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

INTERIM REPORT 2019

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. SHEN Difan (Chief Executive Officer)
Mr. WANG Qiang

Non-executive Directors
Mr. WU Yongming (Chairman)
Mr. WANG Lei
Mr. XU Hong

Independent Non-executive Directors
Mr. LUO Tong
Mr. WONG King On, Samuel
Ms. HUANG Yi Fei, (Vanessa)

Audit Committee
Mr. WONG King On, Samuel (Chairman)
Mr. LUO Tong
Ms. HUANG Yi Fei, (Vanessa)

Remuneration Committee
Ms. HUANG Yi Fei, (Vanessa) (Chairman)
Mr. WU Yongming
Mr. WONG King On, Samuel

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

AUTHORIZED REPRESENTATIVES
Mr. SHEN Difan
Ms. LEW Aishan, Nicole

COMPANY SECRETARY
Ms. LEW Aishan, Nicole

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

AUDITOR
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Corporation Limited
China Merchants Bank Co., Ltd.
Bank of Ningbo Co., Ltd.
JPMorgan Chase Bank
Agricultural Bank of China

COMPANY WEBSITE
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MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2019, despite challenging domestic and foreign conditions as well as increased external uncertainties, China's national economy has remained generally stable. For the first three quarters, China's gross domestic product (GDP) achieved a year-on-year growth of 6.2% given continued structural improvement of the economy. This has provided a solid foundation for the steady development of the healthcare industry.

The scale of China's healthcare market continues to grow steadily with innovation in business models and industry integration progressing at an accelerating pace. On the one hand, with the steady increase in disposable income of urban residents and greater health awareness, more and more urban residents have moved from seeking reactive medical treatment to pursuing active prevention, leading to a higher growth in healthcare expenditure than as compared to their overall consumption expenditure. On the other hand, the development of medical technology, biotechnology and digital health has led to a substantial improvement in the products and services offered by the medical and healthcare industry to meet the increasing demand of the sector.

In 2019, the Chinese government continued to implement the outline for the "Healthy China 2030" initiative (《「健康中國2030」規劃綱要》) to further deepen healthcare sector reform. On August 26, 2019, the 12th Session of the Standing Committee of the 13th National People's Congress passed the Amendment to the Drug Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》) (the "**New Drug Administration Law**"). The New Drug Administration Law adapts to the new conditions and requirements of drug safety and governance in the new era, while fully respecting the science and purpose of drug regulation. It actively promotes institutional innovation and has significant and far-reaching implications for the modernization of China's drug safety and governance system and capabilities. The New Drug Administration Law abolishes the restrictions on the online sale of prescription drugs, adopts the principle that online and offline sales should be subject to the same standards and integrated supervision, as well as authorizes the drug regulatory and administrative departments of the State Council to work with the hygiene and health departments of the State Council to formulate specific measures and stipulates several categories of drugs that are subject to special administration by the country that may not be sold online. This leaves room for exploration in practice and will help continue to promote reform of the pharmaceutical distribution industry on the supply side. At the same time, the New Drug Administration Law repeatedly emphasizes the importance of a drug tracking system, and effectively promotes the establishment of a nationwide drug tracking system.

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In respect of Internet consultation, the State Council issued the Notice of the General Office of the State Council on Publication of the Key Tasks for Deepening the Reform of the Medical and Health System in 2019 (《國務院辦公廳關於印發深化醫藥衛生體制改革2019年重點工作任務的通知》) in June 2019, highlighting the need for relevant departments to formulate the policies related to Internet consultation fees and medical insurance payment by the end of September 2019. In August 2019, the National Healthcare Security Administration issued the Guiding Opinions on Improving the Policies on the Pricing of "Internet +" Medical Services and Medical Insurance Payment (《關於完善「互聯網+」醫療服務價格和醫保支付政策的指導意見》). Based on the four basic principles of intensifying reform to delegate power; streamline administration and optimize services; more categorized management; encouraging innovation and coordinating development, the government has incorporated the pricing of "Internet +" medical services into the pricing policies of existing medical services for the first time to undergo uniform management, and adopted medical insurance payment policies for qualified "Internet +" medical services in accordance with the principle of fair treatment towards online and offline services. This will effectively promote the standardization of the Internet medical industry and help to popularize Internet consultation.

In addition, 21 ministries and commissions led by the National Development and Reform Commission jointly formulated and issued the Action Plan for Promoting the Quality Development of the Healthcare Industry (2019–2022) (《促進健康產業高質量發展行動綱要(2019–2022年)》) in September 2019. The Action Plan proposed ten major projects focused on key areas and critical segments. The "Internet + Healthcare" upgrading project specifies the need to build a national health information platform, which relies on citizens' electronic health records and electronic medical records as a basic database to be complemented by citizens' physical fitness, health checkup and other external data sources, to gradually manage health information big data for the whole population through the entire life cycle. Meanwhile, "Internet + drug circulation" was actively developed by establishing interconnected channels for the real-time sharing of Internet consultation prescription information and retail drug consumption information and supporting third-party drug delivery for online prescriptions, to accelerate the development of pharmaceutical e-commerce. The "Technological Innovation Project of the Healthcare Industry" proposes to support the development and application of cutting-edge technologies and products, accelerate the application of artificial intelligence technology in assisted interpretation of medical images, assisted clinical diagnosis and multi-dimensional medical data analysis, promote clinical trial of qualified artificial intelligence products, actively explore areas lacking medical resources and apply artificial intelligence technology to primary medical institutions to improve consultation quality, thereby promoting the realization of hierarchical consultation.

As a leading company in the "Internet + Healthcare" industry, Alibaba Health Information Technology Limited (the "**Company**" or "**Alibaba Health**", together with its subsidiaries, the "**Group**") has been closely monitoring and actively following up on the above-mentioned favorable policies, and will actively explore new development and business opportunities towards continually creating value for the industry and users.

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BUSINESS REVIEW

As the healthcare flagship of Alibaba Group Holding Limited ("**Alibaba Holding**", together with its subsidiaries, "**Alibaba Group**"), the Group, whose mission is to "make good health achievable at the fingertips", has been strengthening the foundation of our pharmaceutical and healthcare businesses and actively planning for our future. With the vision of "facilitating medicine through big data and using the Internet to change the face of healthcare to provide fair, affordable and accessible medical and healthcare services to 1 billion people", on one hand, the Group has been striving to expand its quality pharmaceutical and healthcare products sales business and break new ground in respect of providing more transparency and convenience to medical service businesses, such as consumer healthcare and Internet healthcare. On the other hand, cloud computing, AI and Internet-of-Things technologies are being utilized to explore informatization, digitalization and intelligent development of the healthcare industry to enhance its efficiency.

Pharmaceutical and healthcare product sales business

The Group has been actively utilizing Internet technologies and Internet-of-Things technologies to build an omni-channel pharmaceutical and healthcare product and service supply and new retail system that covers the whole industry chain. Capitalizing on its established online platform strengths and its understanding of the market and users, the Group connects upstream industry chain players (e.g. manufacturers and leading distributors) to offline pharmaceutical retail chains to facilitate product circulation along the whole chain and strives to offer quality products and services to downstream players and consumers at competitive prices. A comprehensive supply system helps to boost efficiency in the supply chain by bringing manufacturers, distributors and consumers closer together so that manufacturers can deliver their professional services more directly to consumers. Such enhanced connection is conducive to serving consumers as well as exploring and creating new consumption demand.

During the six months ended September 30, 2019 (the "**Reporting Period**"), the Group continued to actively expand its cooperation with quality upstream brands and further strengthen its business partnerships with pharmaceutical, nutritional and healthcare product manufacturers and major domestic pharmaceutical distributors. As at the end of the Reporting Period, the Group was authorized to undertake the management of or open more than 70 franchised flagship stores on the Tmall platform, helping them to achieve favorable sales performance on Tmall.

During the Reporting Period, the Group continued to work on a number of public welfare activities. In August 2019, the Group cooperated with its partners to launch the fourth season of its national expired domestic drug collection activity to promote public welfare through its tracking capability, safeguarding consumers from expired drugs. In July 2017, Alibaba Health led and collaborated with its partners to establish the "Global Drug Search Alliance". As at the end of the Reporting Period, we have helped more than 2 million patients to find scarce drugs. Meanwhile, we actively listened to users' feedback and expanded and upgraded the original "drug search" function to include information about rare diseases, extending the "drug search" function to include a "consultation guide" function. On the "Global Drug Search Alliance" platform, we also opened a "clinical trial" window for patients, on the one hand, providing another possibility and hope for patients and their families who cannot find the required drugs directly, and on the other hand, using the solid traffic base and brand effects of Alibaba Health to contribute to the development of medical science.

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- **Pharmaceutical e-commerce platform business**

During the Reporting Period, the Group continued its complete operation of the Tmall's Pharmaceutical platform, including the categories of medical devices and healthcare products, sexual health and family planning products, contact lens, health food and medical and healthcare services which had been acquired from Alibaba Group, while also providing outsourced and value-added services for the product categories of pharmaceutical products and nutritional supplements (excluding health food) on Tmall.

During the Reporting Period, the gross merchandise volume (GMV) generated by the Tmall's Pharmaceutical platform operated by the Group exceeded RMB37 billion. As at September 30, 2019, annual active consumers of Tmall's Pharmaceutical platform (consumers who made one or more actual purchase(s) on Tmall's Pharmaceutical platform in the past 12 months) exceeded 160 million.

As the GMV generated from and the number of users of the Tmall's Pharmaceutical platform continued to grow, the Group launched various innovative activities and services for different industries and product categories to continue to create value for merchants and consumers and to lead industry development. In respect of the nutritional products sector, we deepened our cooperation with local governments to create a map of local nutritional products, and attracted provinces and cities such as Ningxia, Qinghai and Yunnan to sign up to the Tmall's Pharmaceutical platform as official government flagship stores. In respect of the medical devices sector, we continued to expand our offerings based on existing categories by strongly promoting daily care, disease prevention and "healthcare-lite" products, improved consumers' industry awareness, and expanded our user base by focusing on these new categories, to foster a one-stop family health consumption mentality on the basis of meeting the whole population's health needs.

Future prospects

As the demand for health management of China's residents continues to grow and health-related consumption expenditure continues to increase, the Tmall's Pharmaceutical platform, as the largest healthcare e-commerce platform in China, has huge potential for sustainable growth. Following the promulgation and implementation of the New Drug Administration Law, favorable policies for "Internet + Pharmaceutical E-commerce" are also becoming clearer. Based on the Internet consultation measures published last year, the Group will also focus on the accelerated development of online follow-up consultations and drug purchase services for chronic and common diseases, which will be provided to consumers in accordance with the laws and regulations and with user value as our starting point and goal. On the basis of the establishment of regulations and standards for online sales of drugs, the Group will take the lead in the healthy development of the industry to nurture greater growth potential.

- **Pharmaceutical self-operated business**

Through the pharmaceutical self-operated business, the Group provides customers with a wide range of health-related products such as OTC drugs, health supplements, medical devices, contact lenses and beauty care products which have been thoroughly checked by us, and is committed to providing customers with better shopping experience and after-sales protection. During the Reporting Period, fueled by the Group's operational and branding advantages and our team's efficient execution, the pharmaceutical self-operated business maintained rapid revenue growth. As at September 30, 2019, our self-operated online stores (AliHealth Pharmacy^ (阿里健康大藥房) and AliHealth Overseas Flagship Store^ (阿里健康海外旗艦店)) accumulated more than 37 million annual active consumers (consumers who made one or more actual purchase(s) in our self-operated online stores in the past 12 months). In September 2019, on the third anniversary of our self-operated stores, the Group issued the six main standards of our Super Pharmacy 2.0 (products covering all categories, coverage of all demographic groups, services for all scenarios, quality under strict control, medication management and health companionship) to upgrade AliHealth Pharmacy from a pharmaceutical retail platform to a family-oriented health service platform.

Meanwhile, the Group's supporting systems and service capabilities in warehousing, logistics and customer service were further improved. To increase the geographical coverage of goods and to improve delivery efficiency, during the Reporting Period, the Group added central warehouses in Foshan and Chongqing to its three existing warehouses in Guangzhou, Shijiazhuang and Kunshan to deliver goods nationwide from these five warehouses. At present, through our cooperation with Cainiao, our coverage of remote areas has been significantly improved. Products of AliHealth Pharmacy can be delivered as far as Mohe in the north and Sansha in the south, with next day delivery to 20 core cities including Beijing, Shanghai, Guangzhou, Shenzhen and Hangzhou. Our self-operated online stores also provide online enquiry service with our own pharmacist teams, seven days a week, 16 hours a day, allowing consumers to have a better health management experience through pre-sales enquiry and after-sales re-visit service and we continue to enhance users' trust in our self-operated stores through a comprehensive membership management service.

Future prospects

The Group's self-operated business has maintained strong growth momentum over the past three years. The core driver is our deeper understanding and exploration of the growing consumer demand. In the future, we will continue to enhance the shopping experience and loyalty of our existing customer base through product differentiation, dedicated procedures for quality control, premium delivery service and our comprehensive family health management service system, while fully capitalizing on the traffic resources from various portals of Alibaba Group to continually acquire new customers and expand our customer base. With the promulgation of the New Drug Administration Law and other policies, the Group will have more room for expansion of the product categories in our self-operated business. We will actively prepare for our follow-up consultation and drug purchase business for chronic and common diseases and with the continued satisfaction of user demand and enhancement of user experience and value as our driving motivation, we will continue to explore the trillion-dollar prescription drug market to achieve sustainable growth.

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- **New retail model**

Based on meaningful takeaways from past experiences, the Group continued to explore the development strategy and path of the healthcare new retail business in depth. As at November 2019, the 24/7 30-minute drug delivery service was available in a total of ten cities, including Hangzhou, Beijing, Guangzhou, Shenzhen, Wuhan, Shanghai and Chengdu. Meanwhile, we launched the "emergency drug delivery" service in over 120 cities nationwide by making delivery within an hour, and will roll this out in more cities in the future. Benefitting from the operational experience we have accumulated, the Group can now offer online drug ordering fulfilled by delivery by the store or collection in store. Through linkage with the Internet healthcare business, we have tried to jointly promote our patient registration business and drug delivery business in cities, and to work together with Alipay to cultivate and develop the mentality of Alipay's massive user based in relation to online consultation and drug purchasing.

We also continued to focus on innovative business models, and launched new retail partnerships with Signia and Vibe, which are brands of Sivantos, a global leader in hearing aids, to help hearing-impaired users to customize their hearing aids remotely through the Tmall platform, connecting online and offline stores to allow users to experience high-end hearing aids and to provide heartwarming new retail services. During the Reporting Period, the Group further deepened our cooperation with upstream brands, continued to make progress in new retail exploration, worked with brands and industries to establish the B2B2C model, achieved end-to-end cooperation with Dong-E E-Jiao and Yunnan Baiyao, established mechanisms for more new products to be launched on the O2O platform, and helped traditional manufacturers to invigorate their brands through the new retail model.

Future prospects

The Group will continue to accumulate and learn from its experience and further explore and develop the new pharmaceutical retail sector by innovating the elements of customer footprint, merchandise and retail format ("人、貨、場"). Based on our operational experience, technical capabilities and customer traffic foundation, we will continue to facilitate pharmaceutical new retail, help offline pharmacies to reduce costs and increase efficiency, and realize a win-win situation for online and offline integration. We will seek to cover and assist more traditional brands not only to become a quality sales channel for them, but also to provide strong support for their brand-building, product innovation and customer services. We will also continue to focus on the integration and innovation of pharmaceutical new retail and other business models. During the Reporting Period, we organically integrated our O2O business with our Internet healthcare chronic disease management business sector to successfully apply the business model of online purchase of drugs using medical insurance in Quzhou, Zhejiang. This model will be implemented in more cities in the future.

- **Tracking business**

During the Reporting Period, the Group continued to develop its Ma Shang Fang Xin^ (碼上放心) tracking platform. Leveraging 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.

As at the end of the Reporting Period, the number of pharmaceutical manufacturers which had signed up for the Ma Shang Fang Xin platform of the Group and renewed the agreement for product tracking accounted for over 90% of the total number of pharmaceutical manufacturers in China, with 100% coverage for vaccine manufacturers. Extensive utilization of the Ma Shang Fang Xin platform helps to bring online, digitize and improve the transparency of, the pharmaceutical supply chain, and to provide basic tools and value-added services to pharmaceutical industry participants for their daily management and online and offline integration, which include drug tracking and recall, channel management, patient education, vaccine cold chain tracking and medical insurance premium control. As at the end of the Reporting Period, more than 100 large-scale enterprises had purchased the value-added services provided by the Group. In non-pharmaceutical areas, the Group also actively promoted various open and innovative ways of cooperation. As at the end of the Reporting Period, the Group covered more than 1,000 Tmall Global merchants in aggregate, allowing consumers to easily check the chain information of imported goods.

Future prospects

On June 29, 2019, the 11th Session of the Standing Committee of the 13th National People's Congress passed the Vaccine Administration Law of the People's Republic of China (《中華人民共和國疫苗管理法》), which requires the implementation of a full electronic tracking system for vaccines nationwide. On August 26, 2019, the 12th Session of the Standing Committee of the 13th National People's Congress passed the Amendment to the Drug Administration Law of the People's Republic of China, which stipulates that "the State shall establish a sound drug tracking system" and "license holders of drugs available in the market, pharmaceutical manufacturers, pharmaceutical operators and medical institutions shall establish and implement a drug tracking system, and provide the tracking information as required to ensure the traceability of drugs." The above regulations provide a legal basis for the construction of informatized tracking systems for vaccines and drugs. The National Medical Products Administration also successively issued guiding opinions on the construction of informatized drug tracking systems and the draft of relevant data standards for public comment, heralding the entry of China's pharmaceutical industry into an era of electronic supervision and the construction of the drug tracking system in full swing. Leveraging our first-mover advantage, the Group will follow the guidance of the new policies and continue our construction and development of the Ma Shang Fang Xin platform, providing safe, convenient and compliant solutions and expanding value-added services for pharmaceutical stakeholders, to help government departments achieving effective supervision and strengthening medical insurance premium control. Meanwhile, as the infrastructure of the Group's pharmaceutical business, the tracking business will also become the underlying technical support for the safety and traceability of prescription drugs sold online in the future.

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Consumer healthcare business

The Group's consumer healthcare business covers segments such as medical aesthetics, oral health, vaccination and health screening. We are committed to forging an entire ecosystem in the industry in the long run. On this basis, we will reshape the consumer healthcare environment and provide consumers with convenient, reliable, transparent and localized professional medical services.

During the Reporting Period, the Group's consumer healthcare business maintained strong growth momentum, with revenue attributable to the consumer healthcare business increased by 274.4% over the same period of last year. We continued to deepen our cooperation with upstream companies, connect safe, professional and affordable consumer healthcare service providers to the users of mobile Taobao, Alipay and Koubei, and promote business innovation and development in different sectors.

In respect of the medical aesthetics segment, we announced the Tmall medical aesthetics "renewal initiative", which was dedicated to a comprehensive upgrade of stores, portals, products, scenarios and marketing methods. Through a variety of store formats such as flagship stores, we continued to introduce quality medical institutions to Tmall, boosted online and offline traffic through mobile Taobao, Alipay and Koubei in different fields and scenarios, strengthened the interaction between the Tmall medical aesthetics and Tmall cosmetics businesses, and continued to promote the construction of a digital marketing platform to continually enhance the medical aesthetics service experience of consumers.

In respect of the oral health industry, during the Reporting Period, we expanded into Alipay and launched the new "night oral clinic" service model to address the user demand and service providers' supply timing mismatch.

In the field of vaccinations, we began to realize our plans in respect of the "vaccine booking service e-commerce" + "vaccine eco-cooperation" growth drivers. We continued to grow our vaccine booking service business rapidly, while maintaining good relationships with Merck Sharp & Dohme, GlaxoSmithKline and Sanofi Pasteur to promote awareness and to increase the vaccination rate of Chinese consumers. We also cooperated with various local health departments to develop an online vaccine booking service for consumers.

Alibaba Health successfully implemented a strategy of "operations and services at multiple points" in the field of health screening. By continuously expanding the supply at, and user coverage of, portals such as mobile Taobao and Alipay, service efficiency was enhanced continually, further consolidating Alibaba Health's position as the leading platform for "Internet health screening". In the past year, Alibaba Group took the lead in investing in iKang Guobin and Meinian Onehealth. These capital investments will lay a good foundation for our cooperation in the health screening business.

Future prospects

The Group's consumer healthcare business has huge potential for growth. We will continue to focus on channel building, content operation and quality brand and merchant expansion for the consumer healthcare business. We will also empower our partners with our capabilities in respect of platform, data, customer service, technology, membership management and other related areas to empower merchants to achieve sustainable customer acquisition and maintenance as well as acquire operation and management capabilities, while enhancing user experience and continuing to create value for users. We will focus on long-term development, and strive to promote the overall service level of the industry, facilitate the establishment of a good business environment, and contribute to the sound and sustainable development of the entire industry.

Internet healthcare business

During the Reporting Period, the Group relied on the previously established Alibaba Health Network Hospital Limited^ (阿里健康網絡醫院有限公司) to organize professionals such as medical practitioners, pharmacists and nutritionists to provide multi-faceted, multi-level, professional and convenient health consultation services and guidance for, among others, Taobao, Tmall and Alipay end-users. As at the end of the September 2019, over 27,000 medical practitioners, pharmacists and nutritionists had signed up with the Group to provide online health consultation services, of which more than 18,000 attended, were assistant chief or chief physicians.

The Group provides an array of medical and healthcare services to users through Alipay and has brought onboard Ant Small and Micro Financial Services Group Co., Ltd.^ (浙江螞蟻小微金融服務集團股份有限公司) ("**Ant Financial**") as a shareholder to lay a solid foundation for further comprehensive and in-depth cooperation. Pursuant to the strategic partnership agreement entered into between the Group and Ant Financial in November 2018, the Group has established an exclusive and independent healthcare channel for Alipay users and is fully responsible for managing the healthcare industry partners featured on such channel. As at the end of September 2019, Alipay had over 11,000 contracted medical institutions, including more than 3,600 Class II and Class III hospitals and over 300 Class III hospitals have been connected to medical insurance payment services. Since the Group became fully responsible for the management of such medical and healthcare service channel and the healthcare industry partners, the number of users in the hospital settings covered by the products operated by the Group grew rapidly. In September 2019, the number of monthly active users using Alipay's medical and healthcare services in hospital settings exceeded 17 million.

The Group has been working to enhance supply and efficiency using technology to satisfy users' needs for offline treatment, online consultation and convenient healthcare management. During the Reporting Period, we made great progress in the area of Internet healthcare. In January 2019, the "Zhejiang Internet Hospital Platform", constructed by Zhejiang Bianque Health Data Technology Co., Ltd^ (浙江扁鵲健康數據技術有限公司) ("**Zhejiang Bianque**"), a company jointly invested by the Group and Ant Financial, was officially launched as the first Internet hospital platform in China that has integrated supervision and service capabilities. As at the end of September 2019, more than 130 medical institutions, including Class III A hospitals, were registered on the platform, covering all prefecture-level cities in Zhejiang Province. The "Zhejiang Internet Hospital Platform" has become a model project of the National Health Commission of the PRC as a result of its professional operation and healthy development. During the Reporting Period, we successively received visiting personnel from the National Health Commission and several provincial health commissions. We are also constantly accumulating operational experience and using our

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technical capabilities to upgrade our products. We have achieved innovative outcomes such as the integration of approvals of Internet hospitals signing on to the platform, diversification of regulated aspects, helping the Zhejiang Health Commission to realize effective and efficient supervision. Meanwhile, we continued to create value for medical institutions registered on the platform by establishing the core business links that bring patients from various online portals, and that bring offline patients online, to the platform, as well as implementing a prescription circulation model that is operated online entirely, thereby realizing in-store drug collection or delivery by the store after online ordering. During the Reporting Period, we launched the examination and checkup reservation service on the platform to enhance loyalty and expand our user base by optimizing user experience through diversified services.

In October 2019, the Quzhou Chronic Disease Management Platform jointly established by Alibaba Health and the Quzhou Municipal Government of Zhejiang Province was officially announced. The platform is the first online medical insurance payment platform for chronic disease management in China. It is designed by Alibaba Health and integrates numerous capabilities available in Alibaba Group's digital economy. In addition to the security of medical insurance fund, the platform has realized full coverage of "Internet follow-up consultation + prescription online circulation + medical insurance online payment + drug delivery to home" so that patients with chronic diseases no longer need to go out for consultation. Meanwhile, the chronic disease management service in Quzhou is also organically integrated with the Zhejiang Internet Hospital Platform, further fulfilling the principal concept of the provincial and municipal governments and Alibaba Health in respect of patients with chronic diseases: making chronic disease management easier and more convenient for patients.

During the Reporting Period, the Group jointly established an organ transplant follow-up innovation platform with a number of top medical experts that was launched on Alipay. This is the first transplant follow-up platform built based on Internet technology in China. By bringing the traditional offline follow-up model online, we are committed to alleviating the difficult situation of post-transplant management and truly helping transplant patients in the PRC. This represents not only our continuous exploration of how Internet healthcare can create value, but also another milestone on Alibaba Health's journey to "make good health achievable at the fingertips".

Future prospects

The Group will leverage its experience and business operations in the Internet healthcare industry, together with its resources and competitive advantages, to promote the in-depth development of the Internet healthcare business. We will continue to capitalize on our strong foothold on Alipay and take advantage of Ant Financial's strategic investment to enhance the complementary resources and business synergies of the Group and Ant Financial, enrich and strengthen our online medical and healthcare product and service offerings, and continue to expand the user base of Alipay's medical and healthcare services. In addition, we will continue to develop quality medical institutions and doctor resources offline, particularly focusing on the continual expansion of medical insurance payment coverage, and to help offline hospitals carry out information technology upgrade to improve service standards and operational efficiency.

We will also follow the guidance of various favorable policies in relation to Internet healthcare and leverage the opportunity to promote the in-depth development of the Internet healthcare business. By thoroughly understanding relevant national policies and integrating the needs and following the guiding opinions of Zhejiang Province and other relevant cities, we will strengthen the development of the Zhejiang Internet Hospital Platform and the Quzhou Chronic Disease Management Platform, while continuing to accumulate capabilities and operational experience in order to implement the projects in other regions, thereby making inclusive and efficient Internet healthcare services available to the general public. The efficient linkage with the pharmaceutical segment will also provide the Group with strong competitive advantages in growing its prescription drug business.

Intelligent medicine business

The Group cooperates with governments, hospitals, research institutes, colleges and other external organizations to explore the intelligent medicine business based on digital information, AI and big data technologies. Related areas include Internet medical associations, clinical decision support systems, remote imaging platforms, physiological signal aided diagnosis engine and solutions for blockchain data security etc.

During the Reporting Period, the Group continued to assist the government and hospitals in information technology construction with its technologies to provide inclusive and convenient medical and healthcare services to the public. In September 2018, the "Electronic Health Card Platform for Zhejiang Residents" constructed by Zhejiang Bianque was launched. The electronic health card was co-developed by Zhejiang Bianque and the Health Commission of Zhejiang Province for easy access to medical institutions in Zhejiang Province and can be used online and offline in different institutions and regions. As at September 2019, more than 26 million electronic health cards had been issued by the platform with coverage of all prefecture-level cities in Zhejiang Province. We are committed to the development and innovation of electronic health card functions. In addition to providing a number of convenient services such as record opening, verification, payment and family accounts for residents in Zhejiang Province, we also launched credit for medical services in a number of hospitals including Zhejiang Provincial People's Hospital. Meanwhile, we actively responded to policy directives by executing the implementation and promotion of the "Zhejiang Provincial Resident Electronic Health Card" and "Zhejiang Provincial Resident Electronic Social Security Card (Medical Security Card)" integration project in Zhejiang Province to realize the provision of online and offline services such as registration, treatment, diagnosis and inspection, drug purchasing and medical expenses settlement all using a single card, so that more residents can enjoy the value of integrated medical care and medical insurance services. Zhejiang Bianque has been committed to constructing the regional medical "city brains" (city smart systems) and has achieved preliminary results during the Reporting Period. In August 2019, the "Health Yuhang Smart Cloud" platform was officially launched, which showcased Zhejiang Bianque's use of leading technical capabilities and resources to help Hangzhou Yuhang District Government to build a regional smart health comprehensive application system. The project not only helps the government to understand the medical resources, medical standards and health conditions of residents in Yuhang District, but also analyses the area's medical service capabilities and sustainable development capabilities through data, which provides a good foundation for the better cultivation of medical staff and services to residents. At the same time, by providing online appointment, registration, payment, interaction with family doctors, personal health management and other services to residents, the project can truly realize the potential of data and enable the general public to enjoy more efficient and convenient services.

MANAGEMENT DISCUSSION AND ANALYSIS

Capitalizing on its strong cloud-based medical big data mining and analytical capabilities and through internal and external cooperation, the Group is committed to building an AI medical system that can be applied in real-life situations. During the Reporting Period, we continued our efforts in various areas and made breakthrough developments. The AI engine of EEG epilepsy developed using in-depth learning technology is used to automatically identify abnormal wave patterns on various EEG maps, such as falsification, physiological and epilepsy abnormal discharge, and assist doctors reading EEGs in improving reading efficiency and quality. The product has not only been recognized by domestic authoritative experts in the field, but has been applied on a pilot basis in a number of hospitals. We also developed the AI engine for brain health screening, that utilizes AI technology to conduct quantitative analysis on EEGs, which has a wide range of scenarios for application in terms of the indication of depression and assessing the risk of Alzheimer's Disease. At the same time, we also explored the application of AI in the digital oral field, and developed a digital assistance design solution for orthodontics. While the market potential of orthodontic market in China is substantial and has been growing rapidly, the supply of competent doctors is seriously insufficient as the traditional orthodontic method relies entirely on the experience of doctors to operate manually. Through the digital orthodontic solutions empowered by our AI, we are able to lower the technical barrier for our orthodontic doctors to practise in the industry and to help more patients. In relation to electronic medical records structuring, the Group won the championship in the Chinese electronic medical records nomenclature entity and assessment task at the China Conference on Knowledge Graph and Scientific Computing (CCKS) for two consecutive years in 2018/2019. Based on our industry-leading technical capabilities, we successfully developed our own Clinical Decision Support System (CDSS) during the Reporting Period. CDSS, with doctors as the primary users, helps doctors to collect diagnosis and treatment information, provides doctors with standardized assisted diagnosis decisions, medication and examination treatment plans reminders, and on relevant disease knowledge and information during the consultation process, thereby improving the consultation efficiency and accuracy, and at the same time providing the hospital with the capability and assurance to effectively carry out quality control of its medical records. Through such comprehensive application, CDSS can also empower hospitals to carry out technological transformation and upgrading, and to meet the new requirements of the State on the construction of intelligent hospitals. After solid preliminary research and development and product testing, our CDSS products have been widely recognized by the industry since their launch. As of the end of October 2019, we have entered into contracts with over 20 medical institutions in China, including Class III A hospitals, to commercially apply our CDSS products.

Through its controlling interest in Seenew Medical Technology (Zhejiang) Co., Ltd.^ (熙牛醫療科技(浙江)有限公司) ("**Seenew Technology**"), the Group is committed to research and development, and establishment of an integrated cloud platform for medical institutions that covers comprehensive business processes and online and offline service scenarios. Through its accumulated experience, solidified abilities and the process of product refinement, Seenew Technology has successfully developed cloud-based hospital information systems (HIS) products for large-scale medical groups/medical associations, and achieved unified process control, service level and quality standards for all branches within the medical groups/medical associations through information-based means, while maintaining a certain degree of customization. The product has been launched in offline medical groups for testing. At the same time, Seenew Technology has also successfully developed a regional cloud-based HIS system focusing on all medical institutions in districts and counties, which will effectively promote the interconnection between medical institutions and medical administrative units in the regions, reduce the cost of informatization upgrade, and improve the efficiency and value of the extraction and application of medical data. Taking this opportunity, the Group will provide medical and health management services to people at the broader county-level in China in the future.

Future Prospects

Based on the technology and experience it has accumulated in practice, the Group will continue to assist the government and industry partners in the informatization upgrade and transformation of medical services. We will continue to promote the full implementation of the "integration of two cards" project in Zhejiang Province and the launch of online medical insurance payment services. The Group has accumulated experience from the "Health Yuhang Smart Cloud" project and promoted the construction of medical "city brains" in more regions based on Alibaba Health's industry-leading technical capabilities. We will also continue to expand our existing CDSS, oral digitalization, EEG epilepsy AI and brain health screening AI products to be applied in more medical institutions and scenarios for commercial application, with a view to improving the supply of medical resources through AI, reducing the cost of medical services, creating value for the medical industry and bringing inclusive medical services to the public. Our cloud-based HIS products will be used in county-level medical institutions and public health departments in the future, which will also help to promote the implementation of hierarchical diagnosis and treatment, promote the construction of medical associations and assist national medical reform.

FINANCIAL REVIEW

The key financial figures of the Group for the six months ended September 30, 2019 and September 30, 2018 are summarized as follows:

	Six months ended September 30,		
	2019	2018	Change
	RMB'000	*RMB'000*	*%*
Revenue	**4,116,846**	1,878,709	119.1
Gross profit	**1,031,660**	529,144	95.0
Gross profit margin	**25.1%**	28.2%	N/A
Fulfillment	**(467,029)**	(246,041)	89.8
Sales and marketing expenses	**(333,252)**	(156,848)	112.5
Administrative expenses	**(105,075)**	(85,985)	22.2
Product development expenses	**(135,138)**	(103,679)	30.3
Other income and gains	**63,922**	17,995	255.2
Other expenses	**(6,236)**	(20,563)	(69.7)
Finance cost	**(19,462)**	(4,607)	322.4
Operating profits/(losses)	**29,390**	(70,584)	N/A
Share of (losses)/profits of joint ventures	**(5,344)**	8,055	N/A
Share of losses of associates	**(18,418)**	(16,269)	13.2
Loss for the period	**(7,629)**	(89,980)	(91.5)
Net losses attributable to owners of the parent	**(1,102)**	(84,104)	(98.7)
NON-HKFRS ADJUSTMENTS			
Adjusted net profit	**139,527**	10,486	1,230.6

MANAGEMENT DISCUSSION AND ANALYSIS

— Revenue

Revenue of the Group for the six months ended September 30, 2019 amounted to RMB4,116,846,000, representing an increase of RMB2,238,137,000 or 119.1% as compared to RMB1,878,709,000 for the six months ended September 30, 2018. The increase in revenue was attributable to the rapid growth in revenue from pharmaceutical self-operated business, pharmaceutical e-commerce platform business and consumer healthcare business during the Reporting Period.

— *Pharmaceutical E-commerce Platform Business*

Our pharmaceutical e-commerce platform business comprises the e-commerce platform business relating to health food and medical devices, etc., that the Group acquired from Alibaba Group, the business of providing outsourced services to Tmall's Pharmaceutical platform (in respect of categories other than those that have already been acquired) and the pharmaceutical O2O business. During the Reporting Period, the total revenue from abovementioned business reached RMB539,991,000, representing a year-on-year increase of 139.8%.

— *Pharmaceutical Self-operated Business*

The pharmaceutical self-operated business of the Group comprises our self-operated B2C retail, related advertisement business and our B2B centralized procurement distribution business. During the Reporting Period, the revenue from pharmaceutical self-operated business reached RMB3,435,166,000, representing a year-on-year increase of 114.6%. The rapid growth in revenue was mainly due to the continual enrichment of the categories of goods sold through the Group's self-operated B2C and SKU, more detailed management of the self-operated business, optimization of the customer purchase experience and enhancement of repeated purchases by customer and continued strengthening of our cooperation with upstream quality brands. As at the end of the Reporting Period, the Group had been authorized to undertake the management of or establish over 70 flagship stores on Tmall's Pharmaceutical platform.

— *Tracking Business*

During the Reporting Period, the Ma Shang Fang Xin tracking platform, an effective solution for pharmaceutical tracking, covered 90% of pharmaceutical manufacturers in China. Revenue from the tracking business for the Reporting Period was RMB18,953,000, which was relatively stable as compared to the corresponding period of the preceding year. Currently, the business is mainly positioned as providing safe, convenient and compliant solutions for the pharmaceutical industry and assisting governmental authorities in realizing effective monitoring.

– ***Consumer Healthcare Business***

Noticing consumers' increasing demands for beauty and health, the Group actively cooperates with medical aesthetics, health screening, vaccination, oral health, and other medical and healthcare service organizations through its online platform and self-operated stores, to provide customers with safe, professional and transparent medical healthcare services, as well as health education, consultation, reservation and other value-added services. The Group not only continuously helps its merchants acquire customers by providing integrated marketing services via the consumer healthcare platform, but also empowers its merchants to maintain their customer base, thereby resolving customers' issues and enhancing customer experience. During the Reporting Period, the consumer healthcare business grew rapidly, with revenue attributable to the business amounting to RMB110,664,000, representing a year-on-year growth of 274.4%.

– ***Other Innovative Businesses***

Other than the above businesses, the Group has been exploring fee models in the Internet healthcare and intelligent medicine areas. During the Reporting Period, revenue from innovative businesses of the Group, including online health consultation, amounted to RMB12,072,000, representing a year-on-year growth of 202.7%.

– **Gross profit and gross profit margin**

The Group recorded gross profit of RMB1,031,660,000 for the six months ended September 30, 2019, representing an increase of RMB502,516,000 or 95.0% as compared to RMB529,144,000 for the corresponding period of the preceding year. Gross profit margin for the Reporting Period declined to 25.1% as compared to 28.2% for the corresponding period of the preceding year.

– **Fulfillment**

Warehousing, logistics and customer service expenditures incurred by the Group's self-operated pharmaceutical business were included in fulfillment costs. Fulfillment costs for the six months ended September 30, 2019 amounted to RMB467,029,000, representing an increase of RMB220,988,000 or 89.8% from RMB246,041,000 for the corresponding period of the preceding year mainly due to the rapid growth in revenue of self-operated B2C business. During the Reporting Period, fulfillment costs accounted for 13.6% of the revenue from self-operated pharmaceutical business, declining from 15.4% for the corresponding period of the preceding year, which reflected the enhancement of operating efficiency of the Group in respect of warehousing, logistics and customer services.

– **Sales and marketing expenses**

Sales and marketing expenses for the six months ended September 30, 2019 amounted to RMB333,252,000, representing an increase of RMB176,404,000 or 112.5% as compared to RMB156,848,000 for the corresponding period of the preceding year. Such increase was mainly due to the increase in promotional costs to publicize self-operated stores of the Group. In addition, the Group also increased the headcount for its sales and operation functions and innovative business.

MANAGEMENT DISCUSSION AND ANALYSIS

– **Administrative expenses**

The administrative expenses for the six months ended September 30, 2019 amounted to RMB105,075,000, representing an increase of RMB19,090,000 or 22.2% as compared to RMB85,985,000 for the corresponding period of the preceding year. Such increase was mainly attributable to rapid business growth which led to an increase in back-end supporting costs, travel expenses and professional costs.

– **Product development expenses**

Product development expenses for the six months ended September 30, 2019 amounted to RMB135,138,000, representing an increase of RMB31,459,000 or 30.3% as compared to RMB103,679,000 for the corresponding period of the preceding year. Such increase was mainly due to the increased headcount of the Company's research and development function. During the Reporting Period, the Group continued to recruit more information technology engineers in order to expand our Internet healthcare and intelligent medicine businesses, as well as to support the rapid growth in our pharmaceutical business and consumer healthcare business.

– **Other income and gains**

Other income and gains for the six months ended September 30, 2019 amounted to RMB63,922,000, representing an increase of RMB45,927,000 or 255.2% as compared to RMB17,995,000 for the corresponding period of the preceding year, which was mainly due to the gain from the disposal of associates and the gain on deemed disposal of associates during the Reporting Period. In particular, in August 2019, the Group disposed its equity interests in Jiamei Online, a 45%-owned associate, and recognized a gain of RMB21,791,000.

– **Other expenses**

Other expenses for the six months ended September 30, 2019 amounted to RMB6,236,000, representing a decrease of RMB14,327,000 or 69.7% as compared to RMB20,563,000 for the corresponding period of the preceding year. Such decrease was mainly due to other expenses incurred by the foreign exchange loss of RMB17,886,000 in the preceding year, while no such expense incurred during the Reporting Period.

– **Finance costs**

Finance cost for the six months ended September 30, 2019 amounted to RMB19,462,000, representing an increase of RMB14,855,000 or 322.4% from RMB4,607,000 for the corresponding period of the preceding year. Such increase was mainly attributable to the increase in the average balance of the Group's borrowings as compared to the corresponding period during the Reporting Period.

– **Share of (losses)/profits of joint ventures**

Share of (losses)/profits of joint ventures represented the share of net operating result of the Group's 45%-owned joint venture, Zhejiang Bianque, and Jiangsu Purple Gold Hongyun Health Industry Investment (Limited Partnership)^ (江蘇紫金弘雲健康產業投資合夥企業(有限合夥)), its 13.72%-owned joint venture. For the six months ended September 30, 2019, share of losses of joint ventures was RMB5,344,000, while share of profits of joint ventures of RMB8,055,000 was recorded for the corresponding period of the preceding year. The share of losses of joint ventures was mainly attributable to the fact that Zhejiang Bianque was at an early stage of investment and operation during the Reporting Period. Share of profits of joint ventures for the corresponding period of the preceding year was mainly from the net operating results of Beijing Honglian 95 Information Industries Company Limited^ (北京鴻聯九五信息產業有限公司), the Group's 49%-owned joint venture, and its equity interests had been completely disposed of during the preceding year.

– **Share of losses of associates**

The Group actively invests in the healthcare sector. Share of losses of associates represented the share of net operating results of associates, such as Anhui Huaren Health Pharmaceutical Co. Ltd^ (安徽華人健康醫藥股份有限公司), Guizhou Yishu Chain Pharmaceutical Co. Ltd^ (貴州一樹連鎖藥業有限公司) and Gansu Deshengtang Pharmaceutical Technology Group Co. Ltd.^ (甘肅德生堂醫藥科技集團有限公司), which are regional leading pharmaceutical retail chains and medical information companies. The share of losses of associates for the Reporting Period amounted to RMB18,418,000, representing an increase in RMB2,149,000 or 13.2% from RMB16,269,000 for the corresponding period of the preceding year. Such change was mainly attributable to the fact that some of the Group's associates are still at an early stage of business development, while some are in the transformation or growing stage.

– **Non-Hong Kong Financial Report Standard indicator in relation to profit/loss for the Reporting Period: Adjusted net profit**

For the six months ended September 30, 2019, the Group's adjusted net profit amounted to RMB139,527,000, representing a significant increase of RMB129,041,000 as compared to adjusted net profit of RMB10,486,000 for the corresponding period of the preceding year. The increase in adjusted net profit was mainly attributable to the speedy growth of the Group's pharmaceutical e-commerce platform business and pharmaceutical self-operated business as a result of economies of scale, as well as the contribution of the consumer healthcare business to the Group's profit. The profitability of the Group continued to improve, which will enable us to further explore the new pharmaceutical sales model in the future, and to invest in and make strategic deployments in respect of innovative businesses such as those involving consumer healthcare, Internet healthcare and intelligent medicine.

To supplement the Group's consolidated financial statements presented in accordance with Hong Kong Financial Reporting Standards (HKFRS), the Group has also reported its adjusted net profit, which is not required under, or presented in accordance with, HKFRS, as an additional financial indicator. We are of the view that presenting the non-HKFRS indicator together with the relevant HKFRS indicator will help investors to better compare our operational performance across various periods, without the potential impact of projects which our management considers as not indicative to our operational performance. We believe that

MANAGEMENT DISCUSSION AND ANALYSIS

the non-HKFRS indicator provides investors and other individuals with helpful information to understand and assess our consolidated operational results in the same way that our management does. However, the adjusted net profit we presented may not be comparable with similar indicators presented by other companies. Such non-HKFRS indicator has its limitations as an analytical tool, and should not be regarded as independent from the operational results or financial position presented according to HKFRS, or as an alternative to analyze the relevant operational results or financial position of the Group. In addition, the definition of such non-HKFRS indicator may vary from those applied in other companies.

The adjusted net profits for the six months ended September 30, 2019 and 2018 set out in the table below represent adjustments to the most direct and comparable financial indicator calculated and presented in accordance with HKFRS (i.e., loss for the Reporting Period):

	Six months ended September 30,	
	2019	2018
	RMB'000	*RMB'000*
Loss for the Reporting Period	**(7,629)**	(89,980)
Excluding		
— Share-based compensation	**147,156**	100,466
Adjusted net profit	**139,527**	10,486

LIQUIDITY, FINANCIAL RESOURCES AND FOREIGN EXCHANGE EXPOSURES

The cash and other liquid financial resources of the Group as at September 30, 2019 and the corresponding comparative figures as at March 31, 2019 are summarized as follows:

	September 30, 2019	March 31, 2019
	RMB'000	*RMB'000*
Cash and cash equivalents	**2,658,998**	280,371
Short-term investment at fair value through profit or loss — financial products	**1,109,714**	1,736,713
Cash and other liquid financial resources	**3,768,712**	2,017,084

Cash and cash equivalents increased by RMB2,378,627,000 or 848.4% from RMB280,371,000 as at March 31, 2019 to RMB2,658,998,000 as at September 30, 2019. Such increase mainly reflected the net inflows generated from the Group's cash flow from operating activities and the issue of new shares to Alibaba Group and Ant Financial for financing.

MANAGEMENT DISCUSSION AND ANALYSIS

Short-term investment at fair value through profit or loss was short-term investment in high liquidity bank financial products with maturity within 3 months (including 3 months).

Cash flows of the Group for the six months ended September 30, 2019 and September 30, 2018 were as follows:

	Six months ended September 30,	
	2019	2018
	RMB'000	*RMB'000*
Net cash flows generated from operating activities	**475,639**	302,333
Net cash flows generated from/(used in) investing activities	**359,333**	(806,116)
Net cash flows generated from financing activities	**1,268,283**	1,259,608
Net increase in cash and cash equivalents	**2,103,255**	755,825
Cash and cash equivalents at the beginning of the period	**280,371**	508,419
Effects of exchange rate changes	**63,735**	54,837
Cash and cash equivalents at the end of the period	**2,447,361**	1,319,081
Cash and cash equivalents as stated in the interim condensed consolidated statements of financial position	**2,658,998**	1,319,081
Non-pledged time deposits with original maturity over three months	**(211,637)**	—
Cash and cash equivalents at the end of period	**2,447,361**	1,319,081

– **Net cash flows generated from operating activities**

For the Reporting Period ended September 30, 2019, net cash flows generated from operating activities amounted to RMB475,639,000, which was primarily attributable to our net profit before income tax from continuing operations of RMB5,628,000, as adjusted by: (1) addition of non-cash or non-operating activities expense items, which primarily comprised share-based compensation costs of RMB147,156,000, share of losses of joint ventures and associates of RMB23,762,000 and finance costs of RMB19,462,000, deducting non-cash or non-operating activities income items, mainly including the gains on disposal of associates and the gain on deemed partial disposal of associates of RMB38,818,000 and interest income of RMB16,672,000; and (2) changes in working capital, which primarily comprised an increase in trade payables of RMB529,698,000, a decrease in trade receivables of RMB142,797,000, a decrease in prepayments, deposits and other receivables of RMB94,219,000, an increase in inventories of RMB367,377,000, and a decrease in other payables and accruals of RMB132,332,000.

MANAGEMENT DISCUSSION AND ANALYSIS

- **Net cash flows generated from investing activities**

For the six months ended September 30, 2019, net cash flows generated from investing activities amounted to RMB359,333,000, which was primarily attributable to the net cash generated from redemption of financial assets measured at fair value through profit or loss of RMB644,243,000 and the receipt from the disposal of associates of RMB53,042,000. In addition, during the Reporting Period, the net cash used in the purchase of fixed deposits for a term of three months and above amounted to RMB211,637,000, while capital injection in associates and joint ventures amounted to RMB99,500,000.

- **Net cash flows generated from financing activities**

For the six months ended September 30, 2019, net cash flows generated from financing activities amounted to RMB1,268,283,000, which was primarily attributable to the amount of HK$2,272,320,000 from the issuance of 302,976,000 new shares at the price of HK$7.5 per share to Alibaba Group and Ant Financial. In addition, the principal and interests for the borrowings from Alibaba Group of RMB719,249,000 were repaid during the Reporting Period.

- **Gearing ratio**

The Group's total borrowings as at September 30, 2019 were RMB1.0 billion (March 31, 2019: RMB1.7 billion), all of which were at fixed interest rate. As at September 30, 2019, the Group's balance of cash and other liquid financial resources exceeded total borrowings and hence no gearing ratio was shown (March 31, 2019: Nil).

As at September 30, 2019, the Group did not have any material contingent liabilities and did not pledge any Group assets for bank loans and banking facilities.

The Group's operations and transactions are principally conducted in the PRC. The Group prudently managed its treasury functions and maintained a healthy liquidity position throughout the six months ended September 30, 2019. The board (the "**Board**") of directors (the "**Directors**") of the Company closely monitors the Group's liquidity position to ensure that the liquidity structure of our assets, liabilities and other commitments can meet the Group's funding requirements from time to time. 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, Renminbi and United States dollars, while other assets and liabilities are mainly denominated in either Hong Kong dollars or Renminbi. The Group's presentation currency is Renminbi to reflect its operations in the PRC and to be consistent with the internal reporting portfolio reviewed by the Directors. The Group does not have a foreign exchange hedging policy, but the management will continue to closely monitor exchange rate fluctuations and will take appropriate measures to keep foreign exchange risk exposure to the minimum. The Group does not use any financial instruments for hedging purposes.

EMPLOYEES AND REMUNERATION POLICIES

The number of full-time employees of the Group as at September 30, 2019 was 884 (808 as at March 31, 2019). Total staff costs of the Group for the six months ended September 30, 2019 amounted to RMB356.6 million (RMB256.2 million for the six months ended September 30, 2018). All staff employed by the Group 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 a share award scheme as approved by the shareholders of the Company on November 24, 2014 (the "**Share Award Scheme**"). Pursuant to the Share Award Scheme, the Board may grant awards in the form of restricted share units ("**RSUs**") or 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 Group.

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

The Group engaged in trading of short-term and liquid investments and financial assets ranging from unit trusts, structured deposits and other wealth management during the Reporting Period in accordance with its treasury policy initially adopted in June 2015 to utilise surplus cash reserves for treasury management purpose. The Company's treasury policy sets out the selection guidelines and relevant approval procedures for acceptable short-term investments and financial assets with reference to its risk management policy. According to such treasury policy, the Company invests in products including non-equity financial asset investments with strong liquidity which can be realised either at any time or within a short period of time. Such investments shall be subscribed from financial institutions in the approved list, which shall be reviewed every two years. During the Reporting Period, such financial institutions included various branches of the China Merchant Bank, Bank of Ningbo, Pudong Development Bank, Huaxia Bank, Minsheng Bank, Bank of China and Ping An Bank. According to the Company's prevailing approval procedures, any investment decision related to financial assets shall be approved by the financial and treasury manager of the Company, and shall, depending on the investment size, be approved by the financial controller or vice president (finance). Such short-term investments at FVPL amounted to approximately RMB1,109.7 million as at September 30, 2019 (equivalent to approximately 13.8% of the total assets of the Company), with an aggregate amount of not more than approximately RMB251.3 million, which was equivalent to 3.1% of the total assets of the Company, having been subscribed from any single financial institution. During the Reporting Period, (i) the Company has not disposed of any investment at FVPL, and the decrease in the total value of such short-term investments was mainly due to repurchases of part of the short-term investment products upon expiry during the Reporting Period by issuers in accordance with their relevant terms; (ii) the Company realised fair value gains of approximately RMB17.2 million on financial assets at FVPL as a result of its trading in the aforesaid short-term investments.

ADDITIONAL INFORMATION

DIRECTORS

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

Executive Directors:

Mr. SHEN Difan (Chief Executive Officer)
Mr. WANG Qiang

Non-executive Directors:

Mr. WU Yongming (Chairman)
Mr. WANG Lei
Mr. XU Hong (appointed on June 9, 2019)
Ms. ZHANG Yu (resigned on June 9, 2019)

Independent Non-executive Directors:

Mr. LUO Tong
Mr. WONG King On, Samuel
Ms. HUANG Yi Fei, (Vanessa) (appointed on June 9, 2019)
Mr. YAN Xuan (resigned on April 8, 2019)

CHANGE IN INFORMATION IN RESPECT OF DIRECTORS

The change in information of the Directors pursuant to Rule 13.51B(1) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") since the date of the Company's 2019 annual report dated May 16, 2019 up to the date of this report is as below:

Ms. ZHANG Yu has resigned as a non-executive Director, with effect from June 9, 2019.

Mr. XU Hong has been appointed as a non-executive Director and Ms. HUANG Yi Fei, (Vanessa) has been appointed as an independent non-executive Director, the chairman of the Remuneration Committee, and a member of the Audit Committee, with effect from June 9, 2019.

Mr. WONG King On, Samuel is an independent non-executive director and chairman of the audit committee of Analogue Holdings Limited (Stock Code: 1977), a company listed on the Main Board of the Stock Exchange in July 2019.

ADDITIONAL INFORMATION

SHARE AWARD SCHEME

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

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

The specific mandate granted and renewed by shareholders at the annual general meeting of the Company held on July 20, 2018 (the "**2018 Specific Mandate**"), authorized the Board to exercise all the powers of the Company to grant Share Awards. Such specific mandate lapsed at the conclusion of the annual general meeting of the Company held on July 10, 2019, when the specific mandate was then renewed by the approval of the shareholders of the Company (the "**2019 Specific Mandate**"). As at September 30, 2019, Share Awards in respect of a total of 11,037,507 underlying shares, which represent 0.092% of the Company's total issued shares as at September 30, 2019, remain available to be granted under the Share Award Scheme under the 2019 Specific Mandate.

ADDITIONAL INFORMATION

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

Name of option holders/ grantees of RSU	Nature	Number of shares represented by options or RSUs outstanding at March 31, 2019	Date of grant/ conditional grant[16]	Granted during the period	Exercise price *(HK$)*	Options exercised during the period[19]	Options or RSUs lapsed/ cancelled during the period	RSUs vested during the period	Number of shares represented by options or RSUs outstanding at September 30, 2019
Directors of the Company									
Mr. SHEN Difan	Options	8,190,000	June 8, 2018[1]	–	7.240	–	–	–	8,190,000
	RSUs	1,170,000	June 8, 2018	–	–	–	–	–	1,170,000
	RSUs	–	June 14, 2019	500,000	–	–	–	–	500,000
Mr. WANG Qiang	Options	4,000,000	October 10, 2017[2]	–	4.400	–	–	–	4,000,000
	RSUs	900,000	October 10, 2017	–	–	–	–	450,000[17]	450,000
	RSUs	300,000	June 8, 2018	–	–	–	–	75,000[17]	225,000
	RSUs	–	June 14, 2019	449,000	–	–	–	–	449,000
Mr. WANG Lei	Options	7,491,000	September 7, 2015[3]	–	5.184	–	–	–	7,491,000
	RSUs	321,000	September 7, 2015	–	–	–	–	321,000[18]	–
	Options	1,141,000	July 29, 2016[4]	–	5.558	–	–	–	1,141,000
	RSUs	190,000	July 29, 2016	–	–	–	–	95,000[18]	95,000
	RSUs	2,907,750	June 14, 2017	–	–	–	–	1,213,500[18]	1,694,250
Employees									
	Options	8,679,500	September 7, 2015[5]	–	5.184	1,566,000	142,000	–	6,971,500
	RSUs	271,750	September 7, 2015	–	–	–	132,500	139,250	–
	Options	21,500	October 20, 2015[6]	–	5.550	–	–	–	21,500
	RSUs	177,500	October 20, 2015	–	–	–	–	177,500	–
	Options	1,698,000	April 28, 2016[7]	–	5.320	25,250	–	–	1,672,750
	RSUs	1,517,685	April 28, 2016	–	–	–	–	984,685	533,000
	Options	8,911,600	July 29, 2016[8]	–	5.558	871,500	1,095,650	–	6,944,450
	RSUs	4,032,150	July 29, 2016	–	–	–	740,425	1,764,775	1,526,950
	Options	730,000	October 11, 2016[9]	–	4.416	500	190,500	–	539,000
	RSUs	157,500	October 11, 2016	–	–	–	–	60,000	97,500
	RSUs	298,800	November 23, 2016	–	–	–	148,000	103,700	47,100
	Options	4,236,000	February 2, 2017[10]	–	3.626	89,500	311,000	–	3,835,500
	RSUs	1,391,000	February 2, 2017	–	–	–	155,500	58,000	1,177,500
	Options	116,000	February 22, 2017[11]	–	3.610	–	–	–	116,000
	RSUs	695,100	February 22, 2017	–	–	–	–	407,800	287,300
	Options	3,523,000	June 14, 2017[12]	–	3.902	549,500	244,000	–	2,729,500
	RSUs	16,407,100	June 14, 2017	–	–	–	1,539,500	5,918,550	8,949,050
	Options	8,540,000	August 3, 2017[13]	–	3.686	490,000	840,500	–	7,209,500
	RSUs	4,545,100	August 3, 2017	–	–	–	419,500	2,043,625	2,081,975
	Options	4,865,250	October 10, 2017[14]	–	4.400	–	1,547,250	–	3,318,000
	RSUs	4,682,700	October 10, 2017	–	–	–	604,400	2,464,100	1,614,200
	Options	929,000	February 1, 2018[15]	–	4.144	–	–	–	929,000
	RSUs	2,716,070	February 1, 2018	–	–	–	–	925,183	1,790,887
	RSUs	38,037,641	June 8, 2018	–	–	–	2,848,371	8,814,467	26,374,803
	RSUs	14,536,000	July 31, 2018	–	–	–	1,904,250	3,292,400	9,339,350
	RSUs	8,159,864	October 10, 2018	–	–	–	285,700	293,661	7,580,503
	RSUs	7,233,202	January 31, 2019	–	–	–	1,175,373	997,927	5,059,902
	RSUs	–	June 14, 2019	27,821,332	–	–	1,226,618	59,514	26,535,200
	RSUs	–	August 2, 2019	9,107,763	–	–	240,000	–	8,867,763
	RSUs	–	September 18, 2019	2,299,744	–	–	130,000	–	2,169,744

ADDITIONAL INFORMATION

Notes:

(1) The closing price per Share is HK$7.34 as stated in the daily quotation sheets issued by the Stock Exchange on June 7, 2018, being the trading day immediately before the date of grant.

(2) The closing price per Share is HK$4.01 as stated in the daily quotation sheets issued by the Stock Exchange on October 9, 2017, being the trading day immediately before the date of grant.

(3) The closing price per Share is HK$5.02 as stated in the daily quotation sheets issued by the Stock Exchange on September 4, 2015, being the trading day immediately before the date of grant.

(4) The closing price per Share is HK$5.55 as stated in the daily quotation sheets issued by the Stock Exchange on July 28, 2016, being the trading day immediately before the date of grant.

(5) The closing price per Share is HK$5.02 as stated in the daily quotation sheets issued by the Stock Exchange on September 4, 2015, being the trading day immediately before the date of grant.

(6) The closing price per Share is HK$5.69 as stated in the daily quotation sheets issued by the Stock Exchange on October 19, 2015, being the trading day immediately before the date of grant.

(7) The closing price per Share is HK$5.23 as stated in the daily quotation sheets issued by the Stock Exchange on April 27, 2016, being the trading day immediately before the date of grant.

(8) The closing price per Share is HK$5.55 as stated in the daily quotation sheets issued by the Stock Exchange on July 28, 2016, being the trading day immediately before the date of grant.

(9) The closing price per Share is HK$4.30 as stated in the daily quotation sheets issued by the Stock Exchange on October 7, 2016, being the trading day immediately before the date of grant.

(10) The closing price per Share is HK$3.59 as stated in the daily quotation sheets issued by the Stock Exchange on February 1, 2017, being the trading day immediately before the date of grant.

ADDITIONAL INFORMATION

(11) The closing price per Share is HK$3.62 as stated in the daily quotation sheets issued by the Stock Exchange on February 21, 2017, being the trading day immediately before the date of grant.

(12) The closing price per Share is HK$3.92 as stated in the daily quotation sheets issued by the Stock Exchange on June 13, 2017, being the trading day immediately before the date of grant.

(13) The closing price per Share is HK$3.63 as stated in the daily quotation sheets issued by the Stock Exchange on August 2, 2017, being the trading day immediately before the date of grant.

(14) The closing price per Share is HK$4.01 as stated in the daily quotation sheets issued by the Stock Exchange on October 9, 2017, being the trading day immediately before the date of grant.

(15) The closing price per Share is HK$4.09 as stated in the daily quotation sheets issued by the Stock Exchange on January 31, 2018, being the trading day immediately before the date of grant.

(16) The options and RSUs granted typically shall vest in the Grantees within four years from the date of grant.

(17) The 525,000 RSUs have been vested in Mr. WANG Qiang but have not yet been transferred to him during the six months ended September 30, 2019.

(18) The 1,629,500 RSUs have been vested in Mr. WANG Lei but have not yet been transferred to him during the six months ended September 30, 2019.

(19) The weighted average closing price of the Shares immediately before the dates on which the options granted to the employees were exercised (calculated by the closing price per Share as stated in the daily quotation sheets issued by the Stock Exchange) is HK$7.89 per Share.

The Company estimated the fair value of its share options using the binomial model, which requires the Group to make estimates about inputs, such as expected volatility, expected dividend yield, exercise multiple, risk-free interest rate and expected forfeiture rate, and hence such estimate is subject to subjectivity and uncertainty. For the accounting policy adopted for the Share Awards and the estimated fair value of the options granted during the six months ended September 30, 2018 and 2019, respectively, please refer to Note 2.4 to the Group's consolidated financial statements for the year ended March 31, 2019 and Note 19 to the condensed consolidated financial statements for the six months ended September 30, 2019.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section titled "Connected Transactions" of the Company's annual report dated May 16, 2019, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the period under review.

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

As at September 30, 2019, the interests and short positions of the Directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "**SFO**"), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in shares and underlying shares of the Company

	Number of ordinary shares and underlying shares held, capacity and nature of interest		
Name of Director	**Nature of interest**	**Total interest in shares**	**Percentage of the Company's share capital**
Mr. SHEN Difan	Equity derivative interests[(1)]	9,860,000	0.08%
Mr. WU Yongming	Beneficial owner	1,262,000	0.01%
Mr. WANG Qiang	Equity derivative interests[(2)]	5, 649,000	0.05%
Mr. WANG Lei	Beneficial owner and equity derivative interests[(3)]	14,820,077	0.12%

Notes:

(1) Subject to vesting, Mr. SHEN Difan is interested in 9,860,000 shares underlying 8,190,000 options and 1,670,000 RSUs granted to him in accordance with the Share Award Scheme adopted by the Company at the special general meeting held on November 24, 2014.

ADDITIONAL INFORMATION

(2) Subject to vesting, Mr. WANG Qiang is interested in 5,649,000 shares underlying 4,000,000 options and 1,649,000 RSUs granted to him in accordance with the Share Award Scheme adopted by the Company at the special general meeting held on November 24, 2014.

(3) Mr. WANG Lei beneficially held 2,769,327 ordinary shares and subject to vesting, he is interested in 12,050,750 shares underlying 8,632,000 options and 3,418,750 RSUs granted to him in accordance with the Share Award Scheme adopted by the Company at the special general meeting held on November 24, 2014.

Long positions in shares and underlying shares of Alibaba Holding, an associated corporation of the Company within the meaning of Part XV of the SFO

Name of Director	Nature of interest	Number of shares/ underlying shares held	Approximate percentage of issued shares of associated corporation
Mr. SHEN Difan	Beneficial owner, equity derivative interests and interests of spouse(1)	297,592*	0.00%
Mr. WANG Qiang	Beneficial owner and Equity derivative interests(2)	18,600*	0.00%
Mr. WANG Lei	Beneficial owner, equity derivative interests and interests of spouse(3)	1,774,136*	0.01%
	Beneficiary of a trust(4)	629,336*	0.00%
Mr. WU Yongming	Beneficial owner and interests of spouse(5)	1,625,736*	0.01%
	Founder of a discretionary trust(6)	50,909,520*	0.24%
Mr. XU Hong	Equity derivative interests(7)	532,000*	0.00%

Notes:

(1) It represents 137,560* ordinary shares or underlying ordinary shares and 73,000* restricted share units beneficially held by Mr. SHEN Difan and 87,032* ordinary shares or underlying ordinary shares and restricted share units held by his spouse.

(2) It represents 6,600* ordinary shares or underlying ordinary shares and 12,000* restricted share units beneficially held by Mr. WANG Qiang.

(3) It represents 36,136* ordinary shares or underlying ordinary shares and 1,680,000* restricted share units (including 1,440,000* investment units) beneficially held by Mr. WANG Lei and 58,000* ordinary shares or underlying ordinary shares and restricted share units held by his spouse.

(4) It represents 629,336* ordinary shares or underlying ordinary shares held by a private trust whereby Mr. WANG Lei and his family are beneficiaries.

(5) It represents 25,736* ordinary shares held by Mr. WU Yongming, and 1,600,000* ordinary shares held by his spouse.

(6) It represents 50,909,520* ordinary shares or underlying ordinary shares held by Mr. WU Yongming through two private trusts whereby he is the founder of the discretionary trusts.

(7) It represents 532,000* restricted share units beneficially held by Mr. XU Hong.

* Alibaba Holding approved to effect a one-to-eight share subdivision of its ordinary shares (the "**Share Subdivision**") at the annual general meeting held on July 15, 2019. The Share Subdivision was effective on July 30, 2019. Accordingly, Alibaba Holding has changed its ratio of ordinary shares to American depositary shares ("**ADSs**") from one ADS representing one ordinary share to one ADS representing eight ordinary shares. The ratio of restricted share units to ordinary shares of Alibaba Holding has also changed from one restricted share unit representing one ordinary share to one restricted share unit representing eight ordinary shares.

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

Name of Director	Nature of interest	Number of shares/underlying shares held	Approximate percentage of issued shares of associated corporation
Mr. WANG Qiang	Equity derivative interests[1]	300,000	0.01%

Note:

(1) It represents 300,000 ordinary shares underlying 300,000 options beneficially held by Mr. WANG Qiang.

Save as disclosed above, as at September 30, 2019, none of the Directors and chief executive had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

ADDITIONAL INFORMATION

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

As at September 30, 2019, the following interests and short positions of 5% or more of the share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of shares/ underlying shares	% of the issued share capital of the Company
Alibaba Group Holding Limited	(1)	Interest of controlled corporation	8,120,539,215	67.55%
Perfect Advance Holding Limited	(1)	Beneficial owner	3,103,816,661	25.82%
	(1)	Persons acting in concert	1,316,811,347	10.95%
Alibaba Investment Limited	(1)	Interest of controlled corporation	4,420,628,008	36.77%
Innovare Tech Limited	(1)	Beneficial owner	1,316,811,347	10.95%
	(1)	Persons acting in concert	3,103,816,661	25.82%
Yunfeng Fund II, L.P.	(1)	Interest of controlled corporation	4,420,628,008	36.77%
Yunfeng Investment GP II, Ltd.	(1)	Interest of controlled corporation	4,420,628,008	36.77%
Yunfeng Investment II, L.P.	(1)	Interest of controlled corporation	4,420,628,008	36.77%
Mr. Yu Feng	(1)	Interest of controlled corporation	4,420,628,008	36.77%
Mr. Ma Yun	(1)	Interest of controlled corporation	4,420,628,008	36.77%
Ali JK Nutritional Products Holding Limited	(1)	Beneficial owner	3,699,911,207	30.78%
Uni-Tech International Group Limited	(2)	Beneficial owner	777,484,030	6.47%
21 CN Corporation	(2)	Interest of controlled corporation	777,484,030	6.47%
Pollen Internet Corporation	(2)	Interest of controlled corporation	777,484,030	6.47%
Ms. Chen Xiao Ying	(2)	Interest of controlled corporation	777,484,030	6.47%

Notes:

(1) Perfect Advance Holding Limited ("**Perfect Advance**") holds 3,103,816,661 shares of the Company and Innovare Tech Limited ("**Innovare**") holds 1,316,811,347 shares of the Company.

On October 12, 2018, Innovare and Perfect Advance entered into a shareholders' agreement which constitutes a concert party agreement for the purpose of section 317(1)(a) of the SFO, pursuant to which Perfect Advance enjoys a right of first refusal over the 1,316,811,347 shares in the Company held by Innovare.

ADDITIONAL INFORMATION

Alibaba Investment Limited ("**AIL**") is wholly-owned by Alibaba Holding. Innovare is wholly controlled by Yunfeng Fund II, L.P., which is a direct wholly-owned subsidiary of Yunfeng Investment II, L.P. and an indirect wholly-owned subsidiary of Yunfeng Investment GP II, Ltd. Yunfeng Investment GP II, Ltd. is owned by Mr. Ma Yun as to 40% and Mr. Yu Feng as to 60%. Accordingly, each of Yunfeng Fund II, L.P., Yunfeng Investment II, L.P., Yunfeng Investment GP II, Ltd., Mr. Ma Yun and Mr. Yu Feng is also deemed to have an interest in the 4,420,628,008 shares via Innovare within the meaning of Part XV of the SFO.

Ali JK Nutritional Products Holding Limited ("**Ali JK**") holds 3,699,911,207 shares. Ali JK is owned by Alibaba Holding as to 100%. Therefore, Alibaba Holding is deemed to have an interest in an aggregate of 8,120,539,215 shares via Perfect Advance and Ali JK within the meaning of Part XV of the SFO.

(2) Uni-Tech International Group Limited holds 777,484,030 shares and is wholly-owned by 21 CN Corporation. 21 CN Corporation is wholly-owned by Pollen Internet Corporation, which is wholly-owned by Ms. Chen Xiao Ying.

Save as disclosed above, as at September 30, 2019, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section titled "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

INTERIM DIVIDEND

The Board resolved that no interim dividend be declared for the six months ended September 30, 2019 (September 30, 2018: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities, except that a trustee of the Share Award Scheme purchased a total of 1,903,200 shares of the Company from the market to satisfy the Share Awards granted to connected employees of the Company upon vesting.

ISSUE FOR CASH OF EQUITY SECURITIES

On July 12, 2019, 302,976,000 Shares were issued to Ali JK and Antfin (Hong Kong) Holding Limited ("**Antfin**") at a total cash consideration of HK$2,272,320,000 and a subscription price of HK$7.5 per share. Ali JK and Antfin are connected persons of the Company. The transaction constituted connected transaction of the Company in accordance with the Listing Rules. For details of the transaction, please refer to the announcement of the Company dated May 23, 2019.

Save as disclosed above and the options exercised by the relevant grantees under the Share Award Scheme as disclosed in this report, the Company has not issued for cash any equity securities (including securities convertible into equity securities) for the six months ended September 30, 2019.

ADDITIONAL INFORMATION

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

In the opinion of the Board of the Company, throughout the Reporting Period, the Company has complied with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code under Appendix 14 to the Listing Rules, except in respect of the following matter:

Code provision C.1.2 of the Code Provisions stipulates that management should provide all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. The Company from time to time, based on business needs and conditions, provides to the Board up-to-date business information and convenes ad hoc meetings for considering material business or management issues, so as to enable the Directors and the Board as a whole to discharge their duties.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules (the "**Model Code**") to regulate the dealings of directors of the Company in the Group's securities. In response to specific enquiries by the Company, all directors of the Company have confirmed that they have complied with the Model Code in their securities transactions throughout the six months ended September 30, 2019.

NON-COMPLIANCE WITH RULE 3.10(1), RULE 3.10A, RULE 3.21 AND RULE 3.25 OF THE LISTING RULES

Pursuant to Rule 3.10(1) and Rule 3.10A of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and the independent non-executive directors of a listed issuer must represent at least one-third of the board of directors. Rule 3.21 and Rule 3.25 of the Listing Rules also require that the audit committee must comprise a minimum of three members, and the remuneration committee must be chaired by an independent non-executive director and comprising a majority of independent non-executive directors.

As a result of the resignation of Mr. Yan Xuan on April 8, 2019, the Board comprised only two executive Directors, three non-executive Directors and two independent non-executive Directors between April 8, 2019 and June 9, 2019 (the "**Relevant Period**"). The number of independent non-executive Directors was less than three and represented less than one-third of the Board as required under Rule 3.10(1) and Rule 3.10A of the Listing Rules, and the number of members of the Audit Committee and the Remuneration Committee also fell short of the requirements under Rule 3.21 and Rule 3.25 of the Listing Rules, during the Relevant Period. The Company also did not fulfil the requirement of establishing a Remuneration Committee chaired by an independent non-executive Director and comprising a majority of independent non-executive directors under Rule 3.25 of the Listing Rules, during the Relevant Period.

ADDITIONAL INFORMATION

Pursuant to Rule 3.11 and Rule 3.27 of the Listing Rules, the Company had taken the necessary measures to re-comply with Rule 3.10(1), Rule 3.10A, Rule 3.21 and Rule 3.25 of the Listing Rules within three months, and the composition of each of the Board, the Audit committee and the Remuneration committee had become fully compliant with Rule 3.10(1), Rule 3.10A, Rule 3.21 and Rule 3.25 of the Listing Rules from June 9, 2019 onwards and as at September 30, 2019.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial information of the Group for the six months ended September 30, 2019 has been reviewed by the audit committee of the Company and the Group's auditor, Messrs. Ernst & Young.

Hong Kong
November 26, 2019

INDEPENDENT REVIEW REPORT

EY 安永

TO THE BOARD OF DIRECTORS OF ALIBABA HEALTH INFORMATION TECHNOLOGY LIMITED
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 37 to 84, which comprises the interim condensed consolidated statement of financial position of Alibaba Health Information Technology Limited (the "**Company**") and its subsidiaries as at September 30, 2019 and the related interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

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

November 26, 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended September 30, 2019

	Notes	**2019 Unaudited *RMB'000***	2018 Unaudited *RMB'000*
REVENUE	4	**4,116,846**	1,878,709
Cost of revenue		**(3,085,186)**	(1,349,565)
Gross profit		**1,031,660**	529,144
Other income and gains	5	**63,922**	17,995
Operating expenses			
Fulfillment	6	**(467,029)**	(246,041)
Sales and marketing expenses		**(333,252)**	(156,848)
Administrative expenses		**(105,075)**	(85,985)
Product development expenses		**(135,138)**	(103,679)
Other expenses		**(6,236)**	(20,563)
Finance cost	7	**(19,462)**	(4,607)
Share of profits or losses of:			
Joint ventures	8	**(5,344)**	8,055
Associates	9	**(18,418)**	(16,269)
PROFIT/(LOSS) BEFORE TAX	10	**5,628**	(78,798)
Income tax expense	11	**(13,257)**	(11,182)
LOSS FOR THE PERIOD		**(7,629)**	(89,980)
Attributable to:			
Owners of the parent		**(1,102)**	(84,104)
Non-controlling interests		**(6,527)**	(5,876)
		(7,629)	(89,980)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**RMB(0.01) cent**	RMB(0.80) cent

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended September 30, 2019

	2019 **Unaudited** ***RMB'000***	2018 Unaudited *RMB'000*
LOSS FOR THE PERIOD	**(7,629)**	(89,980)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income will be reclassified to profit or loss in subsequent periods:		
Translation from functional currency to presentation currency	**75,307**	89,293
Other comprehensive income will not be reclassified to profit or loss in subsequent periods:		
Equity investment designated at fair value through other comprehensive income ("**FVOCI**"):		
Changes in fair value	**9,080**	—
Income tax effect	**(908)**	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**83,479**	89,293
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**75,850**	(687)
Attributable to:		
Owners of the parent	**82,377**	5,189
Non-controlling interests	**(6,527)**	(5,876)
	75,850	(687)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2019

	Notes	**September 30, 2019 Unaudited *RMB'000***	March 31, 2019 Audited *RMB'000*
NON-CURRENT ASSETS			
Property and equipment		**11,903**	8,886
Right-of-use assets		**86,283**	—
Goodwill		**54,576**	27,006
Other intangible assets		**4,826**	—
Investments in joint ventures	*14*	**105,140**	10,985
Investments in associates		**1,923,932**	1,964,854
Long-term receivables		**15,571**	39,372
Equity investment designated at FVOCI		**136,411**	119,801
Financial assets at fair value through profit or loss ("**FVPL**")		**483,321**	507,587
Total non-current assets		**2,821,963**	2,678,491
CURRENT ASSETS			
Inventories		**965,620**	595,793
Trade and bills receivables	*15*	**223,879**	365,446
Prepayments, other receivables and other assets		**229,900**	323,352
Financial assets at FVPL		**1,110,131**	1,736,713
Restricted cash		**2,688**	1,719
Cash and cash equivalents		**2,658,998**	280,371
Total current assets		**5,191,216**	3,303,394
CURRENT LIABILITIES			
Interest-bearing borrowings	*16*	**1,000,000**	1,700,000
Lease liabilities		**33,456**	—
Trade and bills payables	*17*	**1,434,649**	902,651
Other payables and accruals		**343,782**	463,642
Contract liabilities		**164,081**	151,991
Tax payable		**15,423**	15,098
Total current liabilities		**2,991,391**	3,233,382
NET CURRENT ASSETS		**2,199,825**	70,012
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,021,788**	2,748,503

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2019

	Notes	September 30, 2019 Unaudited RMB'000	March 31, 2019 Audited RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**16,809**	11,677
Lease liabilities		**48,364**	—
Total non-current liabilities		**65,173**	11,677
Net assets		**4,956,615**	2,736,826
EQUITY			
Equity attributable to owners of the parent			
Share capital	*18*	**105,636**	102,898
Treasury shares	*18*	**(12,087)**	(25,052)
Reserves		**4,927,098**	2,716,673
		5,020,647	2,794,519
Non-controlling interests		**(64,032)**	(57,693)
Total equity		**4,956,615**	2,736,826

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2019

		Attributable to owners of the parent												
	Notes	Share capital RMB'000	Share premium account RMB'000	Treasury share RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	General reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At April 1, 2018		86,617	7,255,519	(5,474)	(3,828,605)	28,557	77,335	13,660	142,480	13,468	(1,203,309)	2,580,248	(57,191)	2,523,057
Loss for the period		–	–	–	–	–	–	–	–	–	(84,104)	(84,104)	(5,876)	(89,980)
Other comprehensive loss for the period:		–	–	–	–	–	–	–	–	–	–	–	–	–
Translation from functional currency to presentation currency		–	–	–	–	–	–	89,293	–	–	–	89,293	–	89,293
Total comprehensive loss for the period		–	–	–	–	–	–	89,293	–	–	(84,104)	5,189	(5,876)	(687)
Issue of new shares		20	–	(20)	–	–	–	–	–	–	–	–	–	–
Issue of new shares for an acquisition under common control	21(b)	15,932	12,554,598	–	(12,569,162)	–	–	–	–	–	–	1,368	–	1,368
Repurchase of shares	18	–	–	(10,861)	–	–	–	–	–	–	–	(10,861)	–	(10,861)
Share-based compensation costs	19	–	–	–	–	–	–	–	100,466	–	–	100,466	–	100,466
Vested awarded shares transferred to employees	18	–	52,737	10,746	–	–	–	–	(63,483)	–	–	–	–	–
Exercise of share options	18	41	32,899	–	–	–	–	–	(11,851)	–	–	21,089	–	21,089
Transfer of share-based compensation reserve of options forfeited after vesting date		–	–	–	–	–	–	–	(264)	–	264	–	–	–
Deemed interest of an interest-free loan to a non-wholly owned subsidiary		–	–	–	–	(2)	–	–	–	–	–	(2)	2	–
Share of capital reserve of an associate		–	–	–	–	509	–	–	–	–	–	509	–	509
At September 30, 2018 (unaudited)		102,610	19,895,753	(5,609)	(16,397,767)	29,064	77,335	102,953	167,348	13,468	(1,287,149)	2,698,006	(63,065)	2,634,941

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2019

		Attributable to owners of the parent													
	Notes	Share capital *RMB'000*	Share premium account *RMB'000*	Treasury share *RMB'000*	Merger reserve *RMB'000*	Capital reserve *RMB'000*	Contributed surplus *RMB'000*	Exchange fluctuation reserve *RMB'000*	Employee share-based compensation reserve *RMB'000*	Equity investments at fair value through other comprehensive income revaluation reserve *RMB'000*	General reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At April 1, 2019		102,898	19,966,843	(25,052)	(16,397,767)	32,570	77,335	75,873	231,955	–	10,459	(1,280,595)	2,794,519	(57,693)	2,736,826
Loss for the period		–	–	–	–	–	–	–	–	–	–	(1,102)	(1,102)	(6,527)	(7,629)
Other comprehensive loss for the period:		–	–	–	–	–	–	–	–	–	–	–	–	–	–
Change in fair value of financial assets at FVOCI		–	–	–	–	–	–	–	–	8,172	–	–	8,172	–	8,172
Translation from functional currency to presentation currency		–	–	–	–	–	–	75,307	–	–	–	–	75,307	–	75,307
Total comprehensive income for the period		–	–	–	–	–	–	75,307	–	8,172	–	(1,102)	82,377	(6,527)	75,850
Issue of new shares for restricted share units ("**RSU**")		39	–	(39)	–	–	–	–	–	–	–	–	–	–	–
Issue of new shares	18	2,667	1,997,913	–	–	–	–	–	–	–	–	–	2,000,580	–	2,000,580
Repurchase of shares	18	–	–	(12,256)	–	–	–	–	–	–	–	–	(12,256)	–	(12,256)
Share-based compensation costs	19	–	–	–	–	–	–	–	147,156	–	–	–	147,156	–	147,156
Vested awarded shares transferred to employees	18	–	74,231	25,260	–	–	–	–	(99,491)	–	–	–	–	–	–
Exercise of share options	18	32	29,944	–	–	–	–	–	(14,646)	–	–	–	15,330	–	15,330
Deemed interest of an interest-free loan to a non-wholly owned subsidiary		–	–	–	–	(188)	–	–	–	–	–	–	(188)	188	–
Share of capital reserve of an associate		–	–	–	–	(6,871)	–	–	–	–	–	–	(6,871)	–	(6,871)
At September 30, 2019 (unaudited)		105,636	22,068,931*	(12,087)	(16,397,767)*	25,511*	77,335*	151,180*	264,974*	8,172*	10,459*	(1,281,697)*	5,020,647	(64,032)	4,956,615

* These reserve accounts comprise the consolidated reserves of RMB4,927,098,000 (March 31, 2019: RMB2,716,673,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended September 30, 2019

	Notes	Six months ended September 30, 2019 Unaudited RMB'000	2018 Unaudited RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**5,628**	(78,798)
Adjustments for:			
Share of losses/(profits) of joint ventures	8	**5,344**	(8,055)
Share of losses of associates	9	**18,418**	16,269
Interest income	5	**(16,672)**	(17,795)
Gain on disposal of items of property and equipment	5	**—**	(8)
Gain on deemed partial disposal of associates	5	**(17,027)**	—
Gain on disposal of an associate	5	**(21,791)**	—
Finance cost	7	**19,462**	4,607
Fair value losses on financial assets at FVPL	10	**6,605**	1,906
Depreciation of property and equipment	10	**2,318**	3,050
Depreciation of right-of-use assets	10	**15,464**	—
Amortisation of intangible assets	10	**1,104**	—
Reversal of impairment of trade receivables	10	**(1,227)**	—
(Reversal)/provision of impairment of inventories	10	**(1,362)**	2,393
Write-off of inventories	10	**—**	354
Foreign exchange difference, net		**(1,787)**	17,595
Share-based compensation costs	19	**147,156**	100,466
		161,633	41,984
Decrease/(increase) in trade and bills receivables		**142,797**	(99,585)
Decrease/(increase) in prepayments, other receivables and other assets		**94,219**	(28,423)
(Increase)/decrease in inventories		**(367,377)**	75,000
Increase in restricted cash		**(969)**	(6,304)
Decrease/(increase) in long-term receivables		**22,162**	(240)
Increase in trade and bills payables		**529,698**	205,873
(Decrease)/increase in other payables and accruals		**(132,332)**	61,653
Increase in contract liabilities		**12,090**	9,948
Exchange differences		**5,851**	16,856
Cash generated from operations		**467,772**	276,762
Interest received		**14,694**	25,337
Interest element of lease payments		**1,907**	—
PRC taxes paid		**(8,734)**	807
HK taxes paid		**—**	(573)
Net cash flows generated from operating activities		**475,639**	302,333

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended September 30, 2019

	Notes	Six months ended September 30, 2019 Unaudited RMB'000	2018 Unaudited RMB'000
Net cash flows generated from operating activities		**475,639**	302,333
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment		**(2,873)**	(3,409)
Purchase of items of intangible asset		**(5,930)**	—
Decrease/(increase) of financial assets at FVPL		**644,243**	(1,423,400)
Proceeds from disposal of items of property and equipment		**—**	41
Business acquisitions	*21(A)*	**(18,012)**	—
(Increase)/decrease of time deposits with original maturity over three months		**(211,637)**	888,778
Proceeds from disposal of an associate	*5*	**53,042**	—
Capital injection in associates		**—**	(254,626)
Deemed disposal of a subsidiary		**—**	(5,000)
Capital injection in a joint venture		**(99,500)**	(8,500)
Net cash flows generated/(used in) investing activities		**359,333**	(806,116)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of new shares		**2,000,580**	—
Repurchase of shares		**(12,256)**	(10,861)
Proceeds from exercise of options		**15,330**	21,089
Bank loans and other borrowings		**—**	1,249,380
Repayment of bank loans and other borrowings		**(700,000)**	—
Interest paid		**(19,249)**	—
Principal portion of lease payments		**(16,122)**	—
Net cash flows generated from financing activities		**1,268,283**	1,259,608
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,103,255**	755,825
Cash and cash equivalents at beginning of period		**280,371**	508,419
Effect of foreign exchange rate changes		**63,735**	54,837
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD		**2,447,361**	1,319,081

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended September 30, 2019

	Six months ended September 30, 2019 Unaudited *RMB'000*	**Six months ended September 30,** 2018 Unaudited *RMB'000*
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**1,400,347**	1,208,878
Non-pledged time deposits with original maturity of three months or less when acquired	**1,047,014**	110,203
Non-pledged time deposits with original maturity over three months when acquired	**211,637**	—
CASH AND CASH EQUIVALENTS AS STATED IN THE INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	**2,658,998**	1,319,081
Non-pledged time deposits with original maturity over three months	**(211,637)**	—
CASH AND CASH EQUIVALENTS AS STATED IN THE INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS	**2,447,361**	1,319,081

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

1 GENERAL INFORMATION

Alibaba Health Information Technology Limited (the "**Company**") is incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda. The principal place of business of the Company is located at 17th to 19th Floors, Building B, Greenland Center, Beijing, the People's Republic of China ("**PRC**").

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are primarily engaged in pharmaceutical self-operated business, operation of pharmaceutical e-commerce platform and consumer healthcare services platform, provision of tracking services and other innovative services.

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

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended September 30, 2019 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "*Interim Financial Reporting*" issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended March 31, 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**" (which include all HKFRSs, HKASs and Interpretations)).

The Company has set up two trusts (the "**Trusts**") for the purpose of purchasing, administering and holding the Company's shares for the share award scheme adopted on November 24, 2014 (the "**Share Award Scheme**", note 19). The Group has the power to govern the financial and operating policies of the Trusts and derive benefits from the services of the employees who have been awarded the awarded shares through their continued employment with the Group. The assets and liabilities of the Trusts are included in the interim condensed consolidated statement of financial position and the shares held by the Trusts are presented as a deduction in equity as treasury shares.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

The associates and joint ventures, except for Dongfang Customs Technology Company Limited^ (東方口岸科技有限公司) ("**Dongfang Customs**"), have a financial year ending December 31, and the financial statements of these associates and joint ventures may not be available in a timely manner for the Group to apply the equity method, therefore the Group elects to record its shares of the profits or losses of these associates and joint ventures on a quarter lag basis.

2.2 Significant accounting policies, new standards and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended March 31, 2019, except for the adoption of the new and revised HKFRSs effective as of April 1, 2019.

HKFRS 16	*Leases*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Significant accounting policies, new standards and amendments adopted by the Group (continued)

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of April 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at April 1, 2019, and the comparative information for prior financial year was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after April 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Significant accounting policies, new standards and amendments adopted by the Group (continued)

(a) Adoption of HKFRS 16 (continued)

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at April 1, 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at April 1, 2019 and included in interest-bearing borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before April 1, 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at April 1, 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/ terminate the lease

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Significant accounting policies, new standards and amendments adopted by the Group (continued)

(a) Adoption of HKFRS 16 (continued)

Impacts on transition (continued)

The impacts arising from the adoption of HKFRS 16 as at April 1, 2019 are as follows:

	Increase/ (decrease) (Unaudited) *RMB'000*
Assets	
Increase in right-of-use assets	73,087
Decrease in prepayments, other receivables and other assets	(4,786)
Increase in total assets	68,301
Liabilities	
Increase in lease liabilities	68,301
Increase in total liabilities	68,301

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Significant accounting policies, new standards and amendments adopted by the Group (continued)

(a) Adoption of HKFRS 16 (continued)

Impacts on transition (continued)

The lease liabilities as at April 1, 2019 reconciled to the operating lease commitments as at March 31, 2019 is as follows:

	(Unaudited) *RMB'000*
Operating lease commitments as at March 31, 2019	74,940
Weighted average incremental borrowing rate as at April 1, 2019	4.676%
Discounted operating lease commitments as at April 1, 2019	69,065
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before March 31, 2020	764
Lease liabilities as at April 1, 2019	68,301

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended March 31, 2019 is replaced with the following new accounting policies upon adoption of HKFRS 16 from April 1, 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is initially and subsequently measured at cost.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Significant accounting policies, new standards and amendments adopted by the Group (continued)

(a) Adoption of HKFRS 16 (continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Significant accounting policies, new standards and amendments adopted by the Group (continued)

(a) Adoption of HKFRS 16 (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets		
	Office buildings	Investment properties	Lease liabilities
	(unaudited) *RMB'000*	(unaudited) *RMB'000*	(unaudited) *RMB'000*
As at April 1, 2019	73,087	—	68,301
Additions	28,660	—	27,734
Transfer	(17,686)	17,686	—
Depreciation charge	(12,148)	(3,316)	—
Interest expense	—	—	1,907
Payments	—	—	(16,122)
As at September 30, 2019	71,913	14,370	81,820

The Group recognised rental expenses from short-term leases of RMB677,000 and rental income from subleasing right-of-use assets of RMB3,930,000 for the six months ended September 30, 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Significant accounting policies, new standards and amendments adopted by the Group (continued)

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

3 OPERATING SEGMENT INFORMATION

The Group is primarily engaged in pharmaceutical self-operated business, operation of pharmaceutical e-commerce platform and consumer healthcare services platform, provision of tracking services and other innovative services. Given that the chief operating decision maker of the Company considers that the Group's business is operated and managed as a single segment of development and distribution of pharmaceutical and health products related business, accordingly, no segment information is presented.

Geographical information

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

Information about a major customer

During the period ended September 30, 2019 and 2018, there was no revenue derived from transactions with a single external customer which amounted to 10% or more of the Group's revenue.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

4 REVENUE

The Group is primarily engaged in pharmaceutical self-operated business, operation of pharmaceutical e-commerce platform and consumer healthcare services platform, provision of tracking services and other innovative services in the PRC.

An analysis of revenue is as follows:

	Six months ended September 30,	
	2019	2018
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Pharmaceutical self-operated business	**3,435,166**	1,601,072
Pharmaceutical e-commerce platform business	**539,991**	225,170
Consumer healthcare business	**110,664**	29,557
Tracking business	**18,953**	18,922
Other innovative businesses	**12,072**	3,988
Total	**4,116,846**	1,878,709

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

4 REVENUE (CONTINUED)

Revenue from contracts with customers

Disaggregated revenue information

	Six months ended September 30,	
	2019	2018
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Type of goods or services:		
Sales of products	**3,271,829**	1,549,799
Provision of services	**845,017**	328,910
Total revenue from contracts with customers	**4,116,846**	1,878,709
Timing of revenue recognition:		
At a point in time	**3,911,563**	1,795,259
Over time	**205,283**	83,450
Total revenue from contracts with customers	**4,116,846**	1,878,709

Substantially all of the Group's revenue were derived from PRC, therefore, no geographical information is presented.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

5 OTHER INCOME AND GAINS

	Six months ended September 30,	
	2019	2018
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Interest income	**16,672**	17,795
Gain on disposal of items of property and equipment	**—**	8
Gain on deemed partial disposal of associates	**17,027**	—
Gain on disposal of an associate#	**21,791**	—
Foreign exchange difference, net	**1,783**	—
Rental income	**4,237**	—
Government subsidies	**1,975**	—
Others	**437**	192
	63,922	17,995

\# On March 29, 2019, Hongyun Jiukang Data Technology (Beijing) Company Limited^ (弘云久康數據技術 (北京) 有限公司) ("**Hongyun Jiukang**"), a subsidiary of the Company, entered into the Equity Transfer Agreement with a wholly-owned subsidiary of Jiahe Meikang (Beijing) Technology Co., Ltd.^ (嘉和美康(北京)科技股份有限公司) ("**Jiahe Meikang**"), an associate of Hongyun Jiukang, pursuant to which 45% equity interests of Beijing Jiamei Online Technology Co., Ltd.^ (北京嘉美在線科技有限公司) ("**Jiamei Online**") held by Hongyun Jiukang were transferred to a wholly-owned subsidiary of Jiahe Meikang, for a total cash consideration of approximately RMB53,042,000.

The transaction was completed and the cash consideration of RMB53,042,000 was fully received during the six months ended September 30, 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

6 FULFILLMENT

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

7 FINANCE COST

Finance cost is interest on bank loans and other borrowings and lease liabilities of the Group.

8 SHARE OF PROFITS OR LOSSES OF JOINT VENTURES

The Group recorded share of losses from existing joint ventures for the six months ended June 30, 2019 and 2018, except for a former 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**"), from which the Group recorded share of profit for the six months ended September 30, 2018, and a 45%-owned joint venture, Zhejiang Bianque health data technology Limited^ (浙江扁鵲健康數據技術有限公司), from which the Group recorded share of loss from the acquisition date to June 30, 2018. The Group also recorded share of losses of newly established joint venture for the period from the setup date to June 30, 2019.

9 SHARE OF PROFITS OR LOSSES OF ASSOCIATES

The Group recorded share of profits or losses from existing associates for the six months ended June 30, 2019 and 2018, except for Dongfang Customs, from which the Group recorded share of profits or losses for the six months ended September 30, 2019 and 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

10 PROFIT/(LOSS) BEFORE TAX

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

	Six months ended September 30,	
	2019	2018
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Cost of goods sold*	**2,646,318**	1,244,323
Cost of services provided* (excluding employee benefit expense and share-based compensation costs)	**427,547**	94,923
Depreciation of property and equipment	**2,318**	3,050
Depreciation of right-of-use assets	**15,464**	—
Amortisation of intangible assets	**1,104**	—
Fair value losses on financial assets at FVPL#	**6,605**	1,906
(Reversal of impairment)/impairment of inventories*	**(1,362)**	2,393
Reversal of impairment of trade receivables#	**(1,227)**	—
Write-off of inventories#	**—**	354
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**196,821**	145,150
Pension scheme contributions	**12,643**	10,623
Share-based compensation costs *(note 19)*	**147,156**	100,466
	356,620	256,239
Foreign exchange differences, net	**(1,783)**	17,886

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

11 INCOME TAX EXPENSE

	Six months ended September 30,	
	2019	2018
	RMB'000	*RMB'000*
Current-Mainland China		
Charge for the period	**21,181**	17,075
Overprovision in prior years	**(12,122)**	(6,883)
Deferred	**4,198**	990
Total tax charge for the periods	**13,257**	11,182

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 six months ended September 30, 2019 and September 30, 2018.

In general, the PRC subsidiaries of the Company are subject to the PRC corporate income tax rate of 25% except for one PRC subsidiary which is entitled to a preferential tax rate of 15%, and one PRC subsidiary which is entitled to the preferential tax treatment of the former two-year income tax exemptions and later three-year 50% tax reductions policy since 2018.

Deferred income tax represents withholding tax on the distributable profits of the Group's associate and joint venture and tax impact of temporary difference arising from the Group's operation.

12 DIVIDENDS

The Board has resolved that no interim dividend be declared for the six months ended September 30, 2019 (for the six months ended September 30, 2018: Nil).

13 LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the period attributable to owners of the parent, and the weighted average number of ordinary shares of approximately 11,835,917,067 in issue during the period (for the six months ended September 30, 2018: 10,448,498,262).

No adjustment has been made to the basic loss per share amounts presented for the six months ended September 30, 2019 and September 30, 2018 in respect of dilution, as the impact of the share options and restricted share units outstanding had an anti-dilutive effect on the loss per share amounts presented.

14 INVESTMENTS IN JOINT VENTURES

On March 29, 2019, Hangzhou Hongyun Kangsheng Equity investment Co., Ltd^ (杭州弘云康晟股權投資有限公司) ("**Hangzhou Hongyun**"), a subsidiary of the Company, entered into a partnership agreement with Huatai Zijin investment Co., Ltd^ (華泰紫金投資有限公司) ("**Huatai Zijin**"), both of which acted as general partners, and other sixteen limited partners, pursuant to which, Hanzhou Hongyun shall subscribe RMB199,000,000 and the other partners shall subscribe RMB1,251,000,000 in cash to establish Jiangsu Zijin Hongyun Health industry investment partnership (Limited partnership)^ (江蘇紫金弘云健康產業投資合夥企業(有限合夥)有限公司) ("**Jiangsu Zijin**").

RMB99,500,000 in cash was contributed to Jiangsu Zijin by Hangzhou Hongyun during the period ended September 30, 2019.

15 TRADE AND BILLS RECEIVABLES

	September 30, 2019	March 31, 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Trade receivables	**214,382**	213,467
Bills receivable	**36,066**	179,775
	250,448	393,242
Impairment	**(26,569)**	(27,796)
	223,879	365,446

The Group's trading terms with some of its customers are on credit. The Group provides a credit period from 30 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 the senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade and bills receivables as at September 30, 2019 are amounts due from subsidiaries of Alibaba Group of approximately RMB24,040,000 (March 31, 2019: RMB10,735,000) and the Group's associates of approximately RMB5,673,000 (March 31, 2019: RMB25,331,000), which are repayable on credit terms similar to those offered to major customers of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

15 TRADE AND BILLS RECEIVABLES (CONTINUED)

An aging 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:

	September 30, 2019 Unaudited ***RMB'000***	March 31, 2019 Audited *RMB'000*
Within 3 months	**185,961**	179,668
3 to 12 months	**1,713**	5,867
1 to 2 years	**139**	136
	187,813	185,671

16 INTEREST-BEARING BORROWINGS

	2019/9/30			2019/3/31		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Other loans — unsecured	**2.84–2.94**	**on demand**	**1,000,000**	2.84–4.39	on demand	1,700,000

	2019/9/30 ***RMB'000***	2019/3/31 *RMB'000*
Analysed into:		
Interest-bearing borrowing		
Within one year or on demand	**1,000,000**	1,700,000

16 INTEREST-BEARING BORROWINGS (CONTINUED)

Notes:

Zhejiang Tmall Technology Co., Ltd.^ (浙江天貓技術有限公司) provided loans of RMB2,000,000,000 to the Group, of which RMB1,700,000,000 was unpaid as at March 31, 2019. Interest expense of approximately RMB27,196,000 was accrued and an amount of RMB17,342,000 was unpaid and recorded in other payables and accruals as at March 31, 2019.

The loan principal of RMB700,000,000 was repaid by the Group during the period ended September 30, 2019. On June 22, 2019, the same parties renewed the loan agreement, pursuant to which Zhejiang Tmall Technology Co., Ltd.^ (浙江天貓技術有限公司) provided loans of the RMB100,000,000 to the Group. Interest expense of approximately RMB14,955,000 was accrued and recorded in other payables and accruals as at September 30, 2019.

17 TRADE AND BILLS PAYABLES

An aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date or issue date, is as follows:

	September 30, 2019	March 31, 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 3 months	**1,010,984**	715,779
3 to 12 months	**422,306**	186,182
Over 12 months	**1,359**	690
	1,434,649	902,651

Included in the Group's trade payables as at September 30, 2019 are amounts due to subsidiaries of Alibaba Group of approximately RMB716,692,000 (March 31, 2019: RMB405,955,000), which are repayable on credit terms similar to those offered by the related companies to their major customers.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

18 SHARE CAPITAL

Shares

	September 30, 2019 Unaudited *RMB'000*	March 31, 2019 Audited *RMB'000*
Issued and fully paid		
12,021,757,333 (March 31, 2019: 11,710,892,714) ordinary shares of HK$0.01 each	**105,636**	102,898

	Number of shares in issue (unaudited)	**Share capital** (unaudited) *RMB'000*	**Treasury shares** (unaudited) *RMB'000*
Ordinary shares of HK$0.01 each			
At April 1, 2018	9,842,737,787	86,617	(5,474)
Exercise of share options *(note a)*	4,935,000	41	—
Repurchase of shares *(note b)*	—	—	(10,861)
Vested awarded shares transferred to employees *(note c)*	—	—	10,746
Issue of shares *(note d)*	1,827,586,207	15,932	—
Issue of shares for RSU *(note e)*	2,254,605	20	(20)
At September 30, 2018	11,677,513,599	102,610	(5,609)
At April 1, 2019	**11,710,892,714**	**102,898**	**(25,052)**
Exercise of share options *(note f)*	**3,592,250**	**32**	**—**
Repurchase of shares *(note g)*	**—**	**—**	**(12,256)**
Vested awarded shares transferred to employees *(note h)*	**—**	**—**	**25,260**
Issue of shares *(note i)*	**302,976,000**	**2,667**	**—**
Issue of shares for RSU *(note j)*	**4,296,369**	**39**	**(39)**
At September 30, 2019	**12,021,757,333**	**105,636**	**(12,087)**

Note a: Certain employees exercised share options from May 2018 to September 2018. The total number of options exercised is 4,935,000.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

18 SHARE CAPITAL (CONTINUED)

Note b: In July 2018, August 2018 and September 2018, a total of 1,684,900 ordinary shares were repurchased from the market at a total consideration of HK$12,453,244 (approximately to RMB10,861,000) for restricted share units to be vested on April 30, 2018, July 31, 2018 and in future period.

Note c: On April 30, 2018 and July 31, 2018, a total of 16,582,071 treasury shares were transferred to owners of vested restricted share units.

Note d: On August 2, 2018, 1,827.6 million shares of HK$0.01 each were issued to a related company.

Note e: On September 11, 2018, 2,254,605 shares of HK$0.01 each were issued for restricted share units vested in future period.

Note f: Certain employees exercised share options from April 2019 to September 2019. The total number of options exercised is 3,592,250.

Note g: In May 2019, June 2019 and July 2019, a total of 1,903,200 ordinary shares were repurchased from the market at a total consideration of HK$13,700,563 (approximately to RMB12,256,000) for restricted share units to be vested on July 31, 2019, September 15, 2019 and in future period.

Note h: On April 30, 2019, June 14, 2019, July 31, 2019 and September 15, 2019, a total of 30,659,645 treasury shares were transferred to owners of vested restricted share units.

Note i: On July 12, 2019, 302,976,000 shares were issued to Ali JK Nutritional Products Holding Limited ("**Ali JK**") and Antfin (Hong Kong) Holding Limited ("**Antfin**") at a total cash consideration of HK$2,272,320,000 and a subscription price of HK$7.5 per share. Ali JK and Antfin are connected persons of the Company. The transaction constituted connected transactions of the Company in accordance with the Listing Rules. For details of the transaction, please refer to announcement of the Company dated May 23, 2019.

Note j: In September 2019, 4,296,369 shares of HK$0.01 each were issued for restricted share units to be vested in future period.

19 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 ("**Option**") to subscribe for or acquire shares of the Company which are granted under the Share Award Scheme.

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.

19 SHARE-BASED COMPENSATION COSTS (CONTINUED)

Share award scheme (continued)

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

Any grant of RSUs to any connected person of the Company and the issue and allotment of shares upon vesting of such RSUs will constitute a connected transaction (as defined in Chapter 14A of the Listing Rules) of the Company and shall therefore be subject to compliance with Chapter 14A of the Listing Rules (unless an exemption applies).

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

	Weighted average exercise price of options (unaudited) *HK$ per share*	**Number of options** (unaudited) *'000*	**Number of RSUs** (unaudited) *'000*
Outstanding at April 1, 2018	4.69	77,844	70,654
Granted during the period	7.24	8,190	60,122
Forfeited during the period	4.33	(8,055)	(7,754)
Exercised or transferred during the period	5.16	(4,935)	(17,764)
Outstanding at September 30, 2018	4.98	73,044	105,258
Average fair value per option/RSU at September 30, 2018		RMB2.12	RMB4.95
Outstanding at April 1, 2019	**5.00**	**63,072**	**110,648**
Granted during the period	**—**	**—**	**40,178**
Forfeited during the period	**4.50**	**(4,371)**	**(11,550)**
Exercised or transferred during the period	**4.84**	**(3,592)**	**(30,660)**
Outstanding at September 30, 2019	**5.05**	**55,109**	**108,616**
Average fair value per option/RSU at September 30, 2019		**RMB2.07**	**RMB5.15**

19 SHARE-BASED COMPENSATION COSTS (CONTINUED)

For options outstanding at the end of the reporting period, the exercise prices range from HK$3.610 to HK$7.240. The exercise period of the options is from the vesting date to 10 years from the grant date. As at September 30, 2019, the remaining vesting periods for the options and RSUs granted range from 4 months to 47 months.

There were no options granted during the six months ended September 30, 2019. The fair value of options granted during the six months ended September 30, 2018 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:

	Six months ended September 30, 2018 (Unaudited)
Fair value of the Company's shares at the grant date	HK$7.24
Expected volatility *(%)*	75
Expected dividend *(%)*	0.00
Exercise multiple	1.5
Exercise price	HK$7.24
Risk-free interest rate *(%)*	2.28

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 six months ended September 30, 2019 and September 30, 2018 was determined based on the market value of the Company's shares at the respective grant dates.

19 SHARE-BASED COMPENSATION COSTS (CONTINUED)

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

	Six months ended September 30,	
	2019	2018
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Cost of revenue	**5,050**	3,969
Sales and marketing expenses	**53,134**	28,994
Administrative expenses	**42,128**	35,319
Product development expenses	**40,950**	26,719
Fulfillment	**5,894**	5,465
	147,156	100,466

At the end of the reporting period, the Company had 55,109,000 options and 108,616,000 RSUs outstanding under the Share Award Scheme. The exercise in full of the outstanding options and RSUs would, under the present capital structure of the Company, result in the issue of 150,196,000 additional ordinary shares of the Company and additional share capital of HK$1,501,960 (equivalent to approximately RMB1,326,381) (before issue expenses), the purchase of approximately 8,733,000 existing shares from the market and release of 4,796,000 approximately treasury shares. The purchase of 8,733,000 existing shares was for RSUs to be vested by connected persons of the Group.

20 COMMITMENTS

The Group had the following capital commitments at the end of the reporting period.

	September 30, 2019	March 31, 2019
	Unaudited	Audited
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Capital injection of investments	**275,444**	374,944

21 BUSINESS COMBINATIONS UNDER COMMON CONTROL

(A) Business combinations not under common control

Acquisition of Hangzhou Yixintang

In May 2019, Ali JK Medical products (HK) Limited, a subsidiary of the Group, entered into an equity transfer agreement with Yixintang Pharmaceutical Chain Co., Ltd.^ (易心堂大藥房連鎖股份有限公司) ("**Yixintang**"), pursuant to which, Ali JK Medical products (HK) Limited acquired 100% equity interest of Hangzhou Yinxintang Pharmaceutical Chain Co., Ltd.^ (杭州易心堂大藥房連鎖有限公司) ("**Hangzhou Yixintang**"), which was a subsidiary of Yixintang, at a cash consideration of RMB15,785,000. A consideration of RMB12,585,000 was paid to Yixintang, and the remaining RMB3,200,000 will be paid after certain conditions are fulfilled.

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

	Fair value recognised on acquisition *RMB'000*
Property and equipment	2,458
Prepayments, other receivables and other assets	1,453
Inventory	1,088
Trade receivables	3
Cash and cash at banks	5
Other payables	(492)
Trade payables	(2,300)
Total identifiable net assets at fair value	2,215
Goodwill on acquisition	13,570
	15,785
Satisfied by:	
Cash	12,585
Other payables	3,200
Total purchase consideration	15,785

21 BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONTINUED)

(A) Business combinations not under common control (continued)

Acquisition of Hangzhou Yixintang (continued)

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

	RMB'000
Cash consideration paid	(12,585)
Cash and bank balances acquired	5
Net outflow of cash and cash equivalents included in cash flows from investing activities	(12,580)

Since the acquisition, Hangzhou Yixintang contributed RMB2,609,000 to the Group's revenue and loss of RMB1,446,000 to the consolidated loss for the six months ended September 30, 2019.

Had the combination taken place at the beginning of current period, the revenue from continuing operations of the Group and the loss of the Group for the six months ended September 30, 2019 would have been RMB4,117,854,000 and RMB10,788,000, respectively.

21 BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONTINUED)

(A) Business combinations not under common control (continued)

Acquisition of seven pharmacies

On April 16, 2019, the Group acquired seven pharmacies from a third party. The purchase consideration was approximately RMB14,000,000. There was no identifiable net assets of seven pharmacies as at the date of acquisition, and the goodwill on acquisition was RMB14,000,000.

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

	Fair value recognised on acquisition *RMB'000*
Total identifiable net assets at fair value	—
Goodwill on acquisition	14,000
	14,000
Satisfied by:	
Cash	5,432
Other payables	8,568
Total purchase consideration	14,000

An analysis of the cash flows in respect of the acquisition of seven pharmacies' business is as follows:

	RMB'000
Cash consideration	(5,432)
Net outflow of cash and cash equivalents included in cash flows from investing activities	(5,432)

Since the acquisition, seven pharmacies contributed RMB2,282,000 to the Group's revenue and loss of RMB185,000 to the consolidated loss for the six months ended September 30, 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

21 BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONTINUED)

(B) Business combinations under common control

On August 2, 2018, the Group acquired 100% equity interest in Ali JK Medical Products Limited and its subsidiaries, Ali JK Medical Products (HK) Limited, and Lu Kang pharmacy (Hangzhou) Co., Ltd.^ (鹿康大藥房(杭州)有限公司) (formerly known as Hangzhou Hengping Health Technology Co., Ltd.^ (杭州衡憑健康科技有限公司)), (collectively referred to as the "**Ali JK Medical Products Group**") from Ali JK Nutritional Products Holding Limited (the "**Vendor**"), a direct wholly-owned subsidiary of Alibaba Holding. As the Company and Ali JK Medical Products Group are under the common control of Alibaba Holding before and after the acquisition, the business combination has been accounted for in the interim condensed consolidated financial statements of the Group as a business combination under common control using merger accounting.

The consideration amounting to HK$10,600 million was satisfied by the Company issuing 1,827.6 million shares on August 2, 2018 to the Vendor. The fair value of these consideration shares was HK$14,419.7 million (approximately to RMB12,570.5 million) based on the market price of HK$7.89 per ordinary shares as at August 2, 2018. The difference of RMB12,569.1 million between the fair value of consideration shares issued of approximately RMB12,570.5 million and the carrying amount of approximately RMB1.4 million of the net asset of Ali JK Medical Products Group at the acquisition date is recognised in merger reserve. Ali JK Medical Products Group was established by the Vendor to hold the business which comprises: (i) all merchant relationships with the target merchants for the promotion and distribution of target products on Tmall.com and (ii) certain relevant marketing and operations personnel managing the relationships with the target merchants. The business earns commissions from merchants when sales of target products on Tmall.com was completed.

Since the acquisition, Ali JK Medical Products Group contributed RMB98,467,000 to the Group's revenue and consolidated profit of RMB27,740,000 to the consolidated loss for the six months ended September 30, 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

22 RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transaction.

	Notes	**2019 Unaudited *RMB'000***	2018 Unaudited *RMB'000*
Services and products received from related parties:			
Share-based compensation costs attributable to connected persons	*(i)*	**(17,582)**	(14,707)
Cloud computing services received from Alibaba Cloud	*(ii)*	**(3,342)**	(2,355)
Services received from a joint venture	*(iii)*	**—**	(5,626)
Internet information and other related services received from relevant entities of Alibaba Group	*(iv)*	**(91,997)**	(44,629)
Shared services received from Alibaba Group	*(v)*	**(47,454)**	(10,999)
Marketing services received from a subsidiary of Alibaba Holding	*(vi)*	**(77,295)**	(11,661)
Logistics and warehouse services received from a subsidiary of Alibaba Holding	*(vii)*	**(45,282)**	(13,662)
Payment services received from Alipay	*(viii)*	**(17,463)**	(7,661)
Technical services received from Tmall Entities@ regarding Blue Cap Health Food	*(ix)*	**(27,200)**	(23,050)
Technical services received from Tmall Entities regarding Technical services received from Tmall Entities regarding medical devices, healthcare products, adult products, and medical and healthcare services	*(ix)*	**(229,234)**	(47,926)
Products received from Alibaba Group	*(xvii)*	**(1,442)**	—
Services and products provided to related parties:			
Incentive fee received from a subsidiary of Alibaba Holding	*(vi)*	**640**	152
Outsourced and value-added services provided to Tmall Entities	*(x)*	**44,430**	80,025
Tracking related services provided to a subsidiary of Alibaba Holding	*(xi)*	**1,419**	2,965
Products provided to associates	*(xii)*	**7,621**	12,206
Rent received from a subsidiary of Alibaba Holding	*(xiii)*	**3,930**	—

@ 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)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

22 RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

	Notes	**2019 Unaudited *RMB'000***	2018 Unaudited *RMB'000*
Others:			
Interest income from a joint venture	*(xiv)*	**–**	809
Deemed disposal of 55% of equity interest in a subsidiary through a capital increase	*(xv)*	**–**	55,000
Disposal of an associate	*(xvi)*	**53,042**	–
Subscription agreement with Antfin/AliJK	*(note 18(i)/(d))*	**1,998,171**	9,240,694

(i) On June 8, 2018, the Company granted 8,190,000 Options and 1,170,000 RSUs to Mr. Shen Difan, the Chief Executive Officer of the Company and an executive director, and hence a connected person of the Company, under the Share Award Scheme. On the same day, the Company granted 300,000 RSUs to Mr. Wang Qiang, an executive director of the Company, and hence a connected person of the Company, and 1,200,000 RSUs to other connected persons (other than directors of the Company), under the Share Award Scheme. Further details of the transaction were set out in the announcement of the Company dated June 8, 2018.

On June 14, 2019, the Company granted 500,000 RSUs to Mr. Shen Difan, the Chief Executive Officer of the Company and an executive director, and hence a connected person of the Company under the Share Award Scheme. On the same day, the Company granted 449,000 RSUs to Mr. Wang Qiang, an executive director of the Company, and hence a connected person of the Company, and 487,000 RSUs to other connected persons (other than directors of the Company), under the Share Award Scheme. Further details of the transaction were set out in the announcement of the Company dated June 14, 2019.

(ii) On February 14, 2018, Alibaba Health Technology (China) Co., Ltd.^ (阿里健康科技 (中國) 有限公司), an indirectly wholly-owned subsidiary of the Company, and Alibaba Cloud Computing Ltd.^ (阿里云計算有限公司) ("**Alibaba Cloud**") entered into the Fourth Renewed Cloud Computing Service Agreement for a term of one year from April 1, 2018 to March 31, 2019, pursuant to which Alibaba Cloud provided certain cloud computing services to the Group. On March 28, 2019, the same parties entered into the 2020 Cloud Computing Services Agreement for a term of one year from April 1, 2019 to March 31, 2020. Further details of the transaction were set out in the announcement of the Company dated March 28, 2019.

(iii) On August 3, 2018, Alibaba China Co., Ltd.^ (阿里巴巴中國有限公司), on behalf of its related parties including the Group, entered into a call center service outsourcing agreement with HL95. The term of the agreement is approximately one year commencing on the agreement date.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

22 RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

(iv) On February 14, 2018, the Company, Alibaba.com China Limited^ (阿里巴巴網絡中國有限公司), and Taobao China Holding Limited^ entered into the Renewed Services Framework Agreement, commencing from April 1, 2018 to March 31, 2019, pursuant to which relevant entities# of Alibaba Group will provide to the Group internet information related software technical services and other related services. On January 30, 2019, Alibaba Holding and the Company entered into the 2020 Platform Services Agreement for a renewed term of one year commencing on April 1, 2019 to March 31, 2020. For the period ended September 30, 2019, a service fee of RMB104,354,000 (for the six months ended September 30, 2018: RMB51,466,000) was charged to the Group. A net service fee of RMB91,997,000 (for the six months ended September 30, 2018: RMB44,629,000) was recorded in the consolidated statement of profit or loss. Further details of the transaction were set out in the announcement of the Company January 30, 2019. The transaction was approved by the Company's independent shareholders at a special general meeting.

Relevant entities refers to Alibaba (China) Technology Co., Ltd.^ (阿里巴巴(中國)網絡技術有限公司), Hangzhou Alibaba Advertising Co., Ltd.^ (杭州阿里巴巴廣告有限公司), Taobao China Holding Limited, the Tmall Entities and their respective affiliates, collectively.

(v) On February 14, 2018, the Company entered into the Renewed Shared Service Agreement with Alibaba Holding, pursuant to which Alibaba Holding shall procure the Alibaba Service Providers# to provide to the Group the shared services for a term of one year from April 1, 2018 to March 31, 2019. On March 28, 2019, the same parties entered into the 2020 Shared Services Agreement for a term of one year, which runs from April 1, 2019 to March 31, 2020. Further details of the transaction were set out in the announcement of the Company dated March 28, 2019.

Alibaba Service Providers refers to Alibaba Holding, persons controlled by it and persons under the common control of Alibaba Holding, and any other persons designated by Alibaba Holding.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

22 RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

(vi) On February 14, 2018, Hangzhou Alimama Software Services Co., Ltd.^ (杭州阿里媽媽軟件服務有限公司) ("**Alimama**") and the Company entered into the Advertising Services Framework Agreement for a term of one year from April 1, 2018 to March 31, 2019, pursuant to which Alimama provided marketing services to the Group. The transaction was approved by the Company's independent shareholders at a special general meeting. Further details of the transaction were set out in the announcement of the Company dated February 14, 2018.

On April 20, 2018, Alimama, Shanghai Quam Tudou Cultural Communications Company Limited^ (上海全土豆文化傳播有限公司) ("**Youku**"), a subsidiary of Alibaba Holding, and Alibaba Health (HK) Technology Company Limited entered into the Second Renewed Agency Agreement for a term of one year retrospectively from April 1, 2018 to March 31, 2019. As the marketing agent, the Group would be entitled to receive certain incentive fees. Further details of the transaction were set out in the announcement of the Company dated April 20, 2018.

On January 30, 2019, Alibaba Holding and the Company entered into the 2020 Advertising Services Framework Agreement for a term of one year from April 1, 2019 to March 31, 2020. The transaction was approved by the Company's independent shareholders at a special general meeting. Further details of the transaction were set out in the announcement of the Company dated January 30, 2019.

On March 28, 2019, Alimama, Youku and Alibaba Health (Hong Kong) Technology Company Limited, entered into the 2020 Agency Agreement for a term of one year, which runs from April 1, 2019 to March 31, 2020. Further details of the transaction were set out in the announcement of the Company dated March 28, 2019.

22 RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

(vii) On February 14, 2018, Hangzhou Cainiao Supply Chain Management Co., Ltd.^ (杭州菜鳥供應鏈管理有限公司) ("**Cainiao**"), an indirect non-wholly owned subsidiary of Alibaba Holding and the Company, entered into the Renewed Logistics Services Framework Agreement, pursuant to which Cainiao will provide bonded warehouse services, customs clearance services and distribution services. The term of the Service Agreement commenced on April 1, 2018 to March 31, 2019. On March 28, 2019, Cainiao and Alibaba Health (Hong Kong) Technology Company Limited, a wholly-owned subsidiary of the Company entered into the 2020 Logistics Services Agreement on similar terms for a term of one year, which runs from April 1, 2019 to March 31, 2020. Further details of the transaction were set out in the announcement of the Company dated March 28, 2019.

(viii) On February 14, 2018,the Company (for itself and on behalf of its subsidiaries) entered into the Renewed Payment Service Framework Agreement with Alipay.com Co., Ltd.^ (支付寶 (中國) 網絡技術有限公司) ("**Alipay**"), a wholly-owned subsidiary of Ant Small and Micro Financial Services Group Co., Ltd.^ (浙江螞蟻小微金融服務集團股份有限公司) ("**Ant Financial**"), pursuant to which Alipay will provide payment services and the Group will pay service fees. On March 28, 2019, the same parties entered into the 2020 Payment Service Framework Agreement for a term of one year, which runs from April 1, 2019 to March 31, 2020. Further details of the transaction were set out in the announcement of the Company dated March 28, 2019.

(ix) On May 18, 2017, Alibaba Health Technology (Hangzhou) Co., Ltd.^ (阿里健康科技(杭州)有限公司) (formerly known as Hangzhou Hengping Information Technology Co., Ltd.^ (杭州衡平信息科技有限公司)) entered into the Framework Technical Services Agreement with the Tmall Entities, pursuant to which the Tmall Entities will continue to provide technical support, internet information services and secondary domain names and other services for the operation of the Target Business I as described in note 21(a) on Tmall.com. The Tmall Entities charged service fees of 50% of total software service fees received by the Target Business I from the relevant merchants on Tmall.com. The Framework Technical Services Agreement was approved by the independent shareholders at the special general meeting, and the term of the Framework Technical Services Agreement commenced on the day following the completion of business acquisition under common control as described in note 21(a) and will end on March 31, 2020. Further details of the transaction were set out in the announcement of the Company dated May 19, 2017.

On May 28, 2018, Lu Kang pharmacy (Hangzhou) Co., Ltd.^ (鹿康大藥房(杭州)有限公司) (formerly known as Hangzhou Hengping Health Technology Co., Ltd.^ (杭州衡憑健康科技有限公司)) entered into the Framework Technical Services Agreement with the Tmall Entities, pursuant to which the Tmall Entities will continue to provide software technical services, internet information services and secondary domain names and other services for the operation of the Target Business II as described in note 21(b) on Tmall.com. The Tmall Entities charged service fees of 50% of total software service fees received by the Target Business II from the relevant merchants on Tmall.com. The Framework Technical Services Agreement was approved by the independent shareholders at the special general meeting, and the term of the Framework Technical Services Agreement commenced on the day following the completion of business acquisition under common control as described in note 21(b) and will end on March 31, 2021. Further details of the transaction were set out in the announcement of the Company dated May 29, 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

22 RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

(x) On February 14, 2018, Alibaba Health Technology (China) Co., Ltd.^ (阿里健康科技 (中國) 有限公司), an indirectly wholly-owned subsidiary of the Company, and the Tmall Entities, members of Alibaba Group, entered into the Renewed Services Agreement, pursuant to which the Group agreed to provide certain outsourced and value-added services in accordance with the terms and conditions of the services agreement. For the period ended September 30, 2019, a service income of RMB56,787,000 (for the six months ended September 30, 2018: RMB86,861,000) was charged by the Group to the Tmall Entities. The Tmall Entities shall pay the Group a service fee amounting to 21.5% of the fees paid by the merchants to the relevant Tmall Entities in respect of the value of the completed sales of products or services under certain categories on Tmall. A net service income of RMB44,430,000 (for the six months ended September 30, 2018: RMB80,025,000) was recorded in the consolidated statement of profit or loss. The transaction was approved by the Company's independent shareholders at a special general meeting. The term of the services agreement was from April 1, 2018 to March 31, 2019.

On January 30, 2019, Taobao Holding Limited, a subsidiary of Alibaba Holding, and Alibaba Health Information Technology (Beijing) Co., Ltd.^ (阿里健康信息技術 (北京) 有限公司), an indirectly wholly-owned subsidiary of the Company, entered into the 2020 Outsourced Service Framework Agreement for a term of one year, which runs from April 1, 2019 to March 31, 2020, pursuant to which the Group agreed to provide certain outsourced and value-added services in accordance with the terms and conditions of the services agreement to Alibaba Group. The transaction was approved by the Company's independent shareholders at a special general meeting. Further details of the transaction were set out in the announcement of the Company dated January 30, 2019.

(xi) On September 7, 2018, Alibaba Health Technology (China) Co., Ltd.^ (阿里健康科技 (中國) 有限公司), an indirect wholly-owned subsidiary of the Company, entered into the Renewed Tracking Service Agreement with Taobao China Holding Limited, an indirect wholly-owned subsidiary of Alibaba Holding, pursuant to which Alibaba Health Technology (China) Co., Ltd.^ (阿里健康科技 (中國) 有限公司) shall provide development, maintenance and operation service of tracking information system to Taobao China Holding Limited for a term from September 7, 2018 to March 31, 2019 and the details of which were set out in the announcement dated September 7, 2018. On March 18, 2019, the same parties entered into the Second Renewed Tracking Service Agreement for a term of one year, which runs from April 1, 2019 to March 31, 2020.

(xii) The products provided to an associate were provided as prices and on conditions offered to our major customers.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

22 RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

(xiii) On April 15, 2019, Alibaba Health Technology (China) Co., Ltd.^ (阿里健康科技 (中國) 有限公司), an indirect wholly-owned subsidiary of the Company and Taobao (China) Software Co., Ltd.^ (淘寶 (中國) 軟件有限公司), an indirect wholly-owned subsidiary of Alibaba Holding entered into the Lease Agreement, pursuant to which Alibaba Health Technology (China) Co., Ltd agreed to sublet the premises to Taobao (China) Software Co., Ltd for a term commencing from April 15, 2019 to March 31, 2021 at a monthly rent of approximately RMB776,000 (inclusive of tax). Further details of the transaction were set out in the announcement of the Company dated April 15, 2019.

(xiv) On January 1, 2017, HL95 entered into a loan agreement with Alibaba Health (Hong Kong) Technology Company Limited, a wholly-owned subsidiary of the Company, pursuant to which Alibaba Health (Hong Kong) Technology Company Limited agreed to provide a loan of RMB53,900,000 to HL95 for the three years ending December 31, 2019, which is unsecured and bears interest at a rate of 3% per annum. The principal was repaid by HL95 during the year ending March 31, 2019.

(xv) On June 1, 2018, Shanghai Yunxin Venture Capital Co., Ltd.^ (上海云鑫創業投資有限公司) ("**Shanghai Yunxin**"), a company wholly-owned by Ant Financial, Hangzhou Yunting Data Technology Company Limited^ (杭州云庭數據科技有限公司) ("**Hangzhou Yunting**"), an independent third party, Hongyun Jiukang, a subsidiary of the Group, and the joint venture#, entered into the Capital Increase Agreement, pursuant to which Shanghai Yunxin and Hangzhou Yunting agreed to make respective capital contributions of RMB40 million and RMB15 million in cash to the registered capital of the joint venture, respectively. As at the date of the transaction, the joint venture was wholly-owned by Hongyun Jiukang, with a registered capital of RMB45 million and fully subscribed for by Hongyun Jiukang. Upon completion of the transaction on June 1, 2018, the registered share capital of the joint venture was increased from RMB45 million to RMB100 million, which was held as to 45% by Hongyun Jiukang, 40% by Shanghai Yunxin and 15% by Hangzhou Yunting, respectively. Further details of the transaction were set out in the announcement of the Company dated June 1, 2018.

Zhejiang Bian Que Health Data Technology Co., Ltd^ (浙江扁鵲健康數據技術有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of Hongyun Jiukang prior to the transaction.

(xvi) On March 29, 2019, Hongyun Jiukang, a subsidiary of the Company, entered into the Equity Transfer Agreement with a wholly-owned subsidiary of Jiahe Meikang, which is an associate of Hongyun Jiukang, pursuant to which 45% equity interests of Jiamei Online held by Hongyun Jiukang would be transferred to the wholly-owned subsidiary of Jiahe Meikang, for a total cash consideration of approximately RMB53,042,000. The transaction was completed on August 16, 2019.

(xvii) On February 14, 2018, the Company entered into the Renewed Supply Framework Agreement with Alibaba.com Singapore E-commerce Private Limited, a company incorporated in Singapore and an indirectly wholly-owned subsidiary of Alibaba Holding, pursuant to which the Company shall procure the Group to supply to Alibaba Group various products including but not limited to health products, nutritional supplements and family planning products for a term of one year from April 1, 2018 to March 31, 2019.

On March 28, 2019, the same parties entered into the 2020 Supply and Purchase Framework Agreement for a term of one year, which runs from April 1, 2019 to March 31, 2020, pursuant to which the Company shall procure the Group to supply and/or purchase various products to or from Alibaba Group on the platforms or stores operated by Alibaba Group. The Group will also provide other related services including daily maintenance, inventory control, pricing, promotional activities and packaging in accordance with the standard agreements and terms as agreed by the parties from time to time. Further details of the transaction were set out in the announcement of the Company dated March 28, 2019.

The related party transactions in respect of items (i), (ii), (iv) to (xi), (xiii), (xv) and (xvii) above for the current period also constitute continuing connected transactions or connected transactions as defined in Chapter 14A of the Listing Rules.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

22 RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Outstanding balances with related parties:

In addition to the outstanding balances detailed elsewhere in these financial statements, the balances with related parties as at March 31, 2019 and September 30, 2019 are listed below:

	September 30, 2019 Unaudited *RMB'000*	March 31, 2019 Audited *RMB'000*
(1) Amounts due from related parties:		
Subsidiaries of Alibaba Holdings	**17,723**	24,256
(2) Amounts due to related parties:		
Subsidiaries of Alibaba Holdings	**15,554**	1,881
Associates	**61,004**	61,092
	76,558	62,973

(III) Compensation of key management personnel of the Group

	Six months ended September 30, 2019 Unaudited *RMB'000*	2018 Unaudited *RMB'000*
Short term employee benefits	**4,908**	3,575
Share-based compensation costs	**23,676**	20,615
Pension scheme contributions	**194**	198
Performance related bonuses	**2,407**	5,994
Total compensation paid to key management personnel	**31,185**	30,382

23 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair value, are as follows:

	Carrying amounts		**Fair values**	
	As at September 30, 2019 (Unaudited) *RMB'000*	As at March 31, 2019 (Audited) *RMB'000*	**As at September 30, 2019 (Unaudited) *RMB'000***	As at March 31, 2019 (Audited) *RMB'000*
Financial assets				
Financial assets at FVPL	**1,593,452**	2,244,300	**1,593,452**	2,244,300
Equity investment designated at FVOCI	**136,411**	119,801	**136,411**	119,801
Long-term receivables	**15,571**	39,372	**15,571**	39,372
Bills receivables	**36,066**	179,775	**36,066**	179,775
	1,781,500	2,583,248	**1,781,500**	2,583,248
Financial liabilities				
Lease liabilities non-current portion	**48,364**	—	**48,364**	—

23 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, current portion of lease liabilities and financial liabilities included in other payables and accruals and interest-bearing borrowings, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of long-term receivables, bills receivables and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing loans as at September 30, 2019 was assessed to be insignificant.

The fair values of unlisted equity investments designated at fair value through other comprehensive income and through profit or loss have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("**EV/EBITDA**") multiple, price to earnings ("**P/E**") multiple, price to sales ("**P/S**") multiple and price to book value ("**P/B**") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the interim condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income and fair value gain or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2019

23 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at September 30, 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) (Unaudited) *RMB'000*	Significant observable inputs (Level 2) (Unaudited) *RMB'000*	Significant unobservable inputs (Level 3) (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Equity investment designated at FVOCI	—	—	136,411	136,411
Financial assets at FVPL	—	—	1,593,452	1,593,452
Bills receivables	—	36,066	—	36,066
	—	36,066	1,729,863	1,765,929

As at March 31, 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) (Audited) *RMB'000*	Significant observable inputs (Level 2) (Audited) *RMB'000*	Significant unobservable inputs (Level 3) (Audited) *RMB'000*	Total (Audited) *RMB'000*
Equity investment designated at FVOCI	—	—	119,801	119,801
Financial assets at FVPL	—	—	2,244,300	2,244,300
Bills receivables	—	179,775	—	179,775
	—	179,775	2,364,101	2,543,876

For the six months ended September 30, 2019

23 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

During the six months ended September 30, 2019 and the year ended March 31, 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

The Group did not have any financial liabilities measured at fair value as at September 30, 2019 and March 31, 2019.

24 APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors of the Company on November 26, 2019.

^ For identification purpose only