr. Jin Dongtao was deemed to be interested in such 7,234,000 Shares.

5) Mr. Zhao Zehua beneficially owned 1,434,000 Shares and was the grantee of 2,800,000 Share Options I and 3,000,000 Share Options II granted under the Share Option Scheme. Pursuant to the Share Option Scheme, 5,800,000 Shares will be issued upon exercise of such Share Options.

6) Mr. Jin Dongkun and Mr. Sun Libo were each granted 2,800,000 Share Options I and 3,000,000 Share Options II under the Share Option Scheme. Pursuant to the Share Option Scheme, each of them is entitled to subscribe for 5,800,000 Shares upon exercise of such Share Options.

7) Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Mr. Zou Haiyan were each granted 500,000 Share Options II under the Share Option Scheme. Pursuant to the Share Option Scheme, each of them is entitled to subscribe for 500,000 Shares upon exercise of such Share Options II.

Save as disclosed above, as at 30 June 2019, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

The Company's existing Share Option Scheme was approved for adoption pursuant to a written resolution of the then sole shareholder passed on 18 November 2013 and amended on 20 December 2018 for the purpose to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to contribute for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company, as well as for such other purposes as the Board may approve from time to time. The Share Option Scheme remains in force for a period of 10 years until 17 November 2023.

Report of the Directors

Amendment to the definition of "Participants"

In order to allow the Board to have more flexibility in the administration of the Share Option Scheme and to expand the scope of the Share Option Scheme to include persons who have otherwise made contributions to the Group and improve the attractiveness of the Share Option Scheme as incentive or reward, the definition of "Participants" provided in the Share Option Scheme was amended by passing an ordinary resolution at the AGM of the Company held on 20 December 2018. The definition of "Participants" was amended as follows:

> "**Participants** means executive and non-executive Directors including independent non-executive Directors or employees (whether full-time or part-time) of members of the Group, advisers and consultants (in the areas of legal, technical, financial and corporate management) to the Group, providers of goods and/or services to the Group and persons who the Board considers, in its sole discretion, have contributed or will contribute to the Group to take up Options under this Scheme."

Refreshment of Share Option Scheme Mandate Limit

In the AGM, the scheme mandate limit on the grant of share options under the Share Option Scheme was also refreshed provided that the total number of Shares which may be allotted and issued upon exercise of any options to be granted under the Share Option Scheme (excluding share options previously granted, outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme(s) of the Company) shall not exceed 10% of the aggregate number of the issued Shares as at the date of passing the resolution (the "**Refreshed Scheme Mandate Limit**").

Further, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes shall not exceed 30% of the issued Shares from time to time under the Listing Rules.

Save for the aforesaid amendments to the definition of Participants and the Refreshed Scheme Mandate Limit, all principal terms of the Share Option Scheme remain unchanged and are set out in Appendix V to the prospectus of the Company dated 2 December 2013.

Report of the Directors

Particulars of Share Options outstanding under the Share Option Scheme at the beginning and at the end of the Year and Share Options granted, exercised, lapsed or cancelled under the Share Option Scheme during the Year are as follows:

					Number of Share Options				
Grantees	Date of grant	Closing price per share *(Note)* *HKD*	Exercise price per option *HKD*	Exercise period	Outstanding as at 1/7/2018	Granted during the Year	Exercised during the Year	Lapsed/ cancelled during the Year	Outstanding as at 30/6/2019
Director & substantial shareholder									
Jin Dongtao	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	2,800,000	–	–	–	2,800,000
	4/3/2019	0.083	0.074	4/4/2019 – 3/4/2029	–	3,000,000	–	–	3,000,000
Directors									
Jin Dongkun	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	2,800,000	–	–	–	2,800,000
	4/3/2019	0.083	0.074	4/4/2019 – 3/4/2029	–	3,000,000	–	–	3,000,000
Zhao Zehua	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	2,800,000	–	–	–	2,800,000
	4/3/2019	0.083	0.074	4/4/2019 – 3/4/2029	–	3,000,000	–	–	3,000,000
Sun Libo	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	2,800,000	–	–	–	2,800,000
	4/3/2019	0.083	0.074	4/4/2019 – 3/4/2029	–	3,000,000	–	–	3,000,000
Cheng Sheung Hing	4/3/2019	0.083	0.074	4/4/2019 – 3/4/2029	–	500,000	–	–	500,000
Chiang Su Hui Susie	4/3/2019	0.083	0.074	4/4/2019 – 3/4/2029	–	500,000	–	–	500,000
Zou Haiyan	4/3/2019	0.083	0.074	4/4/2019 – 3/4/2029	–	500,000	–	–	500,000
Associate of Director									
Chen Xiaoyan (the spouse of Jin Dongtao)	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	2,800,000	–	–	–	2,800,000
	4/3/2019	0.083	0.074	4/4/2019 – 3/4/2029	–	3,000,000	–	–	3,000,000
Continuous contract employees	12/9/2017	0.157	0.1648	12/10/2017 – 11/10/2020	186,000,000	–	–	–	186,000,000
	4/3/2019	0.083	0.074	4/4/2019 – 3/4/2029	–	277,500,000	–	–	277,500,000
Others	4/3/2019	0.083	0.074	4/4/2019 – 3/4/2029	–	6,000,000	–	–	6,000,000
Total					200,000,000	300,000,000	–	–	500,000,000

Note:

The closing price per share refers to the closing price of the share of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date immediately before the date on which the Share Options were granted.

Report of the Directors

Upon acceptance of the Share Options, each grantee paid a consideration of HKD1.00 at the time the Share Options were granted. The Share Option Scheme was effective from the date it was adopted and shall remain effective within a period of 3 years and 10 years from the date falling 1 month after the date of vesting of the Share Options I and Share Option II respectively.

The following table lists the main assumptions and inputs used in estimating the fair value of the Share Options II.

Share price at the grant date	HKD0.074
Exercise price	HKD0.074
Post-vesting forfeiture rate	1.9%
Expected option period	10 years
Risk-free interest rate	1.79%
Expected dividend yield	0%
Expected volatility	68%

Share Award Plan

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

Subject to any early termination as may be determined by the Board, the Share Award Plan shall be valid and effective for a term of 10 years commencing from 23 April 2014. As at 30 June 2019, the remaining life of the Share Award Plan is approximately 4 years and 10 months.

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

The Company has initially paid the trustee up to HKD50 million to enable the Share Award Plan to operate. The Company may at its discretion make further arrangements to fund the trustee for acquisition of further shares. Subject to the instruction of the Company, the trustee can use the money paid to it to buy shares in advance in respect of which the Company can make awards under the Share Award Plan.

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

Report of the Directors

An aggregate of 16,993,000 shares has been granted without consideration to an aggregate of 13 grantees under the Share Award Plan since its inception. As at 30 June 2019, the trustee of the Share Award Plan did not hold any shares under the Share Award Plan, and no share has been granted during the Year.

Equity-linked Agreements

Acquisition of 7.4% equity interest of Jilin Jintian

On 29 April 2019, the Company entered into an agreement with Harbin Tada Investment Management Limited* (哈爾濱拓達投資管理有限公司) (the "**Vendor**"), a company incorporated in the PRC and a third party independent of the Company, pursuant to which the Company acquired additional 7.4% equity interest of Jilin Jintian at the consideration of approximately RMB76.5 million, which consist of the market price of the Company's 547,296,781 shares and the directly attributable acquisition cost. The consideration shares was issued at HKD0.158 per Share, pursuant to the general mandate granted to the Board by the independent Shareholders at the AGM of the Company held on 20 December 2018, upon completion of the transactions contemplated under the agreement.

On the date of completion, i.e. 24 May 2019, 547,296,781 Shares, representing 15.25% of the issued share capital of the Company, were allotted and issued to Integrity Stars Limited, the nominee of the Vendor, and Ms. Di Hongying (邸洪英), an independent third parties who holds 71.7% equity interest in the Vendor. Upon completion, the Jilin Jintian is owned as to 43.78% by the Group.

The merger and acquisition of this company helps integrate commercial and production resources of the Group and gives full play to advantages of pharmaceutical industry in northeast China, so as to inject a new force for the Group's future development.

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

Directors' Rights to Acquire Shares or Debentures

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

Report of the Directors

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

As at 30 June 2019, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding
Chen Xiaoyan	Interest of spouse *(Note 1)*	571,182,953 (Long Position)	15.92%
	Beneficial owner	7,234,000 (Long Position)	0.20%
Asia Health Century International Inc.	Beneficial owner *(Note 1)*	562,014,953 (Long Position)	15.66%
Global Health Century International Group Limited	Interest of corporation controlled by the substantial shareholder *(Note 1)*	562,014,953 (Long Position)	15.66%
1969 JT Limited	Interest of corporation controlled by the substantial shareholder *(Note 1)*	562,014,953 (Long Position)	15.66%
Tenby Nominees Limited	Nominee *(Note 1)*	562,014,953 (Long Position)	15.66%
Brock Nominees Limited	Nominee *(Note 1)*	562,014,953 (Long Position)	15.66%
Credit Suisse Trust Limited	Trustee *(Note 1)*	562,014,953 (Long Position)	15.66%
Di Hongying	Interest of corporation controlled by the substantial shareholder *(Note 2)*	547,296,781 (Long Position)	15.25%
Harbin Tada Investment Management Limited	Beneficial owner *(Note 2)*	547,296,781 (Long Position)	15.25%
Integrity Stars Limited	Trustee *(Note 2)*	547,296,781 (Long Position)	15.25%
Lee Funglun	Beneficial owner *(Note 3)*	242,405,182 (Long Position)	6.76%

Report of the Directors

Notes:

(1) Mr. Jin Dongtao is the settlor, protector and a beneficiary of the Family Trust, which holds the entire issued share capital of Global Health through 1969 JT Limited. Ms. Chen Xiaoyan, who is Mr. Jin Dongtao's spouse, is also a beneficiary of the Family Trust. Global Health holds the entire issued share capital of Asia Health, which holds 562,014,953 Shares in the Company.

(2) Ms. Di Hongying holds entire issued share capital of Integrity Stars Limited, which holds 547,296,781 Shares in the Company on trust for and on behalf of Harbin Tada Investment Management Limited* (哈爾濱拓達投資管理有限公司), which is owned as to 71.7% by Ms. Di Hongying.

(3) As confirmed by Mr. Lee Funglun, the 242,405,182 Shares in the Company held by him was bought from Zhongrong International Alternative Asset Management Limited on 26 February 2019.

Save as disclosed above, as at 30 June 2019, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Report of the Directors

Purchase, Sale or Redemption of Listed Securities

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Pre-emptive Rights

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

Non-competition Undertaking

Each of the controlling Shareholders has confirmed to the Company of his/her/its compliance with the non-competition undertakings provided to the Company under a deed of non-competition (the "**Deed of Non-Competition**").

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

Directors' Interest in Competing Business

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

Directors' Interest in Contracts of Significance

Save as the related parties transactions disclosed in Note 36 to the consolidated financial statements, there were no contract of significance to which the Company, its holding companies and any of its subsidiaries, was a party and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the Year or at any time during the Year.

Report of the Directors

Connected Transactions

Fully Exempt Connected Transaction

Rental payments to Aixin Chuanbo (Beijing) Wenhua Fazhan Zhongxin* (愛心傳播(北京)文化發展中心) pursuant to the rental agreement dated 1 July 2018 at an annual rental fee of RMB3 million in respect of Suite 20B, 18th Floor, Office Tower I, 48 Dongzhimen Wai Avenue, Dongcheng Qu, Beijing, PRC for a term of one year commencing on 1 July 2018. As all the percentage ratios (other than profit ratio) are less than 0.1%, this connected transaction is fully exempt under Rule 14A.76(1)(a) of the Listing Rules.

Save as disclosed herein, the Group had not entered into any other connected transactions or continuing connected transactions for the Year which are required to be disclosed in this annual report pursuant to the Listing Rules. A summary of significant related party transactions, which do not constitute connected transactions, made during the Year is disclosed in Note 35 to the consolidated financial statements.

Charitable Donations

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

Significant Legal Proceedings

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

Permitted Indemnity Provision

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

Report of the Directors

Audit Committee

The audit committee (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. Zou Haiyan (chairman of the Audit Committee), Mr. Cheng Sheung Hing and Ms. Chiang Su Hui Susie. The main duties of the Audit Committee are to examine, review and monitor the financial data and financial reporting procedure of the Group, and overseeing the Group's financial reporting system, risk management and internal control systems. The Audit Committee had reviewed the audited annual results of the Group for the Year.

Code of Conduct Regarding Directors' Securities Transactions

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

Corporate Governance

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules throughout the Year, except for deviation from code provision A.2.1 of the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 54 to 69 of this annual report.

Sufficiency of Public Float

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

Auditor

A resolution will be submitted to the AGM to re-appoint Mazars CPA Limited ("**Mazars**"), Certified Public Accountants, as the auditor of the Company.

Report of the Directors

Share Issued

During the Year, 547,296,781 shares were issued as the consideration for the acquisition of 7.4% equity interest of Jilin Jintian, details of which are provided under the "Equity-Linked Agreements" as set out page 47 of this annual report.

Debentures Issued

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

On behalf of the Board

Jin Dongtao
Chairman

Hong Kong
26 September 2019

* *For identification purpose only*

Corporate Governance Report

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

Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code and complied with all applicable code provisions under the CG Code throughout the Year, except for deviation from code provision A.2.1 of the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

The Board

Responsibilities

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

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

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

Board Composition

The Board currently comprises four executive Directors, namely Mr. Jin Dongtao (Chairman), Mr. Jin Dongkun (Vice Chairman), Mr. Zhao Zehua and Mr. Sun Libo, and three independent non-executive Directors, namely Mr. Cheng Sheung Hing, Ms. Chiang Su Hui Susie and Mr. Zou Haiyan. The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this annual report.

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

Corporate Governance Report

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

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

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

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

Induction and Continuous Professional Development

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

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the Year, all Directors participated in various continuous professional development to develop and refresh their knowledge and skills. The Company's external lawyers had facilitated directors' training by the provision of presentations, briefings and materials for the Directors primarily relating to the roles, functions and duties of a director of a listed company. All the Directors have received such training.

Corporate Governance Report

The Company maintains records of training attended by the Directors. The training attended by the Directors during the Year is as follows:

	Internal training
Executive Directors	
Mr. Jin Dongtao	✓
Mr. Jin Dongkun	✓
Mr. Zhao Zehua	✓
Mr. Sun Libo	✓
Independent Non-executive Directors	
Mr. Cheng Sheung Hing	✓
Ms. Chiang Su Hui Susie	✓
Mr. Zou Haiyan	✓

Chairman and Chief Executive Officer

The Company has complied with the code provisions as set out in the CG Code throughout the Year except for a deviation from code provision A.2.1 of the CG Code.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. For the period from 23 March 2017 to the date of this report, despite the responsibilities of the chairman and the chief executive officer of the Company vested in Mr. Jin Dongtao, all major decisions were made in consultation with the Board. The Board considers that there is sufficient balance of power and the current corporate arrangement maintains a strong management position of the Company.

Save as the deviation from the code provision A.2.1 of the CG Code, in the opinion of the Directors, the Company has complied with all code provisions as set out in the CG Code during the Year and, where appropriate, the applicable recommended best practices of the CG Code.

Appointment and Re-election of Directors

Save for Mr. Zhao Zehua, Mr. Sun Libo and Mr. Zou Haiyan, each of the Directors has signed an appointment letter with the Company for a term of three years commencing on 18 November 2013, which was renewed on 28 November 2016.

Mr. Zhao Zehua has entered into an appointment letter with the Company for a term of three years commencing from 16 June 2018, and may be terminated in accordance with the terms of the appointment letter.

Corporate Governance Report

Mr. Sun Libo has entered into an appointment letter with the Company for a term of three years commencing from 23 March 2017, and may be terminated in accordance with the terms of the appointment letter.

Mr. Zou Haiyan has entered into an appointment letter with the Company as an independent non-executive Director for a term of three years commencing from 20 July 2017, and may be terminated in accordance with the terms of the appointment letter.

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

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

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

Board Meetings

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

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

Corporate Governance Report

For the Year, 8 Board meetings and 1 general meeting were held and the attendance of the individual Directors at these meetings is set out in the table below:

Directors	**Attended/Eligible to attend**	
	Board Meetings	**General Meeting**
Executive Directors		
Mr. Jin Dongtao *(Chairman)*	8/8	1/1
Mr. Jin Dongkun	8/8	1/1
Mr. Zhao Zehua	8/8	1/1
Mr. Sun Libo	8/8	1/1
Independent Non-executive Directors		
Mr. Cheng Sheung Hing	8/8	1/1
Ms. Chiang Su Hui Susie	8/8	1/1
Mr. Zou Haiyan	8/8	1/1

Model Code for Securities Transactions

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

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

Delegation by the Board

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

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

Corporate Governance Report

Corporate Governance Function

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

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

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

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

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

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

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

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

Board Committees

Nomination Committee

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

Corporate Governance Report

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition (including the skills, knowledge and experience) required of the Board and make recommendations regarding any proposed changes
- To identify suitable candidates for appointment as Directors
- To make recommendations to the Board on appointment or re-appointment of and succession planning for Directors
- To assess the independence of independent non-executive Directors

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

During the Year, 1 meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

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

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

Corporate Governance Report

Board Diversity Policy

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

The Nomination Committee is authorised to formulate nomination policy for the Board's consideration and implement the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship. The objectives of the Board diversity policy are to ensure the Board has a balance of skills, experience and diversity of perspectives which are appropriate to the requirements of the Company's business. It also sets out that all Board members will be appointed based on merit basis with due consideration to the Board diversity. While selecting candidates for directorship, the committee has taken into account of a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience and qualification, skills and knowledge. Currently, the Board consists of 7 members having expertise in various aspects of professional knowledge and experience which include the familiarity with its business model, finance, accounting, taxation management and compliance, etc. For details, please refer to the section headed "Directors and Senior Management" in this report for brief biographies of the Directors.

In reviewing the Board composition, the Nomination Committee shall give adequate consideration to the Board diversity policy. The committee believes that the current composition of the Board is balanced and diversified with the high-calibre members from different cultural backgrounds and possessing professional expertise of various industries, which indicates that the diversity policy has been well implemented. The main responsibilities of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least once a year and make recommendations on any proposed changes to the Board to implement the Company's corporate strategy, and identify individuals suitably qualified to become Directors and select or make recommendations to the Board on the selection of individuals nominated for directorships, the appointment or re-appointment and succession planning for the Directors. The committee is also responsible for assessing the independence of independent non-executive Directors.

Corporate Governance Report

Remuneration Committee

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

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

During the Year, 2 meetings of the Remuneration Committee were held and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Cheng Sheung Hing	2/2
Ms. Chiang Su Hui Susie	2/2
Mr. Jin Dongkun	2/2

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

The remuneration of a member of the senior management of the Company, whose biography is set out on page 77 of this annual report, falls within the band from RMB1.0 million to RMB1.5 million (including share option incentives) for the Year.

Corporate Governance Report

Audit Committee

The Audit Committee currently comprises three members, namely Mr. Zou Haiyan, Mr. Cheng Sheung Hing and Ms. Chiang Su Hui Susie, all of them are independent non-executive Directors. Mr. Zou Haiyan serves as the chairman.

The main duties of the Audit Committee include the following:

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

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

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

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

During the Year, 5 meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

Directors	**Attended/Eligible to attend**
Mr. Zou Haiyan	5/5
Mr. Cheng Sheung Hing	5/5
Ms. Chiang Su Hui Susie	5/5

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

Corporate Governance Report

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

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

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

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

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

The statement by the independent auditor of the Company regarding its reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 78 to 86 of this annual report.

Risk Management and Internal Controls

Goals and objectives

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

Corporate Governance Report

Main features of the risk management and internal control systems

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

Board

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

Audit Committee

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

Management

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

Internal Audit Department

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

Corporate Governance Report

Supervisor and Staff

- Consider how to conduct their responsibilities in light of effectiveness of internal control; and
- Discuss with management for strengthening internal control.

Process used to identify, evaluate and manage significant risks

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

Risk Identification

- Develop risk management plan; and
- Identify risks that may potentially affect the Group's business and operations.

Risk Assessment

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

Risk Response

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

Risk Monitoring and Reporting

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

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

Corporate Governance Report

Internal Audit Function

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

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

Handling and dissemination of inside information

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

Auditor's Remuneration

Mazars is the independent auditor of the Company. During the Year, the professional fees paid or payable to Mazars for services rendered are set out below:

	Fee paid/payable
	RMB'000
Audit services	1,935
Non-audit services for interim report	701
Total	2,636

Company Secretary

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

During the Year, Mr. Ge Junming has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Corporate Governance Report

Communication with Shareholders and Investor Relations

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

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

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

Shareholders' Rights

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

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

Convening of extraordinary general meeting and putting forward proposals

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

(1) The requisitionist(s) should sign a written request stating the objects of the meeting to be convened, and deposit the same at the principal place of business of the Company in Hong Kong situated at 2404, 24th Floor, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong for the attention of the company secretary.

Corporate Governance Report

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

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

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the principal place of business of the Company in Hong Kong at 2404, 24th Floor, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong or to email address: ir@uhi-group.com.

Change in Constitutional Documents

During the Year, there is no significant change in constitutional documents of the Company.

Directors and Senior Management

Directors

Executive Directors

Mr. JIN Dongtao (金東濤), aged 50, was appointed as the Chairman of the Board and an executive Director on 12 March 2012 and the Chief Executive Officer of the Company on 23 March 2017. Mr. Jin is one of the co-founders of the Group and has been Chairman of the Group since its inception in June 1998. He has substantial experience in the pharmaceutical retail and distribution sector and is responsible for setting the strategic vision, direction and goals of the Group.

Mr. Jin has over 25 years of experience in the pharmaceutical distribution industry and marketing.

Other experience:

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

- 2012 – present: vice chairman of the China Medical Pharmaceutical Material Association (中國醫藥物資協會)

Education:

- July 1991: graduated from Jiamusi United Workers University (佳木斯聯合職工大學)

- December 2010: obtained a Master's degree in Business Administration in a programme run by United Business Institutes

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

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

Directors and Senior Management

Mr. JIN Dongkun (金東昆), aged 46, was appointed as the Vice Chairman of the Board and an executive Director on 12 March 2012. He is one of the co-founders of the Group and has served as business manager, general manager and vice president of the Group since June 1998. He is responsible for overseeing the Group's external affairs and relationships.

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

Other experience:

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

- November 2014 – present: vice chairman of the China Medical Pharmaceutical Material Association (中國醫藥物資協會)

Education:

- December 1994: graduated from Harbin Engineering University (哈爾濱工程大學) with a major in Electric Technology

- July 2013: obtained a Master's degree in Business Management in a programme run by the Scandinavian Art and Business Institute

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

Mr. Jin Dongkun is Mr. Jin Dongtao's brother. Mr. Jin Dongtao is the executive Director, Chairman of the Board and Chief Executive Officer of the Company.

Directors and Senior Management

Mr. ZHAO Zehua (趙澤華), aged 51, was appointed as the general manager of finance of the Group in October 2011 and was appointed as an executive Director on 16 June 2015. He joined the Group in January 2005 as financial controller and was promoted to his current position in October 2011. He is responsible for financial control and management. He has over 30 years of experience in financial management, with particular expertise in financial accounting, treasury and internal control.

Other experience:

- August 1989 – May 2001: head of finance at Hebei Chengde Tianyuan Pharmaceutical Co., Ltd. (河北省承德天原藥業有限公司)
- June 2001 – December 2004: manager of finance and deputy general manager of Hebei Chengde Tianyuan Pharmaceutical Co., Ltd. (河北省承德天原藥業有限公司)
- January 2003 – December 2004: manager of finance and deputy general manager of Chengde Pharmaceutical Group Liuhe Pharmaceutical Co., Ltd. (承德藥業集團六合製藥有限責任公司)

Education:

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

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

Directors and Senior Management

Mr. SUN Libo (孫立波), aged 46, has been the Deputy General Manager of the Group since 2011 and was appointed as an executive Director on 23 March 2017. He has extensive experience and qualifications in pharmacy.

Other experience:

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

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

Education:

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

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

Mr. Sun has not held any directorships in any other publicly listed companies over the past three years.

Directors and Senior Management

Independent Non-executive Directors

Mr. CHENG Sheung Hing (鄭雙慶), aged 71, was appointed as an independent non-executive Director on 18 November 2013. Mr. Cheng is a senior economist of People's Bank of China with many years of experience in foreign exchange management and management of pharmaceutical companies and listed companies.

Other experience:

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

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

Directorships:

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

- 2003 – 2005: assistant to board chairman of Heng Fai Enterprises Limited (恒輝企業控股有限公司) (now known as ZH International Holdings Ltd. 正恒國際控股有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 00185)

- 2005 – 2013: independent non-executive director of National United Resources Holdings Limited (國家聯合資源控股有限公司) (formerly known as China Outdoor Media Group Limited 中國戶外媒體集團有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 00254)

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

Education:

- 1982: graduated from the formerly known as School of Economics of Peking University (北京經濟學院) (now known as Capital University of Economics and Business 首都經濟貿易大學) with a major in Trading Economics

Directors and Senior Management

Ms. CHIANG Su Hui Susie (江素惠), aged 72, was appointed as an independent non-executive Director on 18 November 2013. Ms. Chiang has over 27 years of experience in governmental affairs, treasury and cross-straits relations.

Other experience:

- December 1991 – March 1994: the representative of Government Information Office of the Executive Yuan of Taiwan (台灣行政院新聞局)
- March 1994 – December 2004: in charge of the Taiwanese Kwang-hwa Information and Culture Centre (台灣光華新聞文化中心)
- April 2002: established the C S Forum (香江論壇) and the C S Corp. Consultancy Limited (香江顧問有限公司) in Hong Kong with a goal of promoting cross-straits economic and trade communications

Current positions:

- member of the Hong Kong-Taiwan Cultural Co-operation Committee of the Hong Kong Special Administrative Region (香港特區政府港台文化合作委員會)
- chairwoman of the C S Culture Foundation (香江文化交流基金會)
- chairwoman of the C S Corp. Consultancy Limited (香江顧問有限公司)
- chairwoman of the C S Finance & Investment Company Limited (香江金融財務集團有限公司)
- honourary chairwoman of the Taiwan Business Association (Hong Kong) Limited (香港台灣工商協會)

Education:

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

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

Directors and Senior Management

Mr. ZOU Haiyan (鄒海燕), aged 54, was appointed as an independent non-executive Director on 20 July 2017. Mr. Zou has over 32 years of experience in the financial services industry. He has been a training instructor and guest lecturer of the Association of Chartered Certified Accountants Hong Kong, International Institute of Certified Public Accountants Hong Kong, Hong Kong Chinese Accountants Association, continuing education of Shanghai University of Finance and Economics Institute, Hainan Local Taxation Bureau, Huangshan Local Taxation Bureau, Qingdao Provincial SAT Office and Shenzhen Municipal SAT Office; and an associate professor of The Hong Kong Polytechnic University.

Other experience:

- July 2001 – November 2003: certified public accountant of Guangdong Kangyuan Certified Public Accountants (廣東康元會計師事務所)

- December 2003 – August 2009: chief partner of Guangdong Gaowick Certified Public Accountants (廣東高域會計師事務所)

- March 2001 – August 2018: managing director of China Tax and Business Consultants Company Limited (中國稅務商務顧問有限公司) (the company ceased business due to the overlapping of business)

Current positions:

- managing director of Kaowick Listing and Financial Services Company Limited (嘉域上市融資服務有限公司)

- partner of Shenzhen Guangshen Certified Public Accountants (深圳廣深會計師事務所)

- independent non-executive director of Shenzhen Asia Electricity Co., Ltd., a company listed on National Equities Exchange and Quotations in China (深圳亞洲電力股份有限公司)

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

Education:

- July 1985: graduated from Guangdong Provincial Finance School in Taxation (廣東省財政學校)

- January 2015: graduated from University of Electronic Science and Technology in Human Resources Management (電子科技大學)

Directors and Senior Management

Senior Management

Mr. GE Junming (葛俊明), aged 51, was appointed as a company secretary of the Company on 18 November 2013 and is currently the sole company secretary of the Company. He joined the Group in 1998. Mr. Ge has worked in various other capacities in the Group, including as an accountant, head of the planning department, chief secretary to the Chairman, head of the legal department, general secretary and director in various members in the Group.

Other experience:

- August 1988 – May 1994: a materials accountant, costs accountant and head accountant of Jiamusi CNC Machine Tools Factory (佳木斯數控機床廠)
- June 1994 – August 1995: head accountant of Jiamusi Import and Export Wood Products Company (佳木斯進出口木製品公司)
- September 1995 – August 1996: chief of finance at Jiamusi Forging Equipment Factory (佳木斯鍛壓設備廠)
- September 1996 – April 1998: financial inspector at Jiamusi Marketing Limited Company of the Sanzu Group (三株集團佳木斯營銷有限公司)

Education:

- July 1988: obtained a Secondary Professional Degree in Financial Accounting from Heilongjiang School of Machinery Manufacturing (黑龍江機械製造學校)
- July 1993: graduated from the School of Economics at Peking University (北京大學經濟學院) with a major in Financial Accounting, by way of distance learning

Mr. Ge is also a qualified senior accountant, senior planner, pharmacist and nutritionist in China. Mr. Ge is a Certified Internal Auditor, and has obtained qualification of practice in securities and funds.

Mr. Ge received the National Enterprise Management Specialist Award by the China National Management Specialist Centre (中華人民共和國人事部全國人才流動中心) in 2005.

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

Independent Auditor's Report

MAZARS

MAZARS CPA LIMITED
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To the members of Universal Health International Group Holding Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Universal Health International Group Holding Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 87 to 195, which comprise the consolidated balance sheet as at 30 June 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and 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 financial position of the Group as at 30 June 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**") issued by the International Auditing and Assurance Standards Board. 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA 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 for the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill and other related non-current assets Refer to note 9 to the consolidated financial statements. Goodwill arises on the acquisitions of distribution and retail businesses in prior years and other non-current assets which are closely related were allocated to the operating segments of Distributions and Retails I – strategic stores ("Retails I"), and were monitored at the respective operating segment levels. Goodwill is subject to impairment assessment at least annually and when there is an indication of impairment. For other non-current assets which are closely related to Distributions and Retails I, their carrying amounts are subject to impairment assessments annually and when there is an indication of impairment or an impairment loss is reversed if there has been a favorable change in the estimates used to determine their recoverable amount. Management has performed impairment tests with reference to a valuation performed by an independent and qualified professional valuer and concluded that no impairment loss on goodwill and neither provision for nor reversal of impairment loss on other non-current assets in relation to Distributions segment and Retails I segment was provided for the year ended 30 June 2019. This conclusion was based on the estimation of the recoverable amounts of the cash generating units ("CGUs") using the value-in-use calculation based on discounted cash flow model. We identified this matter as a key audit matter because of the significance of the amounts involved and use of judgements and estimates in assessing the impairment of the assets. These key estimates include forecasted gross margins, forecasted growth rates and discount rates adopted in the value-in-use calculations.	In addressing this matter, we had performed the following key procedures: a) We evaluated the competence, capabilities and objectivity of the valuer; b) We performed procedures to understand the key processes and controls relating to the assessment of the recoverable amounts of CGUs supported by value-in-use calculations based on discounted cash flow model; c) We compared the cash flow projections used in value-in-use calculations to the financial budgets approved by management covering a five-year period; d) We compared the future growth rates beyond the five-year period used by management against the long-term average growth rate for the businesses in which the respective CGUs operate based on the available data from the market; e) We evaluated the achievability of budgeted gross margins based on the Group's past and current performance, the management's business strategy and the expected market development; f) We evaluated the reasonableness of key parameters used by the management and the valuer for calculating discount rates, including the Group's cost of equity, gearing ratio and cost of debt. Such parameters were benchmarked against market available data; g) We tested mathematical accuracy of the value-in-use calculations used by the management and the valuer to determine the recoverable amounts of CGUs; and h) We considered the adequacy of the Group's disclosure in respect of the impairment assessment.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of a logistics building included in property, plant and equipment – Distribution segment Refer to notes 4(c) and 7 to the consolidated financial statements. As at 30 June 2019, the Group had a logistics building included in the property, plant and equipment with carrying amount of RMB196.7 million located in Jiamusi, the People's Republic of China (the "PRC"). During the year, the Group had utilised certain areas of the logistics building as warehouse for its distribution business and continued to seek out its opportunities to develop the logistics business. In view of the loss sustained by the distribution business and the current low usage rate as warehousing for the Distribution segment, management considered that there were indicators of impairment of the logistics building existed at 30 June 2019 and performed an impairment assessment thereon. Management performed an impairment assessment of the logistics building with reference to a valuation performed by an independent and qualified professional valuer by using the fair value less cost of disposal model and compared the carrying amount of the logistics building to determine the amount of impairment which should be recognised for the year. For the determination of the fair value less costs of disposal, management used the depreciated replacement cost method that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence. Based on the results of the impairment assessment, management concluded that the recoverable amount of the logistics building was higher than its carrying amount and no impairment was required. We identified this matter as a key audit matter because of the significance of the use of judgements and estimates in assessing the impairment of this significant asset. These key estimates include the estimated useful life and replacement costs adopted in the depreciated replacement cost calculations.	In addressing this matter, we had performed the following key procedures: a) We evaluated the competence, capabilities and objectivity of the valuer; b) We evaluated the appropriateness of the methodology used and the reasonableness of the key assumptions applied in the depreciated replacement cost calculations such as the estimated useful life and replacement costs by referencing to available market data; c) We tested mathematical accuracy of the depreciated replacement cost calculations used by the management and the valuer to determine the recoverable amounts of CGUs; and d) We considered the adequacy of the Group's disclosure in respect of the impairment assessment.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of investment in an associate Refer to note 12 to the consolidated financial statements. During the year, the Group acquired an additional 7.4% equity interest (the "Acquisition") in Jilin Jintian Universal Health Capsule Limited ("Jilin Jintian") at a consideration of RMB76.5 million (the "Consideration"), which includes a goodwill of RMB65.5 million arising from the Acquisition. The Acquisition was completed in May 2019 (the "Date of Completion") and total equity interest in Jilin Jintian held by the Group increased from 36.38% to 43.78% accordingly. At the Date of Completion, the Group carried out reviews of the recoverable amount of the additional interests acquired of 7.4% (the "Additional Interest Acquired") and the Group's equity interests of 36.38% originally held in Jilin Jintian immediately before the Acquisition (the "Original Interest Held"). The recoverable amount, being the higher of value in use and fair value less costs of disposal, has been determined by the Group's management with reference to a valuation report prepared by an independent and qualified professional valuer using price-to-earnings (P/E) multiple model.	In addressing this matter, we had performed the following key procedures: a) We evaluated the competence, capabilities and objectivity of the valuer; b) We assessed the appropriateness of the valuation methodologies used by the valuer and management to estimate the recoverable amount of the investment in an associate; c) We evaluated the reasonableness of the key inputs adopted by the management and the valuer by comparing to entity-specific information and market data; and d) We considered the adequacy of the Group's disclosure in respect of the impairment assessment.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of investment in an associate (continued) As a result of the aforesaid impairment assessment, management concluded that the recoverable amount of the Additional Interest Acquired was lower than the Consideration and impairment loss of RMB22.6 million was provided while a reversal of impairment loss on the Original Interest Held of RMB27.4 million was recognised due to the recoverable amount of the Original Interest Held was higher than its carrying amount at the Date of Completion. Therefore, net reversal of impairment loss of RMB4.8 million was credited in profit or loss at the Date of Completion. As at 30 June 2019, the Group carried out reviews of the recoverable amount of investment in an associate by using the same basis at the Date of Completion and the management concluded that except for the aforesaid net reversal of impairment loss of RMB4.8 million which was recognised at the Date of Completion, neither additional impairment nor reversal of impairment loss was provided for the year ended 30 June 2019. Impairment assessment of the significant carrying amount of investment in an associate is highly judgmental and involves a high degree of estimation uncertainty. We therefore identified the impairment assessment as a key audit matter.	

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of biological assets Refer to note 14 to the consolidated financial statements. The Group acquired a forest land use right and the wild ginsengs planted in this forest land from an independent third party in June 2017. Upon completion of the acquisition, the forest land use right and wild ginsengs are accounted for as land use right and biological assets respectively. The wild ginsengs are measured at fair value less costs to sell. As at 30 June 2019, management estimated the fair value of wild ginsengs which was revalued at RMB93.6 million based on a valuation prepared by an independent and qualified professional valuer which took into consideration of factors related to the ginsengs as advised by ginsengs expert who were employed by the valuer. A gain on change in fair value of RMB5.9 million is credited to profit or loss for the year ended 30 June 2019. We have identified the valuation of the biological assets as a key audit matter considering the significance of the balance and the extent of management's judgments and estimates used for the assessment of fair value of biological assets. The most significant assumptions and valuation parameters used in the valuation include the estimated quantities, grade and the related market prices of biological assets applied.	In addressing this matter, we had performed the following key procedures: a) We evaluated the competence, capabilities and objectivity of the valuer and the ginsengs expert; b) We assessed the appropriateness of the valuation methodologies used by the valuer and management to estimate the fair value of the biological assets; c) We engaged our own ginsengs expert to carry out physical inspection of the wild ginsengs forest and assist us in reviewing the reasonableness of the key assumptions and unobservable inputs applied to the valuation model; and d) We considered the adequacy of the Group's disclosure in respect of the fair value measurement of the biological assets.

Independent Auditor's Report

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information in the 2018/19 annual report of the Company but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Independent Auditor's Report

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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism 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.

Independent Auditor's Report

- 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.

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.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 26 September 2019

The engagement director on the audit resulting in this independent auditor's report is:
She Shing Pang
Practising Certificate number: P05510

Consolidated Balance Sheet

	Note	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	7	**255,811**	278,572
Land use rights	8	**5,354**	5,489
Intangible assets	9	**14,476**	16,560
Investments in joint ventures	11	**9,246**	8,883
Investment in an associate	12	**307,524**	220,099
Available-for-sale financial assets	13	**–**	22,869
Equity instruments designated as at fair value through other comprehensive income	13	**23,319**	–
Biological assets	14	**93,621**	87,690
Deferred income tax assets	15	**7,593**	11,498
Total non-current assets		**716,944**	651,660
Current assets			
Trade and other receivables	17	**273,346**	253,408
Income tax recoverable		**44,330**	46,429
Inventories	18	**302,137**	303,525
Restricted cash	19	**38,058**	45,147
Cash and cash equivalents	20	**628,525**	929,161
Total current assets		**1,286,396**	1,577,670
Total assets		**2,003,340**	2,229,330
EQUITY			
Equity attributable to owners of the Company			
Share capital	21	**22,942**	19,167
Reserves	22	**1,720,044**	1,645,885
(Accumulated loss) Retained earnings		**(12,815)**	251,904
		1,730,171	1,916,956
Non-controlling interests		**3,622**	20,419
Total equity		**1,733,793**	1,937,375

Consolidated Balance Sheet

	Note	As at 30 June 2019 RMB'000	As at 30 June 2018 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	15	1,179	1,636
Current liabilities			
Trade and other payables	24	268,354	290,255
Current income tax liabilities		14	64
Total current liabilities		268,368	290,319
Total liabilities		269,547	291,955
Total equity and liabilities		2,003,340	2,229,330

The notes on pages 94 to 195 are an integral part of these consolidated financial statements.

These consolidated financial statements on pages 87 to 195 were approved and authorised for issue by the Board of Directors on 26 September 2019 and signed on its behalf by

Jin Dongtao	Zhao Zehua
Director	*Director*

Consolidated Statement of Comprehensive Income

	Note	For the year ended 30 June 2019 RMB'000	For the eighteen months ended 30 June 2018 RMB'000
Revenue	5	2,424,416	3,968,907
Cost of sales	26	(2,097,609)	(3,316,816)
Gross profit		326,807	652,091
Selling and marketing expenses	26	(551,049)	(955,723)
Administrative expenses	26	(79,510)	(146,582)
Impairment loss on goodwill and other intangible assets	9,26	–	(489,447)
Reversal of (Provision for) impairment loss on investment in an associate	12,26	4,834	(27,430)
Other income		464	1,432
Other gains (losses) – net	25	10,954	(3,440)
Change in fair value of biological assets	14	5,931	2,890
Operating loss		(281,569)	(966,209)
Finance income	28	11,573	13,244
Finance costs	28	(298)	(12,490)
Finance income – net	28	11,275	754
Share of post-tax results of joint ventures	11	363	672
Share of post-tax results of an associate	12	6,065	905
		6,428	1,577
Loss before income tax		(263,866)	(963,878)
Income tax (expenses) credit	29	(3,237)	39,087
Loss for the year/period		(267,103)	(924,791)

Consolidated Statement of Comprehensive Income

	Note	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Other comprehensive (loss) income			
Item that will not be reclassified to profit or loss:			
Fair value changes in equity instruments designated as at fair value through other comprehensive income	13	(1,286)	–
Items that are or may be reclassified to profit or loss in subsequent periods:			
Release of other reserves upon disposal of subsidiaries	34	(332)	–
Currency translation differences		(5,994)	8,122
		(6,326)	8,122
Other comprehensive (loss) income for the year/period		(7,612)	8,122
Total comprehensive loss for the year/period		(274,715)	(916,669)
Loss attributable to:			
– Owners of the Company		(265,629)	(917,007)
– Non-controlling interests		(1,474)	(7,784)
		(267,103)	(924,791)
Total comprehensive loss attributable to:			
– Owners of the Company		(273,241)	(908,885)
– Non-controlling interests		(1,474)	(7,784)
		(274,715)	(916,669)
Loss per share attributable to owners of the Company for the year/period *(RMB cents)*			
– Basic and diluted	30	(8.58)	(33.67)

The notes on pages 94 to 195 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Attributable to owners of the Company										
	Share capital *RMB'000* *(Note 21)*	Share premium *RMB'000* *(Note 22(a))*	Capital reserves *RMB'000* *(Note 22(b))*	Statutory reserves *RMB'000* *(Note 22(c))*	Fair value reserve (non-recycling) *RMB'000* *(Note 22(d))*	Share-based compensation reserves *RMB'000* *(Note 22(e))*	Other reserves *RMB'000* *(Note 22(f))*	(Accumulated loss) Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2017	14,878	1,618,899	(154,447)	65,059	–	8,878	(13,489)	1,168,911	2,708,689	24,761	2,733,450
Comprehensive loss											
Loss for the period	–	–	–	–	–	–	–	(917,007)	(917,007)	(7,784)	(924,791)
Other comprehensive income	–	–									
Currency translation differences	–	–	–	–	–	–	8,122	–	8,122	–	8,122
Total comprehensive loss	–	–	–	–	–	–	8,122	(917,007)	(908,885)	(7,784)	(916,669)
Transactions with owners in their capacity as owners											
Issuance of ordinary shares	4,289	100,234	–	–	–	–	–	–	104,523	–	104,523
Equity settled share-based transactions	–	–	–	–	–	12,629	–	–	12,629	–	12,629
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	3,442	3,442
Total transactions with owners in their capacity as owners	4,289	100,234	–	–	–	12,629	–	–	117,152	3,442	120,594
Balance at 30 June 2018	19,167	1,719,133	(154,447)	65,059	–	21,507	(5,367)	251,904	1,916,956	20,419	1,937,375

Consolidated Statement of Changes in Equity

	Attributable to owners of the Company										
	Share capital RMB'000 *(Note 21)*	Share premium RMB'000 *(Note 22(a))*	Capital reserves RMB'000 *(Note 22(b))*	Statutory reserves RMB'000 *(Note 22(c))*	Fair value reserve (non-recycling) RMB'000 *(Note 22(d))*	Share-based compensation reserves RMB'000 *(Note 22(e))*	Other reserves RMB'000 *(Note 22(f))*	(Accumulated loss) Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 July 2018	19,167	1,719,133	(154,447)	65,059	–	21,507	(5,367)	251,904	1,916,956	20,419	1,937,375
Comprehensive loss											
Loss for the year	–	–	–	–	–	–	–	(265,629)	(265,629)	(1,474)	(267,103)
Other comprehensive loss											
Fair value changes in equity instruments designated as at fair value through other comprehensive income *(Note 13)*	–	–	–	–	(1,286)	–	–	–	(1,286)	–	(1,286)
Release of other reserve upon disposal of subsidiaries *(Note 34)*	–	–	–	–	–	–	(332)	–	(332)	–	(332)
Currency translation differences	–	–	–	–	–	–	(5,994)	–	(5,994)	–	(5,994)
Total other comprehensive loss	–	–	–	–	(1,286)	–	(6,326)	–	(7,612)	–	(7,612)
Total comprehensive loss	–	–	–	–	(1,286)	–	(6,326)	(265,629)	(273,241)	(1,474)	(274,715)
Release of statutory reserve upon disposal of subsidiaries *(Note 34)*	–	–	–	(910)	–	–	–	910	–	–	–
Transactions with owners in their capacity as owners											
Dividends relating to non–controlling interests	–	–	–	–	–	–	–	–	–	(14,142)	(14,142)
Disposal of subsidiaries *(Note 34)*	–	–	–	–	–	–	–	–	–	(1,181)	(1,181)
Issuance of ordinary shares *(Notes 21(a))*	3,775	72,242	–	–	–	–	–	–	76,017	–	76,017
Equity settled share-based transactions *(Note 23(a))*	–	–	–	–	–	10,439	–	–	10,439	–	10,439
Total transactions with owners in their capacity as owners	3,775	72,242	–	–	–	10,439	–	–	86,456	(15,323)	71,133
Balance at 30 June 2019	22,942	1,791,375	(154,447)	64,149	(1,286)	31,946	(11,693)	(12,815)	1,730,171	3,622	1,733,793

The notes on pages 94 to 195 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Operating activities			
Cash used in operations	32	(309,719)	(175,395)
Interest paid		–	(3,080)
Bank charges paid		(298)	(529)
Income tax refunded (paid)		807	(4,762)
Net cash used in operating activities		(309,210)	(183,766)
Investing activities			
Change in restricted cash		7,089	171,984
Interest received		3,437	14,748
Proceeds from disposal of property, plant and equipment	32(a)	225	215
Purchase of intangible assets		(18)	(241)
Purchase of property, plant and equipment		(3,361)	(111,738)
Purchase of available-for-sale financial assets		–	(196)
Acquisition of a subsidiary, net of cash acquired		–	(12,446)
Acquisition of additional equity interest in an associate		(509)	–
Net cash inflow on disposal of subsidiaries	34	1,766	–
Cash consideration paid for the acquisition of forest land use right and wild ginsengs		–	(5,000)
Loans repayment received from third parties		–	105,000
Net cash from investing activities		8,629	162,326
Financing activities			
Repayments of borrowings	32(b)	–	(154,550)
Dividends paid to non-controlling interests	32(b)	(204)	(1,706)
Net cash used in financing activities		(204)	(156,256)
Net decrease in cash and cash equivalents		(300,785)	(177,696)
Cash and cash equivalents at beginning of the reporting period		929,161	1,107,329
Effect of foreign exchange rate changes		149	(472)
Cash and cash equivalents at end of the reporting period	20	628,525	929,161

The notes on pages 94 to 195 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

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

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

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

These consolidated financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both periods presented, unless otherwise stated.

2.1 Basis of preparation

On 31 August 2017, the Board of Directors of the Company resolved to change the financial year end date of the Company from 31 December to 30 June with immediate effect. Since stocktake of the wild ginsengs in the forest land is not practicable due to severe weather condition around winter in the northeastern region of the PRC, this change of financial year end will enable a more accurate reflection of the value of the wild ginsengs. Accordingly, the current financial reporting period covers a twelve months period from 1 July 2018 to 30 June 2019 with the comparative financial reporting period covers a eighteen months period from 1 January 2017 to 30 June 2018, and therefore they may not be entirely comparable.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable IFRSs, International Accounting Standards ("**IAS**") and Interpretations and the applicable disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Notes to the Consolidated Financial Statements

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

2.1 Basis of preparation *(continued)*

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, equity instruments designated as at fair value through other comprehensive income ("**FVOCI**") and biological assets which are measured at fair value as explained in the accounting policies set out below.

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

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time:

<u>Amendments IFRS 2: Classification and Measurement of Share-based Payment Transactions</u>

The amendments provides requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transaction; share-based payment transaction with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash settled to equity settled.

The application of these amendments does not have any significant impact on the consolidated financial statements.

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

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

IFRS 9: Financial instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading or contingent consideration for business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Notes to the Consolidated Financial Statements

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

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

IFRS 9: Financial instruments *(continued)*

On 1 July 2018, the directors of the Company has assessed which business models apply to the financial assets held by the Group at the date of initial application of IFRS 9 and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

		Measurement category		Carrying amount	
	Note	Original (IAS 39)	New (IFRS 9)	Original *RMB'000*	New *RMB'000*
Financial assets					
Unlisted equity instruments		Available-for-sale, at fair value	Equity instruments designated as at FVOCI	22,869	22,869
Trade receivables	(a)	At amortised cost	At amortised cost	170,602	170,602
Other receivables	(a)	At amortised cost	At amortised cost	10,461	10,461
Restricted cash	(a)	At amortised cost	At amortised cost	45,147	45,147
Cash and cash equivalents	(a)	At amortised cost	At amortised cost	929,161	929,161

Note (a): Impairment based on expected credit loss model on these financial assets has no significant financial impacts.

Notes to the Consolidated Financial Statements

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

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

IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction contracts" and the related interpretations. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The adoption of IFRS 15 did not have any significant impact on recognition of revenue. However, the application of IFRS 15 results in the additional disclosures in Note 5.

International Financial Reporting Interpretations Committee ("IFRIC") 22: Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognised the non-monetary asset or non-monetary liability arising from the advance consideration.

The adoption of IFRIC 22 does not have any significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

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

A number of new and amended standards are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these consolidated financial statements. The Group will apply the new and amended standards when they become effective. The Group is in the process of making an assessment of the impact of the new and amended standards and does not expect that the adoption of these new and amended standards (except for IFRS 16 Leases as set out below) will result in any material impact on the consolidated financial statements of the Group.

		Effective for annual years beginning on or after
Annual improvements	2015 – 2017 cycle	1 January 2019
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to IASs 1 and 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020
IFRS 17	Insurance contracts	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale and Contribution of Assets Between an Investor and its Associate or Joint Venture	To be determined

Notes to the Consolidated Financial Statements

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

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

IFRS 16: Leases

IFRS 16 significantly changes the lessee accounting by replacing the dual model under IAS 17 with a single model which requires a lessee to recognise right-of-use assets and lease liabilities for the rights and obligations created by leases with a term of more than 12 months, unless the underlying assets is of low value. Besides, among other changes, it requires enhanced disclosures to be provided by lessees and lessors. Based on the preliminary assessment, the management is of the opinion that the leases of certain properties by the Group which are currently classified as operating leases under IAS 17 will trigger the recognition of right-of-use assets and lease liabilities in accordance with IFRS 16. In subsequent measurement, depreciation (and, if applicable, impairment loss) and interest will be recognised on the right-of-use assets and the lease liabilities respectively, of which the amount in total for each reporting period is not expected to be significantly different from the periodic operating lease expenses recognised under IAS 17. Apart from the effects as outlined above, it is not expected that IFRS 16 will have a material impact on the future financial position, financial performance and cash flows of the Group upon adoption.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 July 2019 and will not restate the comparative information.

As set out in Note 33, at 30 June 2019, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of office premises amounted to approximately RMB78,362,000. The management of the Company does not expect the adoption of IFRS 16 as compared with the current accounting policy will result in significant impact on the Group's financial performance but it is expected that the Group has to separately recognise the interest expenses on the lease liabilities and the depreciation expense on the right-of-use assets, and that certain portion of the future minimum lease payments under the Group's operating leases will be required to be recognised in the Group's consolidated balance sheet as right-of-use assets and lease liabilities. The Group will also be required to re-measure the lease liabilities upon the occurrence of certain events such as a change in the lease term and recognise the amount of the re-measurement of the lease liabilities as an adjustment to the right-of-use assets. In addition, payments for the principal portion of the lease liabilities will be presented within financing activities in the Group's consolidated cash flow statement.

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

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

Acquisition-related costs are expensed as incurred.

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

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

Notes to the Consolidated Financial Statements

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

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation (continued)

(a) Business combinations *(continued)*

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries would have been adjusted to conform with the Group's accounting policies.

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

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

(c) Disposal of subsidiaries

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

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

2.2 Subsidiaries *(continued)*

2.2.2 Separate financial statements

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

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

2.3 Associates

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

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

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

Notes to the Consolidated Financial Statements

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

2.3 Associates *(continued)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the excess of the carrying value of the associate over its recoverable amount and recognises the amount to "impairment loss on investment in an associate" in profit or loss. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

Gains or losses on dilution of equity interest in associates are recognised in profit or loss.

2.4 Joint arrangements

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

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

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

2.7 Property, plant and equipment

Property, plant and equipment comprise mainly motor vehicles, furniture, office equipment and lease improvement are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Construction in progress is recognised at the percentage completion of contract cost.

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

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

Depreciation on property, plant and equipment other than CIP is calculated using the straight-line method to write down their cost less accumulated impairment to their residual values over their estimated useful lives. The estimated useful lives of property, plant and equipment are as follows:

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Notes to the Consolidated Financial Statements

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

2.8 Land use rights

Land use rights are up-front payments to acquire long-term interest in land. These payments are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Amortisation of land use rights is calculated on a straight-line basis over the period of the leases.

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

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

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

(b) Trademarks, licenses and brand loyalty

Separately acquired trademarks, licenses and brand loyalty are shown at historical cost. Trademarks, licenses and brand loyalty acquired in a business combination are recognised at fair value at the acquisition date. Trademarks, licenses and brand loyalty have finite useful lives and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to write down the cost of trademarks, licenses and brand loyalty over their estimated useful lives of 5 to 20 years.

Notes to the Consolidated Financial Statements

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

2.9 Intangible assets *(continued)*

(c) Contractual supplier relationships

Contractual supplier relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual supplier relationships have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided to write down the cost over the expected life of supplier relationship of 10 years using the straight-line method.

(d) Computer software licences

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

2.10 Biological Assets

Biological assets are the wild ginsengs that are measured at fair value less cost to sell, see Note 14 below for further information on determining the fair value.

Costs to sell include the incremental selling costs, including the labour costs to collect and process the wild ginsengs when harvested, the estimated costs of transportation to the market, etc.

The wild ginsengs are accounted for as biological assets until the point of harvest. Harvested wild ginsengs are transferred to inventory at fair value less costs to sell when harvested.

Changes in fair value of biological assets are recognised in profit or loss.

2.11 Impairment of non-financial assets

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

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

2.12 Financial instruments

(a) Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Group becomes a party to the contractual provisions of the instruments.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

Classification and measurement – applicable from 1 July 2018

Financial assets (except for trade receivables without a significant financing component) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt instruments measured at fair value through other comprehensive income ("**Mandatory FVOCI**"); (iii) equity instruments designated as at FVOCI; or (iv) measured at fair value through profit or loss ("**FVPL**").

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

Derivatives embedded in a hybrid contract in which a host is an asset within the scope of IFRS 9 are not separated from the host. Instead, the entire hybrid contract is assessed for classification.

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

2.12 Financial instruments *(continued)*

(a) Financial assets (continued)

Classification and measurement – applicable from 1 July 2018 *(continued)*

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

(i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Group's financial assets at amortised cost include trade and other receivables, restricted cash and cash and cash equivalents.

Equity instruments designated as at FVOCI

Upon initial recognition, the Group may make an irrevocable election to present subsequent changes in the fair value of investment in equity instruments that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies in other comprehensive income. The classification is determined on an instruments-by-instruments basis.

These equity investments are subsequently measured at fair value and are not subject to impairment. Dividends are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other gains or losses are recognised in other comprehensive income and shall not be subsequently reclassified to profit or loss. Upon derecognition, the cumulative gain or loss is transferred directly to retained profits.

The Group's equity instruments designated as at FVOCI are further detailed in Note 13 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

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

2.12 Financial instruments *(continued)*

(a) Financial assets (continued)

Classification and measurement – applicable before 1 July 2018

Financial assets are initially recognised at their fair value plus, in the case of financial assets not carried at FVPL, transaction costs that are directly attributable to the acquisition of the financial assets.

The Group classified its financial assets into one of the following categories before 1 July 2018:

Financial assets at FVPL

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled in more than 12 months after the end of the reporting period, which are then classified as non-current assets.

Available-for-sale financial assets

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

Notes to the Consolidated Financial Statements

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

2.12 Financial instruments *(continued)*

(b) Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are direct attributable to the issue of the financial liabilities.

The Group's financial liabilities include trade and other payables. All financial liabilities, except for financial liabilities at FVPL, are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.14 Impairment of financial assets and other items

Applicable from 1 July 2018

The Group recognises loss allowances for expected credit losses ("ECL") on financial assets that are measured at amortised cost to which the impairment requirements apply in accordance with IFRS 9. At each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Notes to the Consolidated Financial Statements

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

2.14 Impairment of financial assets and other items *(continued)*

Applicable from 1 July 2018 (continued)

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instruments.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instruments while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instruments that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped on the following one or more shared credit risk characteristics:

(i) past due information

(ii) nature of instruments

(iii) nature of collateral

(iv) industry of debtors

(v) geographical location of debtors

(vi) external credit risk ratings

Loss allowance is remeasured at each reporting date to reflect changes in the financial instruments' credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instruments, except in the case of Mandatory FVOCI, the loss allowance is recognised in other comprehensive income and accumulated in fair value (recycling).

Notes to the Consolidated Financial Statements

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

2.14 Impairment of financial assets and other items *(continued)*

Applicable from 1 July 2018 (continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial instruments that meets any of the following criteria.

(i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group); or

(ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instruments has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instruments as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account in the assessment:

- the debtor's failure to make payments of principal or interest on the due dates;

- an actual or expected significant deterioration in the financial instruments' external or internal credit rating (if available);

- an actual or expected significant deterioration in the operating results of the debtor; and

- actual or expected changes in the technological, market, economic or legal environment that have or may have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

2.14 Impairment of financial assets and other items *(continued)*

Applicable from 1 July 2018 (continued)

Assessment of significant increase in credit risk *(continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Notwithstanding the foregoing, the Group assumes that the credit risk on financial instruments has not increased significantly since initial recognition if the financial instruments are determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

(i) it has a low risk of default;

(ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Other receivables and bank balances are considered to be low credit risk when they have a low risk of default and the counter party has a strong capacity to meet its contractual cash flow obligations in the near term (Note 3.1(b)).

Simplified approach of ECL

For trade receivables, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

2.14 Impairment of financial assets and other items *(continued)*

Applicable from 1 July 2018 (continued)

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower.

(b) a breach of contract, such as a default or past due event.

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. The Group has a policy of writing off the gross carrying amount when the financial asset is 1 year past due based on historical experience of recoveries of similar assets. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery made is recognised in profit or loss.

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

2.14 Impairment of financial assets and other items *(continued)*

Applicable before 1 July 2018

(a) Assets carried at amortised cost

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

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

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

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

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

2.14 Impairment of financial assets and other items *(continued)*

Applicable before 1 July 2018 (continued)

(b) Assets classified as available-for-sale

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

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

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

2.15 Inventories

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

2.16 Trade and other receivables

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

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

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

2.17 Cash and cash equivalents

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

2.18 Share capital

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

2.19 Borrowings and borrowing costs

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

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

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

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.20 Trade payables

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

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

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

2.21 Current and deferred income tax

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

(a) *Current income tax*

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

(b) *Deferred income tax*

Inside basis differences

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

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

Outside basis differences

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

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

Notes to the Consolidated Financial Statements

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

2.21 Current and deferred income tax *(continued)*

(c) Offsetting

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

2.22 Employee benefits

(a) Pension obligations

The PRC based full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulae. Certain government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligations for retirement benefits beyond the contributions made. The assets of these plans are held separately from those of the Group in an independently administered fund. Contributions to these plans are expensed as incurred.

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

(b) Housing benefits

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the government-sponsored housing fund of the specified salary amount of its full-time Chinese employees. At the same time, the employees are required to make a contribution equal to the Group's contributions out of their salaries. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The assets of the housing benefits are held separately from those of the Group in an independently administered fund. Contributions to the housing benefits are expensed as incurred.

Notes to the Consolidated Financial Statements

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

2.22 Employee benefits *(continued)*

(c) Share-based payments

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

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

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

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

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

Share-based payment transactions among group entities

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

Notes to the Consolidated Financial Statements

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

2.22 Employee benefits *(continued)*

(c) Share-based payments (continued)

Share Option Scheme

The Group operates a share option scheme ("**Share Option Scheme**") (Note 23(a)).

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

Share Award Plan

The Company adopted a share award plan ("**Share Award Plan**") (Note 23(b)). When the shares of the Company are purchased by the Share Award Plan from the market, the consideration paid, including any directly attributable incremental costs, is presented as "shares held for Share Award Plan" and deducted from total equity.

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

2.23 Provisions and contingent liabilities

2.23.1 Provisions

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

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

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

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

2.23 Provisions and contingent liabilities *(continued)*

2.23.2 Contingent liabilities

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

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

2.24 Revenue recognition

Applicable from 1 July 2018

Revenue from contracts with customers within IFRS 15

<u>Nature of goods or services</u>

The nature of the goods or services provided by the Group is as follows:

(a) Sales of goods – distribution
The Group sells a range of drugs and other pharmaceutical products to distributors through its distribution network.

(b) Sales of goods – retail
The Group operates a chain of retail pharmacies for selling drugs and other pharmaceutical products to customers. Retail sales are usually settled in cash or by credit card.

Notes to the Consolidated Financial Statements

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

2.24 Revenue recognition *(continued)*

Applicable from 1 July 2018 (continued)

Revenue from contracts with customers within IFRS 15 *(continued)*

Identification of performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

(b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Notes to the Consolidated Financial Statements

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

2.24 Revenue recognition *(continued)*

Applicable from 1 July 2018 (continued)

Revenue from contracts with customers within IFRS 15 *(continued)*

Timing of revenue recognition *(continued)*

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sale of prescribed drugs, non-prescribed drugs, healthcare and other pharmaceutical products are recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Transaction price: significant financing components

When the contract contains a significant financing component (i.e. the customer or the Group is provided with a significant benefit of financing the transfer of goods or services to the customer), in determining the transaction price, the Group adjusts the promised consideration for the effects of the time value of money. The effect of the significant financing component is recognised as an interest income or interest expense separately from revenue from contracts with customers in profit or loss.

The Group determines the interest rate that is commensurate with the rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception by reference to, where appropriate, the interest rate implicit in the contract (i.e. the interest rate that discounts the cash selling price of the goods or services to the amount paid in advance or arrears), the prevailing market interest rates, the Group's borrowing rates and other relevant creditworthiness information of the customer of the Group.

The Group has applied the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for the effect of the significant financing component if the period of financing is one year or less.

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

2.24 Revenue recognition *(continued)*

Applicable from 1 July 2018 (continued)

Revenue from contracts with customers within IFRS 15 *(continued)*

Variable consideration: volume-based rebates

The Group gives rebates to selected distributors. The Group estimates the volume rebates using the expected-value method and assesses whether the estimated variable consideration is constrained with reference to the customer's historical rebates entitlement and accumulated purchases to date. Any significant estimation variances will be analysed and taken into consideration in the current estimation and assessment. Typically, the estimated consideration is not constrained.

Interest income

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost or Mandatory FVOCI that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Applicable before 1 July 2018

(a) Sales of goods – distribution

Sales of goods are recognised when a Group entity has delivered products to the distributor, the distributor has accepted the products, and the significant risks and rewards of ownership of the goods are transferred to distributors.

(b) Sales of goods – retail

Sales of goods are recognised when a Group entity delivered products to customers, who have accepted the products and collectability of the related receivables is reasonably assured.

Revenue from the sale of goods on the internet is recognised at the point that the client sign to acknowledge the receipt of the goods. Transactions are settled through online payments.

(c) Interest income

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Notes to the Consolidated Financial Statements

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

2.25 Operating leases

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

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements when the shareholders' right to dividends is established.

2.27 Related parties

A related party is a person or entity that is related to the Group.

(a) *A person or a close member of that person's family is related to the Group if 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 the parent of the Group.

(b) *An entity is related to the Group if any of the following conditions applies:*

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

Notes to the Consolidated Financial Statements

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

2.27 Related parties *(continued)*

(b) An entity is related to the Group if any of the following conditions applies: (continued)

(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).

(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.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Notes to the Consolidated Financial Statements

3. Financial risk management

3.1 Financial risk factors

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

(a) Foreign exchange risk

The Group mainly operates in the PRC with transactions denominated and settled in RMB. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency other than the entity's functional currency. These include mainly the equity instruments designated as at FVOCI (Note 13), bank balances (Note 20) and the trade and other receivables (Note 17) denominated in Hong Kong Dollars ("**HKD**") and US Dollars ("**USD**"). The Group currently does not hedge its foreign exchange exposure.

As at 30 June 2019, if RMB had strengthened/weakened by 5% against the USD/HKD with all other variables held constant, loss before income tax for the year ended 30 June 2019 and loss before income tax for eighteen months ended 30 June 2018 would have been RMB1,352,000 and RMB1,231,000 higher/lower, respectively, mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and bank balances and equity instruments designated as at FVOCI/available-for-sale financial assets.

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

(b) Credit risk

The carrying amount of trade and other receivables, cash and cash equivalent and restricted cash, which is net of loss allowance, represents the Group's maximum exposure to credit risk without taking into account the value of any collateral held or other credit enhancements in relation to financial assets.

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

Trade receivables

Retail sales at the Group's pharmacies are usually settled in cash or by debit or credit cards. For distribution sales, there is no concentration of credit risk with respect to trade receivables, as the majority of the Group's sales are settled upon delivery of goods. The trade receivables are with credit periods of not more than 90 days.

The Group has no significant concentrations of credit risk. The carrying amounts of receivables included in the consolidated balance sheet are mainly generated by the Group's distributions segment and represent the Group's maximum exposure to credit risk in relation to these financial assets.

Counterparty risk related to trade receivables is limited due to the large number of customers in the Group's customer portfolio and their diversification throughout various business sectors as well as geographic locations. As at 30 June 2019, the exposure to the top 15 customers occupies 24% (2018: 35%) of the gross trade receivables, with the exposure to the largest customer representing 7% (2018: 10%).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's customer base consists of a wide range of clients and the trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The Group applies a simplified approach in calculating ECL for trade receivables and recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected loss rate used in the Group's estimation on ECL is calculated for each category based on actual credit loss experience over the past three years and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's estimate on future economic conditions over the expected lives of the receivables. The management considered that these factors do not indicate any significant credit risk and additional loss allowance for provision for trade receivables as at 1 July 2018 and 30 June 2019 to be insignificant. There was no change in the estimation techniques or significant assumptions made during the year ended 30 June 2019.

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

Trade receivables *(continued)*

As at 30 June 2019 and 2018, the ageing analysis based on recognition date of the trade receivables is as follows:

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Up to 3 months	206,587	169,061
4 to 6 months	1,035	1,127
7 to 12 months	2,506	14
Over 1 year	160	400
	210,288	170,602

As at 30 June 2019, the ageing analysis based on past due date is as follows:

	As at 30 June 2019 *RMB'000*
Not past due	206,587
Past due but not impaired	
Up to 3 months	1,035
4 to 9 months	2,506
Over 9 months	160
	210,288

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

Trade receivables *(continued)*

As at 30 June 2018, the ageing analysis based on past due date is as follows:

	As at 30 June 2018 *RMB'000*
Not past due	169,061
Past due but not impaired	
Up to 3 months	1,127
4 to 9 months	14
Over 9 months	400
	170,602

The trade receivables as at 30 June 2019 and 2018 that were past due but not impaired related to a number of independent customers for whom there is no significant financial difficulty and, based on past experiences, the overdue amounts can be recovered.

Receivables that were neither past due nor impaired as at 30 June 2019 and 2018 related to a wide range of customers for whom there was no recent history of default.

The Group does not hold any collateral over trade receivables as at 30 June 2019 (2018: Nil).

Other receivables

The Group considers that other receivables have low credit risk based on the borrowers' strong capacity to meet its contractual cash flow obligations in the near term and low risk of default. No loss allowance is recognised based on the measurement on 12-month ECL.

In estimating the ECL, the Group has taken into account the historical actual credit loss experience and the financial position of the counterparties, past collection history, current creditworthiness, adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default. The management of the Group considers the ECL of other receivables to be insignificant after taking into account the financial position, credit quality and past settlement records of the counterparties. There was no change in the estimation techniques or significant assumptions made during the year ended 30 June 2019.

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

Cash and cash equivalents and restricted cash

The credit risk on cash and cash equivalents and restricted cash is limited because the counter-parties are state-owned financial institutions, the state-controlled financial institutions, joint-stock commercial bank and local banks with high credit quality and good reputation. No loss allowance was recognised for the year ended 30 June 2019.

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered as adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fulfil its future funds requirements through cash flows generated from operations.

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

As at 30 June 2019, the Group held cash and cash equivalents of RMB628,525,000 (2018: RMB929,161,000) (Note 20) and trade receivables of RMB210,288,000 (2018: RMB170,602,000) (Note 17), that are expected to readily generate cash inflows for managing liquidity risk.

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

	Payable on demand or less than 1 year *RMB'000*
As at 30 June 2019	
Trade and other payables	**215,675**
As at 30 June 2018	
Trade and other payables	226,016

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(d) Interest rate risk

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

The interest rates and maturities of the Group's restricted cash and bank balances are disclosed in Notes 19 and 20 respectively.

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

As at the end of the reporting period, if the interest rates on restricted cash and bank balances had been 0.5% higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, loss before income tax for the year ended 30 June 2019 would have been RMB3,304,000 (Eighteen months ended 30 June 2018: RMB4,837,000) lower/higher, respectively.

3.2 Capital risk management

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

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

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

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.2 Capital risk management *(continued)*

The gearing ratios at 30 June 2019 and 2018 were as follows:

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Borrowings	–	–
Less: cash and cash equivalents *(Note 20)*	(628,525)	(929,161)
Net cash	(628,525)	(929,161)
Total equity	1,733,793	1,937,375
Total capital	1,105,268	1,008,214
Gearing ratio *(Note)*	NA	NA

Note: As at 30 June 2019 and 2018, the Group was in net cash position and the calculation of gearing ratio is therefore not meaningful.

3.3 Fair value estimation

(a) Fair value estimation of financial assets and liabilities

The following table presents the financial assets and liabilities measured at fair value or required to disclose their fair value in these consolidated financial statements on a recurring basis at 30 June 2019 and 2018 across the three levels of the fair value hierarchy defined in IFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level of input that is significant to the entire measurement. The levels are defined as follows:

– Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

– Level 3 (lowest level): unobservable inputs for the asset or liability.

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.3 Fair value estimation *(continued)*

(a) Fair value estimation of financial assets and liabilities (continued)

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
As at 30 June 2019				
Assets				
Equity instruments designated as at FVOCI *(Note 13)*				
– Unlisted equity instruments	**–**	**–**	**23,319**	**23,319**
As at 30 June 2018				
Assets				
Available-for-sale financial assets *(Note 13)*				
– Unlisted equity instruments	–	–	22,869	22,869

During the year ended 30 June 2019 and for the eighteen months ended 30 June 2018, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.3 Fair value estimation *(continued)*

(a) Fair value estimation of financial assets and liabilities (continued)

Financial instruments measured at fair value based on Level 3 measurement:

The movements of the unlisted equity instruments during the year ended 30 June 2019 and for the eighteen months ended 30 June 2018 are shown as follows:

	For the year ended 30 June 2019	
	Equity instruments designated as at FVOCI *RMB'000*	Available-for-sale financial assets *RMB'000*
At beginning of the reporting period	–	22,869
Reclassification upon adoption of IFRS 9	22,869	(22,869)
Total loss recognised in other comprehensive income	(1,286)	–
Exchange difference	1,736	–
At the end of the reporting period	23,319	–

	For the eighteen months ended 30 June 2018	
	Equity instruments designated as at FVOCI *RMB'000*	Available-for-sale financial assets *RMB'000*
At beginning of the reporting period	–	–
Purchase	–	22,869
At the end of the reporting period	–	22,869

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.3 Fair value estimation *(continued)*

(a) Fair value estimation of financial assets and liabilities (continued)

Valuation techniques and significant inputs used in Level 3 fair value measurement:
The fair value of unlisted equity instruments are estimated by an independent and qualified professional valuer using price-to-earnings (P/E) multiple model. It includes assumptions that are not supported by observable market prices or rates. The average price-to-earnings (P/E) multiples of comparable companies of the corresponding industries is 20.1 times (2018: 19.9 times) and the discount rate applied for lack of marketability is 20% (2018: 25%), which is estimated based on Black Scholes option pricing model.

Sensitivity to changes in significant unobservable inputs
The sensitivity to changes in significant unobservable inputs for Level 3 fair value measurements are as follows:

Description	Fair value at 30 June 2019 *RMB'000*	Valuation technique	Unobservable input	Sensitivity of fair value to changes in unobservable inputs (assuming other factors remain unchanged)	Reasonably possible range	Impact on fair value and the Group's other comprehensive income for the year *RMB'000*
Equity instruments designated as at FVOCI						
Unlisted equity instruments	23,319	P/E multiple	Average P/E ratio of comparable companies	The higher average P/E ratio of comparable companies, the higher the fair value and vice versa	+/- 15%	+/- 3,498
			Discount for lack of marketability	The higher the discount rate applied for lack of marketability, the lower the fair value and vice versa	+/- 5%	–/+ 1,457

Notes to the Consolidated Financial Statements

3. Financial risk management *(continued)*

3.3 Fair value estimation *(continued)*

(a) Fair value estimation of financial assets and liabilities (continued)

Sensitivity to changes in significant unobservable inputs *(continued)*

Description	Fair value at 30 June 2018 *RMB'000*	Valuation technique	Unobservable input	Sensitivity of fair value to changes in unobservable inputs (assuming other factors remain unchanged)	Reasonably possible range	Impact on fair value and the Group's other comprehensive income for the period *RMB'000*
Available-for-sale financial assets						
Unlisted equity instruments	22,869	P/E multiple	Average P/E ratio of comparable companies	The higher average P/E ratio of comparable companies, the higher the fair value and vice versa	+/- 14%	+/- 3,202
			Discount for lack of marketability	The higher the discount rate applied for lack of marketability, the lower the fair value and vice versa	+/- 5%	–/+ 1,525

(b) Fair values of financial assets and liabilities carried at amounts other than fair values

In the opinion of the management of the Group, no other financial assets and liabilities of the Group are carried at amounts materially different from their fair values as at 30 June 2019 and 2018.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgements

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

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

(a) Estimation of biological assets

Estimates and judgements in determining the fair value of the wild ginsengs relate to quantities, grading and market prices.

The quantities of the wild ginsengs are estimated based on a valuation report issued by an independent and qualified professional valuer using the statistical sampling method and also taking into considerations of factors related to the wild ginsengs as advised by ginsengs experts who employed by the valuer. Based on the valuation report, the samples are selected randomly and the total quantities of the wild ginsengs are extrapolated using a normal distribution model with an acceptable deviation estimated by the valuer.

The wild ginsengs grow at different grading and there can be a considerable spread in the quality and grading that affect the prices achieved. According to the valuation report, an average grading is assumed for the wild ginsengs based on the laboratory test results on the samples selected by a certified institution in accordance with the standards issued by China Ginsengs Products Standardisation Technical Committee.

The quantities and the grading of the wild ginsengs cannot be measured at exact precision. The estimates are based on many factors that require evaluation by the ginsengs experts interpreting the available data, as well as the market prices and other factors. The reliability of these estimates at any point of time depends on both the quality and quantity of the data, the expected statistic deviation as well as the expert judgement.

(b) Estimated impairment of goodwill and other non-current assets

The Group tests annually whether goodwill and other non-current assets have suffered any impairment, in accordance with the accounting policy stated in Note 2.11. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9). Where the expectation is different from the original estimate, such difference will impact carrying value of goodwill and other non-current assets and impairment loss in the period in which such estimate is changed.

Notes to the Consolidated Financial Statements

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

(c) Estimated impairment of a logistics building included in property, plant and equipment

Included in property, plant and equipment was a logistics building located in Jiamusi, the PRC with carrying amount of RMB196.7 million at 30 June 2019. The Group performs impairment assessment when there is an indication whether property, plant and equipment have suffered any impairment, in accordance with the accounting policy stated in Note 2.11. During the year, the Group had utilised certain areas of the logistics building as warehouse for its distribution business and continued to seek out its opportunities to develop the logistics business. In view of the loss sustained by the distribution business and the current low usage rate as warehousing for the Distribution segment, management considered that there were indicators of impairment of the logistics building existed at 30 June 2019 and performed an impairment assessment thereon. The recoverable amounts of the logistics buildings included in property, plant and equipment have been determined based on depreciated replacement cost (the "**DRC**") approach based on a valuation performed by an independent and qualified professional valuer. The DRC approach requires an estimation of the new replacement cost of the assets from which deductions are then made to allow for physical deterioration and all forms of obsolescence and optimisation.

(d) Impairment of investment in an associate

The management of the Group carries out review on impairment on the interest in an associate whenever events or changes in circumstances indicate that its carrying amount may not be recoverable by comparing its recoverable amount (higher of the value in use and fair value less cost of disposal) with its carrying amount.

In determining whether the interest in an associate is impaired, it requires an estimation of its recoverable amount, which represents higher of the value in use and fair value less cost of disposal. For the value in use, it requires the Group to estimate the future cash flows expected to arise from the operations of the investment and from the ultimate disposal and a discount rate (that reflects the current market assessments of the time value of money and the risks specific to the associate) in order to calculate the present value. For the fair value less cost of disposal, the valuation techniques applied by the independent and qualified professional valuer have been agreed with the management of the Group. The management determined whether valuation techniques and assumptions applied are appropriate to the circumstances of the investment. The estimation of recoverable amount of investment included some assumptions not supported by observable market prices or rates. Change in assumption could affect the recoverable amount of the investment. Where the recoverable amount of the Group's interest in an associate is less than the carrying amount, an impairment loss may arise.

Notes to the Consolidated Financial Statements

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

(e) Loss allowance for ECL

The Group's management estimates the loss allowance for trade and other receivables by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of estimation and uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables.

(f) Estimated useful lives of trademarks, licenses and brand loyalty and property, plant and equipment

The useful lives of trademarks, licenses and brand loyalty and property, plant and equipment are determined by the management of the Group as further detailed in Notes 2.9(b) and 2.7 respectively. This estimate is based on the management's experiences in the industry. The Group will increase or decrease the amortisation/depreciation charge where useful life is shorter or longer than previously estimated. The estimate of useful lives of the trademarks, licenses and brand loyalty and property, plant and equipment and the amortisation/depreciation charge could change significantly as a result of changes in the pharmaceutical market, market trend and competition. Management will increase the amortisation/depreciation charge where useful life is less than the previously estimated, or the trademark and brand loyalty and property, plant and equipment will be written-off or written-down to the recoverable amount when there is an indication that the carrying amount is not recoverable.

(g) Income taxes

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

Notes to the Consolidated Financial Statements

5. Revenue

The Group has recognised the following amounts relating to revenue in profit or loss:

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Revenue from contracts with customers *(a)*	**2,424,416**	3,968,907

(a) Disaggregation of revenue

	For the year ended 30 June 2019			
	Distributions *RMB'000*	**Retails I** *RMB'000*	**Retails II** *RMB'000*	**Total** *RMB'000*
Major products				
Prescribed drugs	**309,833**	**150,525**	**47,190**	**507,548**
Non-prescribed drugs	**1,316,759**	**524,973**	**84,277**	**1,926,009**
Healthcare products	**185,151**	**211,126**	**31,873**	**428,150**
Other pharmaceutical products	**106,112**	**38,817**	**7,209**	**152,138**
	1,917,855	**925,441**	**170,549**	**3,013,845**
Eliminations	**(589,429)**	**–**	**–**	**(589,429)**
Revenue from external customers	**1,328,426**	**925,441**	**170,549**	**2,424,416**
Timing of revenue recognition:				
Products transferred at a point in time	**1,328,426**	**925,441**	**170,549**	**2,424,416**

Notes to the Consolidated Financial Statements

5. Revenue *(continued)*

(a) Disaggregation of revenue *(continued)*

	For the eighteen months ended 30 June 2018			
	Distributions	Retails I	Retails II	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Major products				
Prescribed drugs	499,444	214,331	44,375	758,150
Non-prescribed drugs	2,022,447	878,264	169,065	3,069,776
Healthcare products	341,445	350,762	60,243	752,450
Other pharmaceutical products	139,549	153,059	26,714	319,322
	3,002,885	1,596,416	300,397	4,899,698
Eliminations	(930,791)	–	–	(930,791)
Revenue from external customers	2,072,094	1,596,416	300,397	3,968,907
Timing of revenue recognition:				
Products transferred at a point in time	2,072,094	1,596,416	300,397	3,968,907

Notes to the Consolidated Financial Statements

6. Segment information

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

The Group is principally engaged in the distributions and retails of drugs and other pharmaceutical products in the northeastern region of the PRC. Individual financial information and management reports of the retails with strategic stores ("**Retails I**"), retails consisting of non-strategic stores ("**Retails II**"), Distributions and Others are presented to the Board of Directors to assess their performance and for making respective business decisions. Distributions, Retails I, Retails II and Others are considered to be four segments in accordance with IFRS 8 "Operating Segment". The "Others" segment mainly comprises investment companies.

The Group's principal market is the northeastern region of the PRC. The Group has a large number of customers, which are widely dispersed within the northeastern region of the PRC, no single customer accounted for 10% or more of the Group's total revenues for the year ended 30 June 2019 and for the eighteen months ended 30 June 2018. Accordingly, no geographical segment is presented.

Inter-segment sales are charged at cost or cost plus a percentage mark-up. The revenue from external customers and the costs, the total assets and the total liabilities are measured in a manner consistent with that of the Group's consolidated financial statements.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted loss before interests, tax, depreciation and amortisation ("**Adjusted EBITDA**"). The measurement basis of Adjusted EBITDA excludes the effect of share of post-tax results of joint ventures, share of post-tax results of an associate, share-based payment expenses, impairment loss or its reversal on goodwill and other intangible assets and impairment loss or its reversal on investment in an associate.

Notes to the Consolidated Financial Statements

6. Segment information *(continued)*

The segment information for the year ended 30 June 2019 and as at 30 June 2019 is as follows:

	For the year ended 30 June 2019				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue	1,917,855	925,441	170,549	–	3,013,845
Inter-segment revenue	(589,429)	–	–	–	(589,429)
Revenue from external customers	1,328,426	925,441	170,549	–	2,424,416
Adjusted EBITDA	(80,763)	(91,645)	(38,322)	(41,482)	(252,212)
Share-based payment expenses *(Note 23(a))*	(2,874)	(5,042)	–	(2,523)	(10,439)
Reversal of impairment loss on investment in an associate *(Note 12)*	4,834	–	–	–	4,834
Depreciation and amortisation	(14,100)	(8,995)	(657)	–	(23,752)
Finance income	3,456	1,697	92	6,328	11,573
Finance costs	(123)	(154)	(7)	(14)	(298)
Share of post-tax results of joint ventures	–	363	–	–	363
Share of post-tax results of an associate	6,065	–	–	–	6,065
Income tax expenses	(644)	(1,632)	(961)	–	(3,237)
Loss for the year	(84,149)	(105,408)	(39,855)	(37,691)	(267,103)
Additions of non-current assets (excluding financial assets and deferred tax assets)	46	108	–	–	154

	As at 30 June 2019				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total assets before eliminations	2,139,303	940,220	70,943	1,436,890	4,587,356
Inter-segment assets	(685,203)	(563,787)	(14,698)	(1,320,328)	(2,584,016)
Total assets	1,454,100	376,433	56,245	116,562	2,003,340
Total liabilities before eliminations	1,273,368	602,533	118,554	28,701	2,023,156
Inter-segment liabilities	(1,099,843)	(515,933)	(110,851)	(26,982)	(1,753,609)
Total liabilities	173,525	86,600	7,703	1,719	269,547
Investments in joint ventures	–	9,246	–	–	9,246
Investment in an associate	307,524	–	–	–	307,524

Notes to the Consolidated Financial Statements

6. Segment information *(continued)*

The segment information for the eighteen months ended 30 June 2018 and as at 30 June 2018 is as follows:

	For the eighteen months ended 30 June 2018				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue	3,002,885	1,596,416	300,397	–	4,899,698
Inter-segment revenue	(930,791)	–	–	–	(930,791)
Revenue from external customers	2,072,094	1,596,416	300,397	–	3,968,907
Adjusted EBITDA	(161,552)	(132,065)	(53,999)	(21,445)	(369,061)
Share-based payment expenses *(Note 23(a))*	(6,037)	(4,849)	–	(1,743)	(12,629)
Impairment loss on investment in an associate *(Note 12)*	(27,430)	–	–	–	(27,430)
Impairment loss on goodwill and other intangible assets *(Note 9)*	(47,661)	(441,786)	–	–	(489,447)
Depreciation and amortisation	(23,924)	(40,266)	(3,390)	(62)	(67,642)
Finance income	6,622	6,060	553	9	13,244
Finance costs	(4,156)	(1,858)	(57)	(6,419)	(12,490)
Share of post-tax results of joint ventures	–	672	–	–	672
Share of post-tax results of an associate	905	–	–	–	905
Income tax credit (expenses)	3,434	35,717	(64)	–	39,087
Loss for the period	(259,799)	(578,375)	(56,957)	(29,660)	(924,791)
Additions of non-current assets (excluding financial assets and deferred tax assets)	178,002	18,106	–	–	196,108

	As at 30 June 2018				
	Distributions *RMB'000*	Retails I *RMB'000*	Retails II *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total assets before eliminations	2,336,942	1,042,660	24,189	1,623,418	5,027,209
Inter-segment assets	(574,225)	(709,668)	(478)	(1,513,508)	(2,797,879)
Total assets	1,762,717	332,992	23,711	109,910	2,229,330
Total liabilities before eliminations	1,380,828	527,156	51,725	25,326	1,985,035
Inter-segment liabilities	(1,193,173)	(433,097)	(43,063)	(23,747)	(1,693,080)
Total liabilities	187,655	94,059	8,662	1,579	291,955
Investments in joint ventures	–	8,883	–	–	8,883
Investment in an associate	220,099	–	–	–	220,099

Notes to the Consolidated Financial Statements

6. Segment information *(continued)*

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

7. Property, plant and equipment

	Buildings *RMB'000*	Motor vehicles *RMB'000*	Furniture and office equipment *RMB'000*	Leasehold improvements *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
As at 1 January 2017						
Cost	56,323	17,972	50,959	82,269	121,928	329,451
Accumulated depreciation	(7,038)	(8,978)	(30,417)	(56,353)	–	(102,786)
Net book amount	49,285	8,994	20,542	25,916	121,928	226,665
For the eighteen months ended 30 June 2018						
Opening net book amount	49,285	8,994	20,542	25,916	121,928	226,665
Acquisition of a subsidiary	–	–	59	–	–	59
Additions	–	316	2,802	20	89,897	93,035
Disposals	–	(103)	(571)	(889)	–	(1,563)
Transfer upon completion	211,825	–	–	–	(211,825)	–
Depreciation *(Note 26)*	(9,048)	(3,571)	(9,423)	(17,582)	–	(39,624)
Closing net book amount	252,062	5,636	13,409	7,465	–	278,572
As at 30 June 2018						
Cost	268,148	17,837	50,254	78,129	–	414,368
Accumulated depreciation	(16,086)	(12,201)	(36,845)	(70,664)	–	(135,796)
Net book amount	252,062	5,636	13,409	7,465	–	278,572
For the year ended 30 June 2019						
Opening net book amount	252,062	5,636	13,409	7,465	–	278,572
Additions	–	–	136	–	–	136
Disposals	–	(288)	(331)	–	–	(619)
Disposal of subsidiaries *(Note 34)*	–	–	(747)	(16)	–	(763)
Depreciation *(Note 26)*	(12,746)	(1,984)	(4,279)	(2,506)	–	(21,515)
Closing net book amount	239,316	3,364	8,188	4,943	–	255,811
As at 30 June 2019						
Cost	268,148	13,473	42,485	74,968	–	399,074
Accumulated depreciation	(28,832)	(10,109)	(34,297)	(70,025)	–	(143,263)
Net book amount	239,316	3,364	8,188	4,943	–	255,811

Notes to the Consolidated Financial Statements

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

(a) Depreciation expenses have been charged to profit or loss as follows:

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Administrative expenses	**13,134**	10,586
Selling and marketing expenses	**8,381**	29,038
	21,515	39,624

(b) Lease rentals amounting to RMB96,648,000 and RMB159,956,000 for the year ended 30 June 2019 and for the eighteen months ended 30 June 2018 related to the lease of property are included in profit or loss respectively.

8. Land use rights

	RMB'000
For the eighteen months ended 30 June 2018	
Opening net book amount	3,619
Additions	2,050
Amortisation *(Note 26)*	(180)
Closing net book amount	5,489
As at 30 June 2018	
Cost	5,920
Accumulated amortisation	(431)
Net book amount	5,489

8. Land use rights *(continued)*

	RMB'000
For the year ended 30 June 2019	
Opening net book amount	**5,489**
Amortisation *(Note 26)*	**(135)**
Closing net book amount	**5,354**
As at 30 June 2019	
Cost	**5,920**
Accumulated amortisation	**(566)**
Net book amount	**5,354**

The Group's interests in land use rights represent prepaid operating lease payments. The Group's land use rights are located in the PRC and held under the following unexpired lease terms:

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Over 50 years	**–**	2,011
10 – 50 years	**5,354**	3,478
	5,354	5,489

The amortisation expenses have been charged to administrative expenses in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

9. Intangible assets

	Goodwill RMB'000 (Note (b))	Trademarks, licenses and brand loyalty RMB'000 (Note (a), (c))	Contractual supplier relationship RMB'000 (Note (a), (c))	Computer software licences RMB'000 (Note (a))	Total RMB'000
As at 1 January 2017					
Cost	582,562	183,732	53,511	2,110	821,915
Accumulated amortisation	–	(36,959)	(28,123)	(810)	(65,892)
Accumulated impairment	(238,342)	–	–	–	(238,342)
Net book amount	344,220	146,773	25,388	1,300	517,681
For the eighteen months ended 30 June 2018					
Opening net book amount	344,220	146,773	25,388	1,300	517,681
Acquisition of a subsidiary	8,918	7,000	–	5	15,923
Additions	–	–	–	241	241
Amortisation charge *(Note 26)*	–	(16,029)	(11,361)	(448)	(27,838)
Impairment	(344,220)	(131,200)	(14,027)	–	(489,447)
Closing net book amount	8,918	6,544	–	1,098	16,560
As at 30 June 2018					
Cost	591,480	190,732	53,511	2,356	838,079
Accumulated amortisation	–	(52,988)	(39,484)	(1,258)	(93,730)
Accumulated impairment	(582,562)	(131,200)	(14,027)	–	(727,789)
Net book amount	8,918	6,544	–	1,098	16,560
For the year ended 30 June 2019					
Opening net book amount	**8,918**	**6,544**	**–**	**1,098**	**16,560**
Additions	**–**	**–**	**–**	**18**	**18**
Amortisation charge *(Note 26)*	**–**	**(1,826)**	**–**	**(276)**	**(2,102)**
Closing net book amount	**8,918**	**4,718**	**–**	**840**	**14,476**
As at 30 June 2019					
Cost	**551,216**	**185,301**	**41,775**	**2,356**	**780,648**
Accumulated amortisation	**–**	**(50,491)**	**(35,375)**	**(1,516)**	**(87,382)**
Accumulated impairment	**(542,298)**	**(130,092)**	**(6,400)**	**–**	**(678,790)**
Net book amount	**8,918**	**4,718**	**–**	**840**	**14,476**

Notes to the Consolidated Financial Statements

9. Intangible assets *(continued)*

(a) Amortisations of the Group's intangible assets for the year ended 30 June 2019 amounted to RMB2,102,000 (Eighteen months ended 30 June 2018: RMB27,838,000) have been charged to profit or loss as administrative expenses.

(b) Impairment tests for goodwill

Goodwill arising on the acquisitions of distribution and retail businesses in prior periods and other non-current assets which are closely related were allocated to the operating segments of Distributions and Retails I, and were monitored at the respective operating segment levels. For the year/period ended 30 June 2019 and 30 June 2018, goodwill with carrying amount of RMB8,918,000 was allocated to Retails I.

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

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

Distributions	**At 30 June 2019**	At 30 June 2018
Gross margin	**5.6% – 10%**	7.9% – 15.4%
Growth rate in the projection period	**1.5% – 8%**	3% – 10%
Long-term growth rate beyond the projection period	**1.5%**	1.5%
Pre-tax discount rate	**17%**	17%

Retails I	**At 30 June 2019**	At 30 June 2018
Gross margin	**23% – 30%**	27.6% – 35.4%
Growth rate in the projection period	**1.5% – 5%**	3% – 5%
Long-term growth rate beyond the projection period	**1.5%**	1.5%
Pre-tax discount rate	**17%**	17%

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

Notes to the Consolidated Financial Statements

9. Intangible assets *(continued)*

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

For the year ended 30 June 2019, no further impairment loss was made for goodwill in relation to Distributions segment and Retails I segment. For the eighteen months ended 30 June 2018, impairment losses of RMB32,689,000 and RMB311,531,000 were provided for goodwill in relation to Distributions segment and Retails I segment respectively. As at 30 June 2019, goodwill of the Group relating to CGUs of Distributions and Retails I were amounted to Nil (2018: Nil) and RMB8,918,000 (2018: RMB8,918,000) respectively.

(c) Impairment tests for other intangible assets

For the year ended 30 June 2019, the following is a summary of other intangible assets (including trademarks, licenses and brand loyalty and contractual supplier relationship) allocation for each operating segment:

	Opening *RMB'000*	**Amortisation** *RMB'000*	**Closing** *RMB'000*
Distributions	–	–	–
Retails I	6,544	(1,826)	4,718
	6,544	(1,826)	4,718

The recoverable amount of all CGUs including goodwill and other intangible assets which are closely related has been determined using the value-in-use calculations as further detailed in Note (b) above. For the year ended 30 June 2019, neither further impairment loss nor a reversal of the previously recognised impairment loss was made for other intangible assets in relation to Distributions segment and Retails I segment. For the eighteen months ended 30 June 2018, impairment losses on other intangible assets which are closely related to Distributions segment and Retails I segment amounted RMB14,972,000 and RMB130,255,000 were charged to profit or loss respectively.

Following the decision on the provision for impairment loss of goodwill and other intangible assets for the eighteen-months ended 30 June 2018, the Group reassessed the depreciation policies of its property, plant and equipment and estimated that their useful lives would not be affected. No other class of long-term assets other than goodwill and other intangible assets was impaired as at 30 June 2019 and 2018.

Notes to the Consolidated Financial Statements

9. Intangible assets *(continued)*

(d) Movement of accumulated impairment

	Goodwill	Trademarks, licenses and brand loyalty	Contractual supplier relationship	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2017	(238,342)	–	–	(238,342)
Impairment loss	(344,220)	(131,200)	(14,027)	(489,447)
As at 30 June 2018 and 1 July 2018	**(582,562)**	**(131,200)**	**(14,027)**	**(727,789)**
Realised upon disposals/ de-registration of subsidiaries	**40,264**	**1,108**	**7,627**	**48,999**
As at 30 June 2019	**(542,298)**	**(130,092)**	**(6,400)**	**(678,790)**

10. Subsidiaries

The Company has the following principal subsidiaries at 30 June 2019:

Name	Place/date of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Hong Kong Health Century International Group Limited	Hong Kong 15 September 2010 Limited liabilities company	Investments holding and retailing drugs and other pharmaceutical products Hong Kong	HKD1,001	100%	100%	-
Universal Health International (Hong Kong) Investments Holdings Limited	Hong Kong 16 November 2015 Limited liabilities company	Investments holding Hong Kong	HKD100	100%	100%	-
Jilin Jintian Aixin Health Pharmaceutical Co., Ltd *	the PRC 25 May 2009 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB2,000,000	-	100%	-
Health Century Jintian Aixin Medical Limited	Hong Kong 2 May 2013 Limited liabilities company	Retailing drugs and other pharmaceutical products Hong Kong	HKD10,000	-	100%	-

Notes to the Consolidated Financial Statements

10. Subsidiaries *(continued)*

Name	Place/date of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Hebei Jintian Yan Xiao Pharmaceutical Co., Ltd. *	the PRC 27 December 2005 Limited liabilities company	Wholesaling drugs and other pharmaceutical products the PRC	RMB30,000,000	–	100%	–
Heilongjiang Jintian Aixin Pharmaceutical Distribution Co., Ltd. *	the PRC 12 February 2004 Limited liabilities company	Wholesaling drugs and other pharmaceutical products the PRC	USD92,310,000	–	100%	–
Heilongjiang Jintian Aixin Pharmaceutical Chain Co., Ltd. *	the PRC 23 June 2005 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB1,000,000	–	100%	–
Jiamusi Jintian Aixin Pharmaceutical Co., Ltd. *	the PRC 15 July 1998 Limited liabilities company	Wholesaling drugs and other pharmaceutical products the PRC	RMB15,000,000	–	100%	–
Jiamusi Jintian Aixin Pharmaceutical Chain Co., Ltd. *	the PRC 14 April 2004 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB5,000,000	–	100%	–
Jilin Jintian Aixin Pharmaceutical Distribution Co., Ltd. *	the PRC 4 December 2007 Limited liabilities company	Wholesaling drugs and other pharmaceutical products the PRC	RMB1,000,000	–	100%	–
Jinzhou Jintian Aixin Pharmacy Chain Co., Ltd *	the PRC 16 January 2012 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB500,000	–	100%	–
Daqing Jintian Aixin Pharmacy Chain Co., Ltd. *	the PRC 6 September 2007 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB3,000,000	–	100%	–
Qitaihe Jintian Aixin Health Pharmaceutical Chain Co., Ltd. *	the PRC 7 July 2003 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB2,360,000	–	100%	–
Harbin Jintian Aixin Pharmacy Chain Co., Ltd. *	the PRC 18 April 2005 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB5,000,000	–	100%	–

Notes to the Consolidated Financial Statements

10. Subsidiaries *(continued)*

Name	Place/date of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Jilin Jintian Aixin Pharmacy Chain Co., Ltd. *	the PRC 11 December 2012 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB1,000,000	–	100%	–
Jilin Jintian Aixin Renhe Drug Store Co., Ltd. *	the PRC 29 October 2001 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB500,000	–	100%	–
Shenyang Jintian Aixin Pharmacy Chain Co., Ltd. *	the PRC 12 November 2012 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB480,000	–	100%	–
Anshan Jintian Aixin Pharmacy Chain Co., Ltd. *	the PRC 20 November 2009 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB2,000,000	–	100%	–
Jintian Pharmaceutical Company Limited	Hong Kong 27 March 2014 Limited liabilities company	Wholesaling drugs and other pharmaceutical products Hong Kong	HKD1	–	100%	–
Luen Fat Dispensary Limited	Hong Kong 18 August 2011 Limited liabilities company	Retailing drugs and other pharmaceutical products Hong Kong	HKD100	–	100%	–
Shenyang Wei Kang Drug Store Chain Co., Ltd. *	the PRC 24 October 2001 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB30,000,000	–	100%	–
Shenyang Weishi Pharmaceutical Co., Ltd. *	the PRC 27 October 2013 Limited liabilities company	Wholesaling drugs and other pharmaceutical products the PRC	RMB5,000,000	–	100%	–
Liaoning Jintian Aixin Household Store Chain Co., Ltd *	the PRC 6 December 2012 Limited liabilities company	Retailing household products the PRC	RMB3,000,000	–	100%	–
Shenzhen Jintian Health Brand Management Co., Ltd *	the PRC 11 June 2014 Limited liabilities company	Consulting, designing, retailing and trading, e-business, advertising service, etc. the PRC	RMB10,000,000	–	100%	–

Notes to the Consolidated Financial Statements

10. Subsidiaries *(continued)*

Name	Place/date of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Suihua Jintian Aixin Pharmaceutical Mall Chain Co., Ltd. *	the PRC 8 April 2003 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB3,800,000	–	99.04%	0.96%
Tonghua Jinfeng Pharmacy Chain Co., Ltd. *	the PRC 9 December 2010 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB1,100,000	–	100%	–
Jiamusi Golden Sky Storage Co., Ltd *	the PRC 07 June 2016 Limited liabilities company	Storage the PRC	RMB1,520,000	–	100%	–
Shuangyashan Jintian Aixin Pharmaceutical Chain Store Co., Ltd. *	the PRC 23 April 2012 Limited liabilities company	Retailing drugs and other pharmaceutical products the PRC	RMB2,000,000	–	51%	49%

There were no material transactions with non-controlling interests during the year ended 30 June 2019 and for the eighteen-months ended 30 June 2018.

* English translation for identification purposes only.

Notes to the Consolidated Financial Statements

11. Investments in joint ventures

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
At beginning of the reporting period	8,883	8,211
Share of post-tax results	363	672
At end of the reporting period	9,246	8,883

Set out below are the joint ventures of the Group as at 30 June 2019 and 2018. The entities listed below have share capital consisting solely of ordinary shares, which are held by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/ country of incorporation	% of ownership interest As at 30 June 2019 (%)	As at 30 June 2018 (%)	Measurement method	Carrying amount As at 30 June 2019 RMB'000	As at 30 June 2018 RMB'000
Yichun Nancha Haolianghe Limin Drug Store [1]	the PRC	30*	30*	Equity method	724	742
Fuyuan Drug Store [1]	the PRC	50	50	Equity method	296	300
Yichun Nancha Huakang Drug Store [1]	the PRC	50	50	Equity method	683	677
Yichun Nancha Jintian Drug Store [1]	the PRC	50	50	Equity method	7,543	7,164
Total equity accounted investments					9,246	8,883

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

* The Company holds less than 50% of the equity interests in this entity. The management considers that this entity is jointly controlled entity of the Company because its strategic operating, investing and financing activities are jointly controlled by the Company and the jointly controlled entity partners.

Notes to the Consolidated Financial Statements

11. Investments in joint ventures *(continued)*

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

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

The following amounts represent the Group's share of assets, liabilities and results of the joint ventures that are not individually material:

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Assets		
Non-current assets	437	441
Current assets	9,019	8,750
	9,456	9,191
Liabilities		
Current liabilities	(210)	(308)
Net assets	9,246	8,883

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Revenue	3,627	5,412
Expenses	(3,264)	(4,740)
Profit after income tax	363	672

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

Notes to the Consolidated Financial Statements

12. Investment in an associate

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
At beginning of the reporting period	**220,099**	246,624
Addition	**76,526**	–
Share of post-tax results	**6,065**	905
Reversal of (Provision for) impairment loss, net	**4,834**	(27,430)
At end of the reporting period	**307,524**	220,099

As at 30 June 2019, Jilin Jintian Universal Health Capsule Limited ("**Jilin Jintian**") is an associate of the Group, in which the Group owns 43.78% of equity interest (2018: 36.38%). Jilin Jintian is a company incorporated in the PRC and its principal businesses comprise manufacturing, sales and research and development of hollow capsules in the PRC.

On 29 April 2019, the Group entered into an agreement with an independent third party in relation to acquisition of further 7.4% equity interests in Jilin Jintian (the "**Acquisition**"). The total cost of Acquisition was RMB76,526,000 (the "**Consideration**"), which consist of (1) the market price of the Company's 547,296,781 shares at the completion date of RMB76,017,000 (the excess of the value over nominal value of the shares issued amounting to RMB72,242,000 was accounted for as share premium); and (2) the directly attributable acquisition costs of RMB509,000.

The Acquisition gives rise to goodwill of RMB65,522,000, which is included in the carrying amount of the investment in an associate. Such goodwill represents the excess of the Consideration over the Group's share of the identifiable assets, liabilities and contingent liabilities of Jilin Jintian at the completion date of the Acquisition in May 2019 (the "**Date of Completion**"). After the Acquisition, the Group holds 43.78% equity interests in Jilin Jintian and the Group continued to classify Jilin Jintian as an associate.

12. Investment in an associate *(continued)*

At the Date of Completion, the Group carried out reviews of the recoverable amount of the additional 7.4% interests acquired (the "**Additional Interest Acquired**") and the Group's equity interests of 36.38% originally held in Jilin Jintian immediately before the Acquisition (the "**Original Interest Held**"). The recoverable amount, being the higher of value in use and fair value less costs of disposal, has been determined by the Group's management with reference to a valuation report prepared by an independent and qualified professional valuer using price-to-earnings (P/E) multiple model. The average price-to-earnings multiples of comparable companies of the corresponding industries is 53.79 times and the discount rate applied for lack of marketability is 20%, which is estimated based on Asian Option Pricing Model. The fair values of the Additional Interest Acquired and the Original Interest Held, which also represent their recoverable amounts, were RMB53,930,000 and RMB253,963,000 respectively at the Date of Completion.

As a result of the aforesaid impairment assessment, management concluded that the recoverable amount of the Additional Interest Acquired was lower than the Consideration and impairment loss of RMB22,596,000 was provided while a reversal of impairment loss of RMB27,430,000 was recognised due to the recoverable amount of the Original Interest Held was higher than its carrying amount at the Date of Completion. Therefore, net reversal of impairment loss of RMB4,834,000 has been credited in profit or loss at the Date of Completion.

As at 30 June 2019, the Group carried out reviews of the recoverable amount of investment in an associate by using the same basis at the Date of Completion. The fair value measurement for the Group's recoverable amount of investment in an associate is categorised into Level 3 in the fair value hierarchy based on the inputs to valuation technique used. The average price-to-earnings multiples of comparable companies of the corresponding industries is 51.61 times and the discount rate applied for lack of marketability is 20%. Based on the results of the impairment assessment, management concluded that except for the aforesaid net reversal of impairment loss of RMB4,834,000 was provided at the Date of Completion, neither additional provision for nor reversal of impairment loss was recognised for the year ended 30 June 2019.

As at 30 June 2018, the Group carried out reviews of the recoverable amount of investment in an associate. The recoverable amount, being the higher of value in use and fair value less costs of disposal, has been determined by the Group's management with reference to a valuation report prepared by an independent and qualified professional valuer using price-to-earnings (P/E) multiple model. The fair value measurement for the Group's recoverable amount of investment in an associate is categorised into Level 3 in the fair value hierarchy based on the inputs to valuation technique used. The average price-to-earnings multiples of comparable companies of the corresponding industries is 77.78 times and the discount rate applied for lack of marketability is 20%, which is estimated based on Asian Option Pricing Model. The impairment test has resulted in the recognition of an impairment loss of RMB27,430,000, which has been expensed in profit or loss for the eighteen months ended 30 June 2018.

As a private company for the associate, there is no quoted market price available for its shares.

Notes to the Consolidated Financial Statements

12. Investment in an associate *(continued)*

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

Set out below are the summarised financial information for Jilin Jintian, which is accounted for using equity methods.

Summarised balance sheet

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Current		
Cash and cash equivalents	10,344	3,812
Other current assets	64,277	58,699
Total current assets	74,621	62,511
Trade and other payables	73,218	88,372
Other current liabilities	–	618
Total current liabilities	73,218	88,990
Non-current		
Intangible assets	149,092	162,781
Other non-current assets	18,372	18,798
Total non-current assets	167,464	181,579
Non-current liabilities	21,014	24,089
Total non-current liabilities	21,014	24,089
Net assets	147,853	131,011

Notes to the Consolidated Financial Statements

12. Investment in an associate *(continued)*

Summarised statement of comprehensive income

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Revenue	81,234	59,426
Cost of sales	(42,484)	(30,149)
Selling and marketing expenses	(15,004)	(22,151)
Administrative expenses	(955)	(2,160)
Financial expenses – net	(4)	(645)
Other income	6	192
Profit before income tax	22,793	4,513
Income tax expenses	(5,951)	(2,023)
Profit and total comprehensive income	16,842	2,490

The information above reflects the amounts presented in financial statements of the associate (and not the Group's share of those amounts). The associate has adopted accounting policies which are consistent with the Group's significant accounting policies. No dividends were received from the associate during the year/period ended 30 June 2019 and 2018.

Reconciliation of summarised financial information

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

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Net assets at beginning of the reporting period	131,011	128,521
Profit for the year/period	16,842	2,490
Net assets at end of the reporting period	147,853	131,011
Share of net assets of the associate (2019: 43.78%; 2018: 36.38%)	64,730	47,661
Goodwill	242,794	172,438
Carrying value	307,524	220,099

Notes to the Consolidated Financial Statements

13. Equity instruments designated as at fair value through other comprehensive income/Available-for-sale financial assets

	As at 30 June 2019 ***RMB'000***	As at 30 June 2018 *RMB'000*
Equity instruments designated as at fair value through other comprehensive income		
Unlisted equity instruments, at fair value	**23,319**	–
Available-for-sale financial assets		
Unlisted equity instruments, at fair value	**–**	22,869

Equity instruments designated as at fair value through other comprehensive income

The balance represents 11% equity interests in Wing Ming International Group Holding Limited ("**Wing Ming**") held by the Group. This investment was included in available-for-sale financial assets as at 30 June 2018 and has been irrevocably designated as at FVOCI following the adoption of IFRS 9 on 1 July 2018. The principal activity of Wing Ming is investment holding and its subsidiaries are principally engaged in manufacture and sales of Chinese medicines and supplements in Hong Kong.

No equity instruments designated as at FVOCI was disposed of during the year ended 30 June 2019 and no transfers of any cumulative gain or loss arising from equity instruments designated FVOCI within equity during the year ended 30 June 2019.

The fair values of the unlisted equity investments were valued by an independent and qualified professional valuer at the end of the reporting period and a decrease in fair value of RMB1,286,000 (Eighteen-months ended 30 June 2018: no change in fair value) was recognised in fair value reserve (non-recycling) for the year ended 30 June 2019. The valuation techniques and significant inputs used in the measurement of the fair values of the unlisted equity investments are set out in Note 3.3 to the consolidated financial statements.

Available-for-sale financial assets

At 30 June 2018, the unlisted investments represents 11% equity interests in Wing Ming held by the Group. This investment was measured at fair value as at 30 June 2018 and reclassified to equity instruments designated as at FVOCI as at 1 July 2018 as disclosed in above.

The carrying amount is denominated in the following currency:

	As at 30 June 2019 ***RMB'000***	As at 30 June 2018 *RMB'000*
HKD	**23,319**	22,869

Notes to the Consolidated Financial Statements

14. Biological assets

	As at 30 June 2019 RMB'000	As at 30 June 2018 RMB'000
Wild ginsengs		
At fair value	93,621	87,690

On 21 June 2017, the Group acquired a forest land use right and the wild ginsengs planted in this forest land from an independent third party (the "**Acquisition**"). The forest land is located in Tonghua City, Jilin Province in the PRC. Upon completion of the Acquisition, the forest land use right and wild ginsengs are accounted for as land use right and biological assets respectively.

The wild ginsengs are measured at fair value less costs to sell. As at 30 June 2019, the fair value of wild ginsengs is RMB93,621,000 (2018: RMB87,690,000). During the year ended 30 June 2019, the change in fair value of RMB5,931,000 (Eighteen months ended 30 June 2018: RMB2,890,000) is credited to profit or loss. Except for the changes in fair value less costs to sell, there are no other changes during the periods ended 30 June 2019 and 2018.

The fair values of the wild ginsengs as at 30 June 2019 and 2018 are estimated based on the valuation reports as of respective dates issued by an independent and qualified professional valuer using the statistical sampling method and also taking into considerations of factors related to the wild ginsengs as advised by ginsengs experts who are employed by the valuer.

In determining the fair value of the wild ginsengs, significant estimates and judgements in relation to quantities, grading and market prices based on grading are involved in the process.

Valuation process

The Group engages a team of external experts, including independent and qualified professional valuers and ginsengs experts, to perform valuations of the Group's biological assets for financial reporting purposes by using level 3 inputs. The external experts report directly to the General Manager of Finance ("GMF"). Discussions of valuation processes and results are held between the GMF and external experts once every six months in line with the Group's half-yearly reporting requirements.

14. Biological assets *(continued)*

Valuation process *(continued)*

The main level 3 inputs used by the Group are derived and evaluated as follows:

- The quantities of the wild ginsengs are determined based on the statistical sampling method and also taking into considerations of other factors related to the wild ginsengs as evaluated by the ginsengs experts. As at 30 June 2019, the Group has an estimation of approximately 178,000 (2018: 160,000) wild ginsengs in accordance with the valuation report issued by the valuer using statistic techniques with an acceptable deviation estimated by the Group.

- The wild ginsengs are graded according to quality of growth and there can be a considerable wide spectrum of grades that may affect the prices achieved. According to the valuation report as at 30 June 2019 and 2018, the grading of the wild ginsengs is determined based on the laboratory test results on the samples selected by a certified institution in accordance with the standards issued by China Ginsengs Products Standardization Technical Committee.

- As at 30 June 2019 and 2018, the prices of the wild ginsengs for various grades are quoted by reference to the quotations obtained from certain trading companies or pharmaceutical companies that purchase wild ginsengs in their normal business.

Changes in level 3 fair values are analysed at the end of each reporting period during the valuation discussion between the GMF and external experts. As part of this discussion the external experts present a report that explains the reason for the fair value movements.

Information about fair value measurements using significant unobservable inputs (Level 3):

Description	Fair value as at 30 Jun 2019 *RMB'000*	Unobservable Input	Range of inputs (probability weighted average) As at 30 Jun 2019	Relationship of unobservable inputs to fair value
Ginsengs	93,621 (2018: 87,690)	Selling prices at various grades	RMB500 – RMB650 per unit of wild ginsengs (2018: RMB440 – RMB760 per unit of wild ginsengs)	The higher the grade, the higher the selling price and the fair value
		Quantity	178,000 wild ginsengs (2018: 160,000 wild ginsengs)	The greater the quantity of wild ginsengs, the higher the fair value

Notes to the Consolidated Financial Statements

14. Biological assets *(continued)*

Risk management strategy related to biological assets

The Group is exposed to a number of risks related to its wild ginsengs:

(a) *Regulatory and environment risks*

The Group is subject to laws and regulations in the PRC where it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws.

(b) *Climate and other risks*

The Group's wild ginsengs are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

15. Deferred income tax

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

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Deferred income tax assets		
– Deferred income tax assets to be recovered within 12 months	7,593	11,498
Deferred income tax liabilities		
– Deferred income tax liabilities to be settled after more than 12 months	(723)	(1,179)
– Deferred income tax liabilities to be settled within 12 months	(456)	(457)
	(1,179)	(1,636)

15. Deferred income tax *(continued)*

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

Deferred income tax assets	Accrual for employee payroll *RMB'000*	Accrual for sales commissions *RMB'000*	Deferred advertising expenses *RMB'000*	Provision *RMB'000*	Tax Loss *RMB'000*	Total *RMB'000*
As at 1 January 2017	9,759	1,304	550	349	900	12,862
Charged to profit or loss	(60)	(1,304)	–	–	–	(1,364)
As at 30 June 2018	9,699	–	550	349	900	11,498
As at 1 July 2018	**9,699**	**–**	**550**	**349**	**900**	**11,498**
Disposal of subsidiaries *(Note 34)*	**(642)**	**–**	**–**	**–**	**–**	**(642)**
Charged to profit or loss	**(2,937)**	**–**	**–**	**–**	**(326)**	**(3,263)**
As at 30 June 2019	**6,120**	**–**	**550**	**349**	**574**	**7,593**

Deferred income tax liabilities	Deferred income tax liabilities arising from business combination *RMB'000*	Accrual for interest income *RMB'000*	Total *RMB'000*
At 1 January 2017	(40,146)	(1,136)	(41,282)
Acquisition of a subsidiary	(1,750)	–	(1,750)
Credited to profit or loss	40,260	1,136	41,396
At 30 June 2018	(1,636)	–	(1,636)
At 1 July 2018	**(1,636)**	**–**	**(1,636)**
Credited to profit or loss	**457**	**–**	**457**
At 30 June 2019	**(1,179)**	**–**	**(1,179)**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB184,856,000 (2018: RMB120,362,000) in respect of losses amounting to RMB781,786,000 (2018: RMB525,712,000) that can be carried forward against future taxable income. The expiry years of tax losses for which no deferred tax assets have been recognised at the end of the reporting period are as follows:

Notes to the Consolidated Financial Statements

15. Deferred income tax *(continued)*

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Tax losses without expiry date	124,593	130,180
Tax losses expiring in year 2018	–	34
Tax losses expiring in year 2019	43	43
Tax losses expiring in year 2020	5,800	5,929
Tax losses expiring in year 2021	10,550	10,586
Tax losses expiring in year 2022	362,645	378,940
Tax losses expiring in year 2023	278,155	–
	781,786	525,712

Dividends derived from the Company's subsidiaries in the mainland China earned after 1 January 2008 are subject to withholding tax at the rate of 5%. For each reporting period, the Group reassessed its needs to make distributions out of its subsidiaries in the mainland China. As at 30 June 2019, no provision for withholding tax has been made (2018: Nil), as unremitted earnings of those subsidiaries in mainland China are not expected to be distributed in the foreseeable future. As at 30 June 2019, unremitted earnings amounted to RMB871,436,000 (2018: RMB1,025,499,000).

16. Financial instruments by category

	Designated FVOCI *RMB'000*	Financial assets measured at amortised cost *RMB'000*	Available-for-sale financial assets *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Financial assets					
As at 30 June 2019					
Trade and other receivables	–	222,519	–	–	222,519
Unlisted equity instruments	23,319	–	–	–	23,319
Restricted cash	–	38,058	–	–	38,058
Cash and cash equivalents	–	628,525	–	–	628,525
	23,319	889,102	–	–	912,421
As at 30 June 2018					
Trade and other receivables	–	–	–	181,063	181,063
Unlisted equity instruments	–	–	22,869	–	22,869
Restricted cash	–	–	–	45,147	45,147
Cash and cash equivalents	–	–	–	929,161	929,161
	–	–	22,869	1,155,371	1,178,240

Notes to the Consolidated Financial Statements

16. Financial instruments by category *(continued)*

	At amortised cost *RMB'000*
Financial liabilities	
As at 30 June 2019	
Trade and other payables	**215,675**
As at 30 June 2018	
Trade and other payables	226,016

17. Trade and other receivables

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Trade receivables		
– Due from third parties	**209,829**	169,930
– Due from related parties	**459**	672
	210,288	170,602
Prepayments		
– Prepayments to third parties	**48,659**	69,436
– Tax input credits – value added tax	**2,168**	2,909
	50,827	72,345
Other receivables		
– Deposits	**2,898**	6,085
– Consideration receivable *(Note 34)*	**4,838**	–
– Others	**4,495**	4,376
	12,231	10,461
Trade and other receivables *(a)*	**273,346**	253,408

Information about the Group's exposure to credit risks of trade receivables is included in Note 3.1(b) to the consolidated financial statements.

Notes to the Consolidated Financial Statements

17. Trade and other receivables *(continued)*

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

	As at 30 June 2019 RMB'000	As at 30 June 2018 RMB'000
RMB	267,975	248,778
HKD	5,371	4,630
	273,346	253,408

18. Inventories

	As at 30 June 2019 RMB'000	As at 30 June 2018 RMB'000
Finished goods	302,137	303,525

For the year ended 30 June 2019, the cost of inventories recognised as expense and included in cost of sales amounting to RMB2,091,598,000 (Eighteen months ended 30 June 2018: RMB3,303,747,000) (Note 26).

19. Restricted cash

	As at 30 June 2019 RMB'000	As at 30 June 2018 RMB'000
Restricted cash	38,058	45,147

The balance of the restricted cash was pledged to secure notes payable. As at 30 June 2019, the amount of trade finance facilities utilised by the Group for issuance of notes payables to its suppliers amounting to RMB37,941,000 (2018: RMB44,858,000) (Note 24(b)).

All of the restricted cash was denominated in RMB.

Interest rates on restricted cash, with maturities within one year, ranging from 1.30% to 4.20% per annum as at 30 June 2019 (2018: 1.31% to 4.20% per annum).

20. Cash and cash equivalents

	As at 30 June 2019 RMB'000	As at 30 June 2018 RMB'000
Cash on hand	**5,749**	6,981
Bank balances	**622,776**	922,180
Total	**628,525**	929,161

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

As at 30 June 2019 and 2018, the cash and bank balances were denominated in the following currencies respectively:

	As at 30 June 2019 RMB'000	As at 30 June 2018 RMB'000
RMB	**624,852**	921,305
HKD	**2,678**	6,390
USD	**995**	1,465
MOP	**–**	1
Total	**628,525**	929,161

Notes to the Consolidated Financial Statements

21. Share capital

	Number of ordinary shares	Nominal value of ordinary shares *USD*
Authorised:		
Ordinary shares of USD0.001 each as at 30 June 2019 and 2018	10,000,000,000	10,000,000

Issued and fully paid:

	Number of ordinary shares	Nominal value of ordinary shares *USD*	Equivalent nominal value of ordinary shares *RMB'000*
As at 1 January 2017	2,400,000,000	2,400,000	14,878
Shares issued	640,537,670	640,538	4,289
As at 1 July 2018	3,040,537,670	3,040,538	19,167
Shares issued *(a)*	547,296,781	547,297	3,775
As at 30 June 2019	3,587,834,451	3,587,835	22,942

(a) In May 2019, the Group issued 547,296,781 shares at nominal value of USD0.001 per share to the vendor as a purchase consideration in respect to the acquisition of 7.4% equity interest in Jilin Jintian as further described in Note 12. The fair value of the shares issued is determined as HKD86,473,000 (HKD0.158 per share), equivalent to RMB76,017,000, and the excess of this amount over the nominal value of the shares issued amounting to RMB72,242,000 was credited to share premium (Note 22(a)).

These shares rank pari passu with all existing shares in all respects.

Notes to the Consolidated Financial Statements

22. Reserves

(a) Share premium

Share premium represents the excess of the net proceeds from issuance of the Company's shares over its nominal value. Under the law of the Cayman Islands and the Company's Articles of Association, it is distributable to the Company's shareholders provided that the Company is able to pay its debts as they fall due in the ordinary course of business after the distribution.

(b) Capital reserves

Capital reserves includes reserve arising from (i) deemed capital contribution from (distribution to) the then controlling shareholder pursuant to the Group's reorganisation for listing and (ii) transactions with non-controlling shareholders in connection with changes in the Group's ownership interest in subsidiaries which do not result in loss of control.

(c) Statutory reserves

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

As at 30 June 2019 and 2018, all profitable companies have already had their statutory reserve reached 50% of their respective registered capital. According to the relevant PRC laws and regulations, there is no statutory requirement for these companies to further appropriate their net profits to statutory reserve.

(d) Fair value reserve (non-recycling)

The reserve comprises the cumulative net change in the fair value of Designated FVOCI at the end of the reporting period and is dealt with in accordance with the accounting policies adopted.

(e) Share-based compensation reserves

Share-based compensation reserves mainly comprise the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments.

(f) Other reserves

Other reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Notes to the Consolidated Financial Statements

23. Share-based payments

(a) Share Option Scheme

The Company's share option scheme (the "**Share Option Scheme**") was approved for adoption on 18 November 2013 and as amended on 20 December 2018 for the purpose to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to contribute for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company, as well as for such other purposes as the Board of Directors may approve from time to time. The Share Option Scheme remains in force for a period of 10 years until 17 November 2023.

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

In 2018 annual general meeting (the "**AGM**"), the resolution for refreshment of Share Option Scheme mandate limit ("**Refreshed Scheme Mandate Limit**") was passed. The maximum number of shares that can be allotted and issued upon the exercise of share options which may be granted by the Company pursuant to the Share Option Scheme under the Refreshed Scheme Mandate Limit is 304,053,767, being 10% of the total number of issued shares as at the date of the AGM. Together with the total of 200,000,000 outstanding share options granted in September 2017 and accepted by the grantees, representing approximately 6.58% of the total number of issued shares, the Company will be allowed to allot and issue a maximum of 504,053,767 shares (representing approximately 16.58% of the issued shares as at the date of the AGM), upon the exercise of share option which may be/have been granted by the Company under the Share Option Scheme, which will not exceed the overall limit of 30% of the issued shares of the Company.

On 4 March 2019, the Board of Directors resolved to grant 300,000,000 share options under the Share Option Scheme, representing approximately 9.87% of Refreshed Scheme Mandate Limit. The share options vested over one month following the vesting commencement date of 4 March 2019. The share options are exercisable in whole or in part by the grantees from 4 April 2019 to 3 April 2029.

Notes to the Consolidated Financial Statements

23. Share-based payments *(continued)*

(a) Share Option Scheme *(continued)*

Details of share options granted by the Company pursuant to the Share Option Scheme and the share options outstanding as at 30 June 2019 and 2018 are as follows:

Grant date	Number of share options granted	Number of share options outstanding As at 30 June 2019	Number of share options outstanding As at 30 June 2018	Exercise price *HKD*	Exercisable period
12 September 2017	200,000,000	**200,000,000**	200,000,000	0.1648	12 October 2017 to 11 October 2020
4 March 2019	300,000,000	**300,000,000**	–	0.0740	4 April 2019 to 3 April 2029
	500,000,000	**500,000,000**	200,000,000		

As at 30 June 2019, the total number of shares in respect of which options had been granted to its employees and directors was 500,000,000 (2018: 200,000,000), representing 16.44% of the shares of the Company in issue at the date of the AGM (2018: 10% of the shares of the Company in issue on the listing date of the Company on 12 December 2013).

The following table discloses details of the Company's share options under the Share Option Scheme:

	For the year ended 30 June 2019		For the eighteen months ended 30 June 2018	
	Average exercise price per share *HKD*	Number of options outstanding	Average exercise price per share *HKD*	Number of options outstanding
At the beginning of year/period	**0.1648**	**200,000,000**	–	–
Granted	**0.0740**	**300,000,000**	0.1648	200,000,000
Lapsed	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
At the end of the reporting period	**0.1103**	**500,000,000**	0.1648	200,000,000

Notes to the Consolidated Financial Statements

23. Share-based payments *(continued)*

(a) Share Option Scheme *(continued)*

All options are vested and none of the options are exercised during the year.

The options outstanding at 30 June 2019 had a weighted average remaining contractual life of 6.37 years (2018: 2.28 years). At the end of the reporting period, the number of exercisable options was 500,000,000 (2018: 200,000,000) with a weighted average exercise price of HKD0.1103 (2018: HKD0.1648).

The fair value of the share options granted during the year ended 30 June 2019 is measured at the date of grant, using the binomial option pricing model, taking into account the terms and conditions of the share-based arrangement. The fair value calculated is inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The inputs into the model are as follows:

Share price at the grant date:	HKD0.074
Exercise price:	HKD0.074
Post-vesting forfeiture rate:	1.9%
Expected volatility:	68%
Expected option period:	10 years
Risk free rate:	1.79%
Expected dividend yield:	0%

Expected volatility is based on the historical share price volatility during the period from the listing date of the shares of the Company (i.e. 12 December 2013) to 4 March 2019. The fair value of 300,000,000 share options, which amounting to RMB10,439,000, is credited to share-based compensation reserves (Note 22(e)) with the corresponding expense being charged to profit or loss for the year ended 30 June 2019.

Notes to the Consolidated Financial Statements

23. Share-based payments *(continued)*

(b) Share Award Plan

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

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

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

During the year ended 30 June 2019 and the eighteen months ended 30 June 2018, no shares were awarded under the Share Award Plan. As at 30 June 2019 and 2018, no shares were held by the trust for the purpose of the Share Award Plan.

24. Trade and other payables

	As at 30 June 2019 ***RMB'000***	As at 30 June 2018 *RMB'000*
Trade payables *(a)*		
– Due to third parties	**170,382**	158,645
Notes payable *(b)*	**37,941**	44,858
Other payables *(c)*	**60,031**	86,752
	97,972	131,610
Total	**268,354**	290,255

Notes to the Consolidated Financial Statements

24. Trade and other payables *(continued)*

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

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Up to 3 months	166,998	155,254
4 to 6 months	–	75
7 to 12 months	–	1
1 year to 2 years	1	2,929
Over 2 years	3,383	386
	170,382	158,645

(b) As at 30 June 2019, the entire balance of notes payable was secured by restricted cash of RMB38,058,000 (2018: RMB45,147,000) (Note 19).

(c) Details of other payables are as follows:

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Salaries and welfare payable	49,455	58,423
Construction in progress payable	–	3,225
Sales commissions and marketing expenses	3,323	4,842
Other taxes	3,224	5,816
Dividend payable to non-controlling interests	–	204
Others	4,029	14,242
Total	60,031	86,752

Notes to the Consolidated Financial Statements

24. Trade and other payables *(continued)*

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

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
RMB	**266,700**	284,674
HKD	**1,654**	4,829
USD	**–**	752
	268,354	290,255

25. Other gain (losses) – net

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Gain on disposals of subsidiaries	**7,869**	–
Loss on disposals of property, plant and equipment	**(394)**	(1,348)
Others	**3,479**	(2,092)
	10,954	(3,440)

Notes to the Consolidated Financial Statements

26. Expenses by nature

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Costs of inventories sold *(Note 18)*	2,091,598	3,303,747
Employee benefit expenses *(Note 27)*	297,810	485,152
Advertising and other marketing expenses	117,334	221,972
Impairment loss on goodwill and other intangible assets *(Note 9)*	–	489,447
(Reversal of) Provision for impairment loss on investment in an associate *(Note 12)*	(4,834)	27,430
Rental expenses *(Note 7(b))*	96,648	159,956
Transportation and related charges	63,975	96,715
Depreciation of property, plant and equipment *(Note 7)*	21,515	39,624
Amortisation of intangible assets *(Note 9)*	2,102	27,838
Share-based payment expenses *(Note 23)*	10,439	12,629
Other tax expenses	7,777	15,931
Office and communication expenses	10,014	16,030
Training fees	12	36
License fee of trademarks	(4,000)	12,000
Auditors' remuneration	2,636	5,374
Electricity and other utility fees	2,939	5,828
Professional fees	3,667	3,024
Travelling and meeting expenses	1,198	4,039
Amortisation of land use rights *(Note 8)*	135	180
Donations	–	1,902
Other expenses	2,369	7,144
	2,723,334	4,935,998

Notes to the Consolidated Financial Statements

27. Employee benefit expenses

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Salaries and wages	208,393	343,925
Contributions to pension plans	82,677	124,355
Other benefits	6,740	16,872
	297,810	485,152

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (Eighteen months ended 30 June 2018: Nil) director whose emoluments are reflected in the analysis presented in Note 36. The emoluments payable to the remaining four (2018: five) individuals during the year/period are as follows:

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Salaries and allowance	641	1,374
Contributions to pension plans	5	15
Share-based payment expenses	3,480	5,180
	4,126	6,569

Notes to the Consolidated Financial Statements

27. Employee benefit expenses *(continued)*

(a) Five highest paid individuals *(continued)*

The emoluments were paid to the four (2018: five) highest paid individuals as follows:

	For the year ended 30 June 2019 *Number of individuals*	For the eighteen months ended 30 June 2018 *Number of individuals*
Nil to HKD1,000,000	1	–
HKD1,000,001 to HKD1,500,000	3	4
HKD1,500,001 to HKD2,000,000	–	1
	4	5

For the year ended 30 June 2019, neither the directors nor the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining or leaving the Group, or as compensation for loss of office (Eighteen months ended 30 June 2018: Nil)

28. Finance income and costs

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Finance income		
Exchange gains	8,136	–
Interest income	3,437	13,244
	11,573	13,244
Finance costs		
Interest expense on loans	–	(3,080)
Exchange losses	–	(8,881)
Other charges	(298)	(529)
	(298)	(12,490)
Finance income – net	11,275	754

Notes to the Consolidated Financial Statements

29. Income tax expenses (credit)

	For the year ended 30 June 2019 ***RMB'000***	For the eighteen months ended 30 June 2018 *RMB'000*
Current income tax		
Hong Kong Profits tax	**102**	125
PRC corporate income tax	**329**	820
	431	945
Deferred income tax *(Note 15)*	**2,806**	(40,032)
Total income tax expenses (credit)	**3,237**	(39,087)

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

	For the year ended 30 June 2019 ***RMB'000***	For the eighteen months ended 30 June 2018 *RMB'000*
Loss before income tax	**(263,866)**	(963,878)
Tax calculated at a PRC statutory tax rate of 25%	**(65,966)**	(240,970)
Tax effects of:		
– Expenses not deductible for tax purpose	**3,896**	101,986
– Income not subject to tax	**(5,497)**	–
– Tax losses for which no deferred income tax asset was recognised	**70,572**	95,438
– Effect of different applicable tax rates for certain subsidiaries	**842**	4,435
– Results of joint ventures and an associate reported net of tax	**(1,607)**	(395)
– Others	**997**	419
Income tax expenses (credit)	**3,237**	(39,087)

Notes to the Consolidated Financial Statements

29. Income tax expenses (credit) *(continued)*

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 30 June 2019 (Eighteen months ended 30 June 2018: 16.5%). The subsidiaries of the Group in the PRC are subject to corporate income tax at a rate of 25% (Eighteen months ended 30 June 2018: 25%) on its taxable income or deemed profit method as determined in accordance with the relevant PRC income tax rules and regulations.

30. Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss for the year/period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year/period.

	For the year ended 30 June 2019	For the eighteen months ended 30 June 2018
Loss attributable to owners of the Company *(RMB'000)*	**(265,629)**	(917,007)
Weighted average number of ordinary shares in issue *(thousands)*	**3,097,517**	2,723,838
Basic loss per share *(RMB cents)*	**(8.58)**	(33.67)

(b) Diluted

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

As the effect of the assumed conversion of the potential ordinary shares from exercising the Company's share options is anti-dilutive, the basic loss per share are equal to diluted loss per share for the year ended 30 June 2019 and eighteen months ended 30 June 2018.

Notes to the Consolidated Financial Statements

31. Dividends

The directors do not recommend the payment of any dividend in respect of the year ended 30 June 2019 (Eighteen months ended 30 June 2018: Nil).

32. Cash used in operations

	For the year ended 30 June 2019 ***RMB'000***	For the eighteen months ended 30 June 2018 *RMB'000*
Loss for the year/period	**(267,103)**	(924,791)
Adjustments for:		
– Income tax expenses (credit) *(Note 29)*	**3,237**	(39,087)
– Depreciation of property, plant and equipment *(Note 7)*	**21,515**	39,624
– Amortisation of land use rights *(Note 8)*	**135**	180
– Amortisation of intangible assets *(Note 9)*	**2,102**	27,838
– Loss on disposals of property, plant and equipment *(Note 25)*	**394**	1,348
– Share-based payments	**10,439**	12,629
– Impairment loss on goodwill and other intangible assets *(Note 9)*	**–**	489,447
– (Reversal of) Provision for impairment loss on investment in an associate *(Note 12)*	**(4,834)**	27,430
– Change in fair value of biological assets *(Note 14)*	**(5,931)**	(2,890)
– Gain on disposals of subsidiaries *(Note 25)*	**(7,869)**	–
– Finance income – net *(Note 28)*	**(11,275)**	(754)
– Share of post-tax results of joint ventures *(Note 11)*	**(363)**	(672)
– Share of post-tax results of an associate *(Note 12)*	**(6,065)**	(905)
– Effect on foreign exchange rate changes	**257**	(282)
Changes in working capital:		
– (Increase) decrease in inventories	**(8,401)**	89,580
– (Increase) decrease in trade and other receivables	**(24,390)**	142,299
– Decrease in trade and other payables	**(11,567)**	(36,389)
Cash used in operations	**(309,719)**	(175,395)

Notes to the Consolidated Financial Statements

32. Cash used in operations *(continued)*

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

	For the year ended 30 June 2019 ***RMB'000***	For the eighteen months ended 30 June 2018 *RMB'000*
Net book amount *(Note 7)*	**619**	1,563
Loss on disposals of property, plant and equipment *(Note 25)*	**(394)**	(1,348)
Proceeds from disposal of property, plant and equipment	**225**	215

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

		Financing cash flows		
	As at 1 July 2018 ***RMB'000***	**Repayments of borrowings** ***RMB'000***	**Dividends paid** ***RMB'000***	**As at 30 June 2019** ***RMB'000***
Dividends payable to non-controlling interests *(Note 24(c))*	**204**	**–**	**(204)**	**–**
	204	**–**	**(204)**	**–**

		Financing cash flows		
	As at 1 January 2017 *RMB'000*	Repayments of borrowings *RMB'000*	Dividends paid *RMB'000*	As at 30 June 2018 *RMB'000*
Borrowings	154,550	(154,550)	–	–
Dividends payable to non-controlling interests	1,910	–	(1,706)	204
	156,460	(154,550)	(1,706)	204

Notes to the Consolidated Financial Statements

33. Commitments

(a) Operating lease commitments

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

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

	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
Not later than 1 year	53,264	64,001
Later than 1 year and not later than 5 years	25,098	44,670
	78,362	108,671

(b) Capital commitments

The Group had no significant capital commitment as at 30 June 2019 and 2018.

34. Disposals of subsidiaries

In October 2018, the Group completed the disposal of its entire 51% equity interests in a subsidiary, Hegang Ji Shi Tang Pharmacy Chain Co., Ltd. ("**Hegang**") to its non-controlling shareholder, at a consideration of RMB7,500,000.

In April 2019, the Group completed the disposal of its entire 100% and 51% equity interests in Rebound Global Limited and its subsidiary (collectively referred to as "**Rebound Group**") and three drug stores, namely Suibin Lao Bai Xing Drug Store, Suibin Bai Xing Drug Store and Suibin Jintian Drug Store (collectively referred to as "Sui Bin") to an independent third party and their non-controlling shareholders at a consideration of RMB7,477,000 and Nil respectively.

Notes to the Consolidated Financial Statements

34. Disposals of subsidiaries *(continued)*

The following summarises the consideration received and the carrying amounts of the assets and liabilities at the date of disposal:

	Hegang	Rebound Group	Sui Bin	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net assets disposed of				
Cash and cash equivalents	4,433	3,914	26	8,373
Trade and other receivables	5,231	4,023	36	9,290
Inventories	9,645	59	85	9,789
Property, plant and equipment	687	74	2	763
Income tax recoverable	846	–	–	846
Deferred income tax assets	642	–	–	642
Current income tax liabilities	–	(35)	–	(35)
Trade and other payables	(17,633)	(1,825)	(1,589)	(21,047)
	3,851	6,210	(1,440)	8,621
Less: Non-controlling interest	(1,887)	–	706	(1,181)
	1,964	6,210	(734)	7,440
Reclassification of cumulative currency translation differences from other reserve to profit or loss	–	(332)	–	(332)
Gain on disposal of subsidiaries	5,536	1,599	734	7,869
	7,500	7,477	–	14,977
Satisfied by:				
Cash received	7,500	2,639	–	10,139
Consideration receivable *(a)*	–	4,838	–	4,838
	7,500	7,477	–	14,977
Net cash inflow on disposal of subsidiaries				
Cash received	7,500	2,639	–	10,139
Cash and cash equivalents disposed of	(4,433)	(3,914)	(26)	(8,373)
Net inflow of cash and cash equivalents	3,067	(1,275)	(26)	1,766

Notes to the Consolidated Financial Statements

34. Disposals of subsidiaries *(continued)*

(a) Consideration receivable

The consideration receivable is unsecured, interest-free and repayable within one year, and is therefore recorded in other receivables at 30 June 2019.

35. Related-party transactions

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

(a) Transactions with related parties

	For the year ended 30 June 2019 ***RMB'000***	For the eighteen months ended 30 June 2018 *RMB'000*
Joint ventures of the Company:		
– Sales of goods	**5,694**	7,408
Companies controlled by a director of the Company:		
– Operating lease	**3,000**	3,000

(b) Balances with related parties

	As at 30 June 2019 ***RMB'000***	As at 30 June 2018 *RMB'000*
Joint ventures of the Company		
– Trade receivables *(Note 17)*	**459**	672

Notes to the Consolidated Financial Statements

35. Related-party transactions *(continued)*

(c) Key management compensation

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

	For the year ended 30 June 2019 *RMB'000*	For the eighteen months ended 30 June 2018 *RMB'000*
Salaries and other short-term employee benefits	3,273	4,263
Post-employment benefits	32	35
Share-based payments	1,897	1,744
	5,202	6,042

36. Benefits and interests of directors

Directors' and chief executive's emoluments

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

For the year ended 30 June 2019

Emoluments paid or payable to a person in respect of services as a director, whether of the Company or its subsidiary undertaking:

Name of Director	Fees *RMB'000*	Salaries and allowances *RMB'000*	Discretionary bonuses *RMB'000*	Share-based payments *RMB'000*	Employer's contribution to retirement benefit scheme *RMB'000*	Total *RMB'000*
Mr. Jin Dongtao	98	501	–	104	5	708
Mr. Jin Dongkun	98	319	–	104	5	526
Mr. Zhao Zehua	145	199	–	104	–	448
Mr. Sun Libo	103	198	–	104	–	405
Ms. Chiang Su Hui Susie*	190	–	–	18	–	208
Mr. Cheng Sheung Hing*	190	–	–	18	–	208
Mr. Zou Haiyan*	190	–	–	18	–	208
	1,014	1,217	–	470	10	2,711

Notes to the Consolidated Financial Statements

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

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

For the eighteen months ended 30 June 2018

Emoluments paid or payable to a person in respect of services as a director, whether of the Company or its subsidiary undertaking:

Name of Director	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Total RMB'000
Mr. Jin Dongtao	107	750	–	177	6	1,040
Mr. Chu Chuanfu *(i)*	–	100	–	–	–	100
Mr. Jin Dongkun	107	478	–	177	6	768
Mr. Zhao Zehua	197	298	–	177	–	672
Mr. Sun Libo *(i)*	130	197	–	177	–	504
Ms. Chiang Su Hui Susie*	313	–	–	–	–	313
Mr. Cheng Sheung Hing*	313	–	–	–	–	313
Ms. Hao Jia* *(ii)*	122	–	–	–	–	122
Mr. Zou Haiyan* *(ii)*	198	–	–	–	–	198
	1,487	1,823	–	708	12	4,030

* represent the independent non-executive directors.

(i) Mr. Chu Chuanfu resigned as an executive director of the Company with effective from 23 March 2017 and Mr. Sun Libo was appointed as an executive director of the Company on 23 March 2017.

(ii) Ms. Hao Jia resigned as an independent non-executive director of the Company with effective from 20 July 2017 and Mr. Zou Haiyan was appointed as an independent non-executive director of the Company on 20 July 2017.

Notes to the Consolidated Financial Statements

37. Balance sheet and reserve movement of the Company

Balance sheet of the Company

	Note	As at 30 June 2019 *RMB'000*	As at 30 June 2018 *RMB'000*
ASSETS			
Non-current assets			
Investments in subsidiaries		3,533	21,907
Loans to subsidiaries		123,279	134,141
Available-for-sale financial assets	13	–	22,869
Equity instruments designated as at fair value through other comprehensive income	13	23,319	–
Total non-current assets		150,131	178,917
Current assets			
Other receivables		867,704	794,973
Cash and cash equivalents		2,546	1,451
Total current assets		870,250	796,424
Total assets		1,020,381	975,341
EQUITY			
Equity attributable to owners of the Company			
Share capital		22,942	19,167
Reserves	(a)	1,177,938	1,096,543
Accumulated losses	(a)	(215,168)	(170,151)
Total equity		985,712	945,559
LIABILITIES			
Current liability			
Other payables		34,669	29,782
Total liabilities		34,669	29,782
Total equity and liabilities		1,020,381	975,341

The balance sheet of the Company was approved and authorised for issue by the Board of Directors on 26 September 2019 and signed on its behalf by

Jin Dongtao	Zhao Zehua
Director	*Director*

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

Balance sheet of the Company *(continued)*

(a) Reserve movement of the Company

	Share premium *RMB'000*	Share-based compensation reserves *RMB'000*	Fair value reserve (non-recycling) *RMB'000*	Other reserves *(Note)* *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2017	1,618,899	25	–	(635,244)	(115,599)	868,081
Loss for the period	–	–	–	–	(54,552)	(54,552)
Issuance of ordinary shares	100,234	–	–	–	–	100,234
Equity settled share-based transactions	–	12,629	–	–	–	12,629
Balance at 30 June 2018	1,719,133	12,654	–	(635,244)	(170,151)	926,392
Balance at 1 July 2018	1,719,133	12,654	–	(635,244)	(170,151)	926,392
Loss for the year	–	–	–	–	(45,017)	(45,017)
Fair value changes in equity instruments designated as fair value through other comprehensive income	–	–	(1,286)	–	–	(1,286)
Issuance of ordinary shares	72,242	–	–	–	–	72,242
Equity settled share-based transactions	–	10,439	–	–	–	10,439
Balance at 30 June 2019	1,791,375	23,093	(1,286)	(635,244)	(215,168)	962,770

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

Financial Summary

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

Results

	For the year ended 30 June	For the eighteen months ended 30 June	For the year ended 31 December		
	2019	2018	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**2,424,416**	3,968,907	3,378,719	4,805,855	4,355,842
Gross profit	**326,807**	652,091	874,086	1,340,575	1,267,460
(Loss) profit before income tax	**(263,866)**	(963,878)	(62,680)	106,851	682,085
Income tax (expenses) credit	**(3,237)**	39,087	(24,638)	(72,977)	(178,744)
(Loss) profit for the year/period	**(267,103)**	(924,791)	(87,318)	33,874	503,341
(Loss) profit attributable to:					
Owners of the Company	**(265,629)**	(917,007)	(87,811)	31,163	472,724
Non-controlling interests	**(1,474)**	(7,784)	493	2,711	30,617
	(267,103)	(924,791)	(87,318)	33,874	503,341

Assets, Liabilities and Non-controlling Interests

	As at 30 June		As at 31 December		
	2019	2018	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**2,003,340**	2,229,330	3,302,839	3,207,944	3,413,865
Total liabilities	**(269,547)**	(291,955)	(569,389)	(589,574)	(788,697)
Non-controlling interests	**(3,622)**	(20,419)	(24,761)	(29,720)	(27,009)
Equity attributable to owners of the Company	**1,730,171**	1,916,956	2,708,689	2,588,650	2,598,159