AliHealth
阿里健康

ALIBABA HEALTH INFORMATION TECHNOLOGY LIMITED
阿里健康信息技術有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00241)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED MARCH 31, 2017

SUMMARY

- For the year ended March 31, 2017, Alibaba Health Information Technology Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") reported revenue and gross profit of RMB475.1 million and RMB187.2 million, respectively, representing phenomenal year-on-year growth of 739.4% and 392.8%, respectively. Such strong growth was mainly underpinned by the rapid growth of our pharmaceutical e-commerce business during the year ended March 31, 2017.

- For the year ended March 31, 2017, the Group's adjusted net loss (loss for the year before share-based compensation expenses) decreased significantly to RMB98.3 million, a 39.1% reduction as compared to the previous year.

- Having grown rapidly during the year, the pharmaceutical e-commerce business has now become a major source of revenue for the Group. Revenue from the pharmaceutical e-commerce business for the year amounted to RMB378.8 million.

- During the year ended March 31, 2017, the Group provided an aggregate of over 6 million online medical healthcare consultation sessions.

- The Group launched the "碼上放心" (*Ma Shang Fang Xin*) tracking platform during the year to provide tracking services for the full life cycle of products. As at the end of the year, more than 5,000 enterprises had signed up with the Group to join this platform, among which the number of pharmaceutical manufacturers which signed up accounted for more than half of the total number of pharmaceutical manufacturers in China.

- The directors of the Company (the "**Directors**") do not recommend the payment of a final dividend for the year ended March 31, 2017.

KEY FINANCIAL INFORMATION

	2017	2016	Change
	RMB'000	*RMB'000*	*%*
Revenue	**475,078**	56,595	739.4
— Pharmaceutical e-commerce business	**378,773**	—	N/A
— Product tracking platforms business	**96,305**	56,595	70.2
Gross profit	**187,243**	37,993	392.8
Gross profit margin	**39.4%**	67.1%	N/A
Loss for the year	**(208,653)**	(198,968)	4.9
Excluding			
— share-based compensation expenses	**110,324**	37,472	194.4
Adjusted net loss	**(98,329)**	(161,496)	(39.1)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended March 31, 2017

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended March 31, 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2017

	Notes	**March 31, 2017** ***RMB'000***	March 31, 2016 *RMB'000*
NON-CURRENT ASSETS			
Property and equipment		**5,065**	6,546
Goodwill		**19,123**	—
Investment in a joint venture		**42,644**	87,064
Investments in associates		**524,801**	108,802
Long-term receivables		**54,304**	—
Pledged deposits		**222,848**	—
Long-term deposits		**—**	110,250
Total non-current assets		**868,785**	312,662
CURRENT ASSETS			
Inventories		**151,505**	—
Trade receivables	*8*	**38,501**	106
Prepayments, deposits and other receivables		**39,835**	14,824
Financial asset at fair value through profit or loss		**10,300**	—
Restricted cash		**914**	—
Cash and cash equivalents		**569,860**	1,020,558
Total current assets		**810,915**	1,035,488
CURRENT LIABILITIES			
Trade payables	*9*	**125,862**	3,751
Other payables and accruals		**189,462**	55,358
Deferred revenue		**—**	86,873
Advance from customers		**38,148**	39,878
Tax payable		**—**	—
Total current liabilities		**353,472**	185,860
NET CURRENT ASSETS		**457,443**	849,628
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,326,228**	1,162,290
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**200,000**	—
Deferred tax liability		**6,566**	7,019
Total non-current liabilities		**206,566**	7,019
Net assets		**1,119,662**	1,155,271

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

1. BASIS OF PREPARATION

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

(i) the materiality requirements in HKAS 1;

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

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

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION

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

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

(b) the product tracking platforms segment provides product tracking and other related value-added services.

Zhejiang Tmall Network Co., Ltd^ (浙江天貓網絡有限公司) and Zhejiang Tmall Technology Co., Ltd^ (浙江天貓技術有限公司) (collectively the "Tmall Entities").

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

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

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

Year ended March 31, 2017

	Product tracking platforms	**Pharmaceutical e-commerce**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue:			
Revenue from external customers	96,305	378,773	475,078
Cost of revenue	(10,045)	(277,790)	(287,835)
Segment gross profit	86,260	100,983	187,243

Year ended March 31, 2017

	Product tracking platforms *RMB'000*	Pharmaceutical e-commerce *RMB'000*	Total *RMB'000*
Other segment information:			
Impairment of trade receivables	(2,710)	—	(2,710)
Impairment of other receivables	(1,706)	—	(1,706)
Impairment of inventories	—	(3,565)	(3,565)

4. REVENUE AND OTHER INCOME

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

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

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

5. LOSS BEFORE TAX

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

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

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

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

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

6. INCOME TAX

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

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

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

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

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

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

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

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

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

8. TRADE RECEIVABLES

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

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

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

9. TRADE PAYABLES

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

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

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

10. SHARE-BASED COMPENSATION COSTS

Share award scheme

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

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

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

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

The total number of shares in respect of which Awards may be granted under the Share Award Scheme and any other share award schemes of the Company shall not exceed 3% of the shares in issue as at the Adoption Date (the "Scheme Mandate Limit"), or 3% of the shares in issue as at the new approval date of the renewed Scheme Mandate Limit.

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

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

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

Weighted average fair value per option at March 31, 2017 is RMB2.33 (2016: RMB2.14), weighted average fair value RSU at March 31, 2017 is RMB4.32 (2016: RMB4.34).

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

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

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

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

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

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

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

At the end of the reporting period, the Company had 58,701,100 share options and 44,914,455 RSUs outstanding under the Scheme. The exercise in full of the outstanding share options and RSUs would, under the present capital structure of the Company, result in the issue of 90,219,925 additional ordinary shares of the Company and additional share capital of HK$902,199 (equivalent to approximately RMB782,043) (before issue expenses), the purchase of 3,094,000 existing shares from the market, and release of 10,301,630 shares from treasury shares. The purchase of 3,094,000 existing shares was for RSUs granted to connected persons of the Group in the year ended March 31, 2017.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended March 31, 2017 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As healthcare flagship of Alibaba Group Holding Limited ("**Alibaba Group**"), the Group has made solid progress in its strategic deployment and business development in the medical and healthcare sector during the year ended March 31, 2017. The Group is committed to providing Internet technology, service tools and platforms to industry partners, with the aim of providing accessible and affordable medical and healthcare services to the public so as to make good health achievable at the fingertips. To achieve this objective, the Group has worked hard to develop its pharmaceutical e-commerce business, as well as on exploring intelligent medicine, providing product tracking system services, and generally enhancing the operating efficiency of its businesses.

- **Pharmaceutical e-commerce business**

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

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

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

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

Future prospects

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

- **Intelligent medicine**

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

Future prospects

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

- **Product tracking platforms**

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

Future prospects

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

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

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

FINANCIAL REVIEW

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

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

— **Revenue**

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

— **Pharmaceutical e-commence business**

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

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

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

— **Product tracking platform services**

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

— **Gross profit and gross profit margin**

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

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

— **Fulfillment**

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

— **Sales and marketing expenses**

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

— **Administrative expenses**

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

— **Product development expenses**

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

— **Other income**

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

— **Other expenses**

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

— **Share of profits of a joint venture**

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

— **Share of losses of associates**

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

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

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

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

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

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

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

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

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

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

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

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

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

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

The balance of the Group' outstanding bank loans as at March 31, 2017 amounted to RMB200,000,000. As at March 31, 2017, the amount of the Group's cash and cash equivalents exceeded that of its bank loans and hence no gearing ratio was shown (March 31, 2016: N/A).

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

EMPLOYEES AND REMUNERATION POLICIES

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

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

The Group has also adopted the Share Award Scheme as approved by the shareholders of the Company on November 24, 2014, pursuant to which the Board may grant Awards in the form of RSUs or share options to eligible participants, including the Directors, the directors of the Company's subsidiaries, the employees of the Group or any other persons who, as determined by the Board in its absolute discretion, have contributed or will contribute to the success of the Group's operations. Details of the options and RSUs granted, lapsed and outstanding under the Share Award Scheme during the year under review are set out in note 10 to the condensed consolidated financial statements.

CORPORATE GOVERNANCE

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended March 31, 2017.

AUDIT COMMITTEE REVIEW

The Group's annual results for the year ended March 31, 2017 have been reviewed by the Audit Committee. The Audit Committee has also discussed auditing, internal control and financial reporting matters including the review of accounting practices and principles adopted by the Group.

SCOPE OF WORK OF ERNST & YOUNG ON THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended March 31, 2017 as set out in the preliminary announcement have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

DISCLOSURE OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The information as required by Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (http://www.hkex.com.hk) and the website of the Company (http://www.irasia.com/listco/hk/alihealth) in due course.

By Order of the Board
Alibaba Health Information Technology Limited
WANG Lei
Chief Executive Officer and Executive Director

Hong Kong, May 16, 2017

As at the date of this announcement, the Board comprises eight Directors, of whom (i) one is an executive Director, namely Mr. WANG Lei; (ii) four are non-executive Directors, namely Mr. WU Yongming, Mr. TSAI Chung, Joseph, Ms. HUANG Aizhu, and Mr. KANG Kai; and (iii) three are independent non-executive Directors, namely Mr. YAN Xuan, Mr. LUO Tong and Mr. WONG King On, Samuel.

^ *For identification purpose only*