



2021 INTERIM REPORT

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

CONTENTS

2	Corporate Information
3	Management Discussion and Analysis
21	Additional Information
	Unaudited Interim Financial Information
33	Independent Review Report
35	Interim Condensed Consolidated Statement of Profit or Loss
36	Interim Condensed Consolidated Statement of Comprehensive Income
37	Interim Condensed Consolidated Statement of Financial Position
39	Interim Condensed Consolidated Statement of Changes in Equity
41	Interim Condensed Consolidated Statement of Cash Flows
44	Notes to the Interim Condensed Consolidated Financial Statements

CORPORATE INFORMATION

BOARD OF DIRECTORS**Executive Directors**

Mr. ZHU Shunyan
(Chairman and Chief Executive Officer)
Mr. SHEN Difan
Mr. TU Yanwu

Non-executive Director

Mr. LI Faguang

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. LI Faguang
Mr. WONG King On, Samuel

Nomination Committee

Mr. ZHU Shunyan (Chairman)
Mr. LUO Tong
Mr. WONG King On, Samuel

AUTHORIZED REPRESENTATIVES

Mr. ZHU Shunyan
Ms. LEE Wai Yan Vivian

COMPANY SECRETARY

Ms. LEE Wai Yan Vivian

LEGAL ADVISORS

Taylor Wessing

AUDITOR

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

Victoria Place
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Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Causeway Bay
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN PRC

17th Floor, Building B, Greenland Center
Hong Tai Dong Jie, Wangjing
Chaoyang District, Beijing

PRINCIPAL SHARE REGISTRAR (IN BERMUDA)

Ocorian Management (Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

BRANCH SHARE REGISTRAR (IN HONG KONG)

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China CITIC Bank International Limited
The Hongkong and Shanghai Banking
Corporation Limited
China Merchants Bank Co., Ltd.
Bank of Ningbo Co., Ltd
JPMorgan Chase Bank
Agricultural Bank of China

COMPANY WEBSITE

<http://www.irasia.com/listco/hk/alihealth/>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of fiscal year 2022, China began its transition into the post-pandemic era, and supervisory authorities have actively supported and promoted the rapid development of Internet healthcare industry on a regulated basis. In September 2021, the General Office of the State Council issued the Fourteenth Five-Year Plan for National Medical Insurance. The plan specifically addressed the need to “support the orderly development of new medical and healthcare service models such as telemedicine, online diagnosis and treatment services, as well as home care services in conjunction with promoting the rational use of emerging technologies such as artificial intelligence”. The policy gives strong support to the development of the industry. In the post-pandemic era, increased public awareness on disease prevention and healthcare, along with the growing reliance on online medical services, has further accelerated the rapid development of Internet healthcare. With a continued focus from the government on the Internet healthcare industry, a series of industry regulatory rules, such as the “Measures for the Supervision and Management of Online Drug Sales” (藥品網絡銷售監督管理辦法), are expected to be launched and implemented in the near future. Alibaba Health Information Technology Limited (the “**Company**” or “**Alibaba Health**” together with its subsidiaries, the “**Group**”), as an industry leader, will proactively respond to government policies and directives. Aside from maintaining a high-quality standard, Alibaba Health will remain at the forefront of discovery and product innovation. During the six months ended September 30, 2021 (the “**Reporting Period**”), Alibaba Health maintained steady and healthy business growth.

During the Reporting Period, the Group’s total revenue amounted to RMB9,357.7 million, representing an increase of 30.7% year-on-year. As a response to the increasing demand for Internet healthcare, the Group has continued to diversify its pharmaceutical product offerings. During the Reporting Period, Tmall’s Pharmaceutical Platform has reached over 40 million stock keeping units (“**SKUs**”) of service products, serving more than 25,000 merchants. Revenue from Alibaba Health’s pharmaceutical direct sales business reached RMB8,119.0 million, with the revenue from drugs generated from the pharmaceutical direct sales business under the brand of “Alibaba Health” accounting for 64% of the revenue of the business. There was also a 127.3% growth in the revenue for the prescription drug business. As at September 30, 2021, the number of annual active users (those who made one or more actual purchase(s) on our direct online stores in the past 12 months) of the direct online stores has reached 90 million. In terms of the supply chain, as supported by the distribution network of 14 warehouses in 12 locations and the smart logistics strategy, efficiency of the next-day delivery service for direct sales increased from 50.1% as at the end of the past fiscal year to 60%. With regard to customer service, the creation of specialized and 24/7 licensed pharmacist consultation services has elevated user satisfaction. In terms of risk control, a quality control system, including a prescription review platform and an unannounced inspection mechanism, has been implemented to safeguard product quality and user information security. For medical and healthcare services, Alibaba Health is committed to building an online platform of “Dr. Deer APP + Alipay healthcare channel”, so as to increase the service accessibility, as well as to better connect users through the Internet. During the Reporting Period, nearly 140,000 licensed physicians, pharmacists and nutritionists have contracted with the Group to provide online health consultation services. This represents an increase of more than 80,000 professionals (including those from Xiaolu Traditional Chinese Medicine (“**Xiaolu TCM**”)) as compared with the number as at the end of the past fiscal year ended March 31, 2021. As at September 30, 2021, online consultation services exceeded an average of 250,000 consultations per day. By introducing “Dr. Deer” APP to community hospitals, a strong local network has been established, enabling services such as digitalization of vaccination management and group consultation, thus offering the public 24/7 access to local healthcare services. As at the end of the Reporting Period, thousands of community hospital vaccination sites have been included in the network, thus accumulating a large number of active family healthcare manager users for the platform. During the Reporting Period, Alibaba Health officially acquired Xiaolu TCM. Relying on core traditional Chinese medicine (TCM) resources, the Group will continue to deepen its efforts in the field of vertical Internet TCM, further enhancing the accessibility of quality TCM and Western medicine resources in grassroots areas so as to benefit all Chinese patients.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As the flagship healthcare platform of Alibaba Group Holdings Limited (“**Alibaba Holdings**”, together with its subsidiaries, “**Alibaba Group**”), Alibaba Health has an unwavering commitment to “promoting healthy living of 120 years for everyone”. Following the industry trend of “treatment + prevention + healthcare”, the Group continues to prioritize the needs of the customers through leveraging the strength of the existing online healthcare business along with exploring innovative business models of Internet healthcare services and medical insurance products. Ultimately, the Group envisions a future where online and offline services are seamlessly integrated to drive the development of the healthcare industry. Alibaba Health strives to become the “professional caretaker of every person and his/her family” through relentless pursuits of excellence in the next decade and beyond. Through advance Internet and life science technologies, the Group enables users’ access to early prevention, early examination, early detection, and early treatment on its platform, ensuring every user to live a life full of vitality and dignity. To achieve this goal, Alibaba Health is committed to building a trustworthy and inclusive healthcare service platform, which provides “good medicines, renowned doctors and assurance” to family healthcare managers as the core users.

Pharmaceutical E-commerce Business

The customer-centric pharmaceutical e-commerce business of Alibaba Health has continued its focus on the strategy of “focusing on drugs services through pharmaceutical direct sales business and diversifying supply of pharmaceutical and healthcare products by introducing merchants to our e-commerce platforms”. By utilizing Internet of Things and other Internet technologies, Alibaba Health is able to deploy its omnichannel business model integrating pharmaceutical direct sales businesses, Tmall’s Pharmaceutical Platform and new retail businesses to partner more closely with high-quality upstream brands and pharmaceutical and health supplement manufacturers as well as key domestic pharmaceutical distributors. The objective is to establish an integrated online and offline healthcare management platform for users with relevant needs. During the Reporting Period, the revenue of the Group’s pharmaceutical e-commerce business reached RMB9,129.3 million, representing a year-on-year growth of 31.1%; the Group served over 25,000 merchants with more than 40 million SKUs. As at the end of the Reporting Period, the Group was authorized to manage or open over 150 brand flagship stores on Tmall and has helped them achieve excellent sales performance on Tmall.

- **Pharmaceutical Direct Sales Business**

Through well-developed online platform for direct sales of drugs, Alibaba Health is committed to creating a comprehensive pharmaceutical service platform that provides consumers with a wide range of health-related products under strict quality control, including prescription drugs, over-the-counter (OTC) drugs, nutritional supplements, medical devices and contact lenses, resulting in a superior shopping experience, as well as peace of mind through dedicated aftersales services. During the Reporting Period, owing to the Group’s operational and brand advantages and the team’s efficient execution, revenue from the pharmaceutical direct sales business reached RMB8,119.0 million, representing a year-on-year growth of 34.5%, with the revenue from drugs generated from the pharmaceutical direct sales business under the brand of “Alibaba Health” accounting for 64% of the revenue of the business, and revenue from the prescription drug business increased by 127.3% year-on-year. As at September 30, 2021, the number of annual active users (those who made one or more actual purchase(s) on our direct online stores in the past 12 months) of the direct online stores has reached 90 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the Reporting Period, with the rapid development of the direct sales businesses, the Group has continued to strengthen its quality control system by creating a prescription review platform and a series of guidelines to ensure the safety of medication use. In addition, product quality and user information security are better protected through bolstering the process of unannounced inspections for, supplier qualification, product quality, and privacy protection protocols. Meanwhile, supporting infrastructure and service capabilities in customer service, warehousing and logistics have also been improved. To enhance the user experience, customer service now includes specialized and 24/7 licensed pharmacist consultation services, which has led to significant improvement in service efficiency, consultation conversion rate, and overall user satisfaction. In terms of warehousing and logistics, the Group has continued to develop its infrastructure which now features a distribution network of 14 warehouses in 12 locations and a smart logistics strategy. This has enabled next-day delivery service in 110 core cities and improved delivery efficiency from 50.1% as at the end of the past fiscal year to 60%.

In October 2021, Alibaba Health Pharmacy introduced the “New Drug Support Program”[^] (新藥首發扶持計劃), offering pharmaceutical companies extensive support in the retail markets, including a 7-day first launch express channel, dedicated project support, 1-on-1 strategy advisory service, and infrastructure access covering over 100 cities. During the Reporting Period, a number of global leading pharmaceutical companies, e.g. Roche, BeiGene, etc., have launched their proprietary drug products through Alibaba Health’s direct sales pharmacies. The extensive user base and brand influence, as well as industry-leading technology and operational capabilities have allowed for greater access to medications and to meet the patients’ needs for drugs and health management. The Group has also formed in-depth partnerships with hundreds of well-known pharmaceutical industry leaders, such as Eisai China and Organon, in order to help them reach the broader user base through professional digital marketing capabilities driven by Internet innovation that bring safe, professional and convenient healthcare services while creating new opportunities for drug makers and promoting the high-quality development of a digital and smart healthcare industry in China.

In the field of prescription drugs, the Group has set up 12 direct sales healthcare centers, targeting neurological, cardiovascular, oncological, and immunological diseases. Through the integration of user traffic, medical content, doctors, medication guidance and other services, the Group strives to provide increasingly inclusive and high-quality services to the target consumers. At the same time, the direct sales business continues to focus on delivering a “sound, professional, safe and caring” service experience. For example, the “Chronic Disease Welfare Program”[^] (慢病福利計劃) provides a series of comprehensive services to users with chronic diseases, including discounted medication, personal doctors, follow-up visits, user education, and aftersales services. Through meticulous improvements, the number of chronic disease users has reached 5 million, representing an increase of 170% year-on-year, with the per capita length of medication use, repurchase rate and user experience continuously on the rise.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- ***Pharmaceutical E-commerce Platform Business – Tmall's Pharmaceutical Platform***

As the leading pharmaceutical and healthcare products service platform in China, Alibaba Health's pharmaceutical e-commerce platform possesses the most comprehensive product catalog in terms of SKUs, and boasts the most reliable sales process. During the Reporting Period, through the strategy of "focusing on drugs services through pharmaceutical direct sales business and diversifying supply of non-drug healthcare products by introducing merchants to our e-commerce platforms", Alibaba Health has been able to diversify the product offering and at the same time continue to grow the number of merchants and SKUs. As at the end of the Reporting Period, Alibaba Health served over 25,000 merchants, an increase of 3,000 compared to half a year ago. The number of SKUs also increased significantly from half a year ago by 7 million to the current level exceeding 40 million.

To create value for merchants and consumers on our platform, the Group has launched various innovative activities and services in different subfields. This has enabled us to further consolidate our platform's leading position while optimizing the industry ecosystem. A strong partnership with local leading pharmacies has enabled high quality, low cost, in-town purchase and delivery service to local customers in each city. In the non-pharmaceutical categories, aided by Tmall's superior brand operation capabilities and marketing resources, the Group continues to invest in building the target user base, and deepening the connection between brands and consumers by creating a series of sales campaigns, such as color contact lens, moxibustion and bird's nest. This allows for rapid incubation of new brands in the sectors, such as nutritional supplements and contact lenses. In response to the increasing consumer demand for a healthier lifestyle, Alibaba Health has collaborated with four authoritative quality inspection institutions, including the Zhejiang Academy of Science and Technology for Inspection and Quarantine (ZAIQ), to launch the first set of Tmall inspection standards for bird's nest products, so as to foster consumer trust and promote the industry's development.

- ***Pharmaceutical E-commerce Platform Business – New Retail Model***

Based on rich experiences, Alibaba Health has been working with Internet hospitals and offline pharmacies to create a closed-loop model for online and offline drug purchase leveraging Alipay's capabilities. A series of multi-model and multi-city online drug purchase pilot programs (covered by the national medical insurance) have been initiated to address the comprehensive service scenario of "medication, medical care and medical insurance". Three service models in Guangzhou (Guangdong Province), Qingdao (Shandong Province), Yingkou (Liaoning Province), and Jinhua (Zhejiang Province) that were first deployed based on online payments have enabled the Group to carry out additional programs during the Reporting Period, e.g. the individual payment mechanism in Hangzhou, remote payment in Liaoning and coordinated medical insurance payment in Guangzhou. Alibaba Health currently supports online ordering of drugs in 18 cities, allowing consumers to pay directly through their medical insurance account and have their drugs delivered to their doorsteps. As the Group continues to provide universal and easy access to medications, continuous exploration of partnerships with the national medical insurance and local healthcare providers will enable an integrated online and offline medical insurance payment mechanism, so as to achieve long-term sustainable development, enhancing the convenience of drug purchase, and leading future industry innovations.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Healthcare and Digital Services Business

During the Reporting Period, the Group has continued to integrate Internet technologies and skillsets to overcome the time and space constraints and enhance healthcare service offerings, and via the Internet, improve the accessibility of our services and the ability to connect our services to our users. By leveraging on its strong capability in technological innovation, digital and intelligent technologies, the Group optimized industrial processes and improved service efficiency, and actively responded to and tackled key industry challenges: the asymmetry of medical information for users, the accessibility of healthcare services, the digitalization of healthcare providers, and the quality of healthcare services. Alibaba Health is committed to building an online platform of “Dr. Deer APP + Alipay healthcare channel” and an integrated online and offline healthcare service system that covers vaccines, medical checkups, nucleic acid testing, dental care, mental care, nursing, and other medical and healthcare services. This multi-faceted and multi-dimensional medical services will continue to serve the end-users from Taobao, Tmall, Alipay, “Dr. Deer” APP and Quark while offering quality medical resources to each community.

As at September 30, 2021, nearly 140,000 licensed physicians, pharmacists and nutritionists have contracted with the Group to provide online health consultations services. This represents an increase of more than 80,000 professionals (including those from Xiaolu TCM) as compared with the number as at the end of the past fiscal year ended March 31, 2021. As at the end of the Reporting Period, online consultation services have exceeded an average of 250,000 consultations per day. During the Reporting Period, revenue generated from healthcare and digital services business was approximately RMB228.5 million, representing an increase of 13.9% year-on-year.

- **“Dr. Deer” APP**

During the Reporting Period, “Dr. Deer” APP has been positioned as the go-to platform for all customers’ healthcare needs and has constantly upgraded the experience of general medical and healthcare services such as consultation, registration and medical checkups, and especially started to make efforts in the provision of vertical healthcare services that can cover a larger population with higher frequency. The comprehensive upgrades of the vaccine services, such as vaccination registration, appointment, intelligent planning reminder, vaccine popularization and consultation, have all contributed to better user experience. By introducing “Dr. Deer” APP to community hospitals, a strong local network has been established, enabling services such as digitalization of vaccination management and group consultation, thus offering the public 24/7 access to local healthcare services as well as ensuring the accessibility of community healthcare services and reducing the asymmetry of medical information. As at September 30, 2021, we have established partnerships with thousands of community hospital vaccination sites through digital vaccination services, with sufficient coverage reaching a substantial number of active family health manager users. In terms of medical services, we expanded appointment source coverage and enhanced source qualities. We reformed the registration link by establishing AI triage and adding the precise matching of hospital and physician registration by specialty and disease to better support patient registration. Our registration success rate has increased by 74.2% year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Through the establishment of pediatric care assistant, childcare encyclopedia, healthcare community for mothers, pediatric center and dermatology center, “Dr. Deer” APP, as the go-to platform for childcare needs, provides one-stop health solutions around the core group of vaccination users with “tools + content + online specialist services”, enabling steady growth of “Dr. Deer” APP in terms of overall scale of business as well as the number of active users. As at September 30, 2021, “Dr. Deer” APP has attracted over 2 million monthly active users.

- ***Neighborhood Healthcare***

As at September 30, 2021, the Group has established partnerships with over 5,500 public and private physical examination providers, offering users with consumer-grade and professional/medical-grade tests. A wide variety of examination services are supported, such as onsite, home visit, sample delivery and self-operated medical exam. Users can also choose their preferred platform among “Dr. Deer” APP, Tmall, Alipay, Fliggy and DingTalk to provide diversified products and services. During the Reporting Period, the Group placed heavy emphasis on expanding localized medical services, encouraging local medical service content producers to use Alipay healthcare channel and inviting healthcare brands to join Tmall to further the commercialization of medical services.

- ***Digital Tracking Business***

During the Reporting Period, the Group’s proprietary “Ma Shang Fang Xin”[^] (碼上放心) tracking platform business continued to maintain a steady pace of development. As a pioneer in the field of drug tracking, Alibaba Health continued to promote the construction and development of the “Ma Shang Fang Xin” platform by leveraging its technological prowess. Following the new policy directives, the construction of the pharmaceutical big data center has been accelerated, providing pharmaceutical enterprises and healthcare institutions with safe and convenient compliance solutions and expanding more value-added services. During the Reporting Period, the tracking platform business has been expanded from the basic coverage of drug production to include the distribution process, thus improving the coverage of retail terminals.

Based on the tracking platform business, the Group has explored to provide upstream and downstream collaboration services in the supply chain finance process for pharmaceutical and distribution enterprises, with an objective to develop a complete internal solution for these companies. Leveraging pharmaceutical tracking capabilities and the Group’s strong digital marketing capabilities, tracking has been enabled in various consumer product categories.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- **Public Service**

Alibaba Health Philanthropy, together with Alibaba Foundation, China Association of County Hospital President, Ling Feng Foundation and other organizations, has carried out a training program for grassroots doctors. With improving the clinical capacity of county hospitals as its objective, the program aims to offer better healthcare services to rural residents. The learning platform, which covers all specialties of generic medical care, can help bridge the gap between the grassroots doctors and experts from Grade III Class A hospitals through online seminars, discussions and case studies, allowing the former to enhance their clinical knowledge and skills. As at September 30, 2021, the program has covered more than 5,000 grassroots doctors from nearly 300 county hospitals in Yushu (Qinghai), Aba (Sichuan), Weinan (Shaanxi), Lixian (Gansu), and Julu (Hebei). The number of training attendance was close to 56,000, and learning hours amounted to almost 35,000.

During the Reporting Period, in order to help more children with serious diseases and their families, the “Xiao Lu Lantern Children’s Serious Disease Relief Platform” was officially launched on May 31 this year. The platform is jointly supported by governments at all levels, well-known medical institutions, medical experts, authoritative public welfare organizations, as well as Alibaba Foundation and Alibaba Health Philanthropy. The goal is to provide access to medical care to families caring for children with serious illnesses, connect them with high-quality medical resources and help alleviate their financial burden of medical treatment, as well as costs associated with them receiving medical treatment overseas including travel and accommodation costs. Joining hands with the March of Dimes Birth Defects Foundation of China, the phase I of the platform focused on diseases relating to birth defect. With the support of Alibaba’s caring business merchants, the platform has carried out birth defect relief work in 23 key counties in China’s less developed areas, providing financial assistance and quality medical services for dozens of children in need.

At the same time, Alibaba Health Philanthropy has also been investing in the field of special drugs and rare diseases, launching the “Patient Assistance” mini program in September this year. Jointly with mainstream foundations, access to special drugs for patients in need has been provided, covering 27 types of drugs; in collaboration with Boao Le Cheng Rare Disease Clinical Center, the first “Global Drug Information Platform for Rare Diseases” in China has been established to address the challenge faced by 20 million rare disease patients in China who have been unable to access innovative drugs abroad, helping them acquire necessary drugs as early as possible to enhance the chance of recovery. During the Reporting Period, the patient assistance service has helped hundreds of rare disease patients locate and apply for overseas drugs.

Ecosystem Collaboration

In terms of traditional Chinese medicine (TCM) services, during the Reporting Period, Alibaba Health officially acquired Xiaolu TCM and such acquisition helped propel Alibaba Health to grow into a more well-rounded online collaboration platform for Chinese and Western medicine. With the addition of Xiaolu TCM, the Group will continue to work deeper into the online TCM business, further leveraging the power of Internet + Healthcare and introducing quality Chinese and Western medical resources to the communities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In the field of critical illnesses, Alibaba Health has been working with LinkDoc Technology Limited (“**LinkDoc**”) to launch a series of innovative digital oncological services. From the “Clinical Research Subjects Service Program for Class III Grade A Hospitals” jointly launched by Alipay healthcare channel and HOPE[^] (厚普醫藥) of LinkDoc, to the “Lung Cancer Center” established by Tmall, the Group has always been committed to providing cancer patients with accurate, convenient and comprehensive medical and healthcare services, which cover treatment and medication across the entire disease cycle, so as to improve the level of treatment and service.

In the digital medical services field, Alibaba Health collaborated with SocialMED to provide pharmaceutical enterprises with marketing channel integration and linkage solutions to meet the needs of drug marketing scenes under different life cycles, increase brand influence, improve marketing conversion rate, strengthen the customer experience, and enhance Chinese patient’s accessibility to quality drug products.

Future Prospects

As a technology innovator with Internet background, the Group will hold on to its original mission of supporting healthcare with Internet services, constantly focus on user needs and enhance healthcare services driven by technological innovation and customer value proposition. In cooperation with partners from the Alibaba’s ecosystem, we are positioning Alibaba Health as China’s leading Internet + Healthcare service provider through never ending exploration and practice.

The pharmaceutical e-commerce platform business will continue to operate in compliance with laws and regulations, with user value as its key objective, cultivating and expanding new categories to provide consumers with a diverse range of options. The direct sales business is also aiming to become an all-scenario, all-category and all-channel pharmaceutical service platform while maintaining competitive advantages in various dimensions, such as user scale, platform ecosystem, logistics system and pharmacist services, especially for the “out-of-hospital scenarios”. In terms of healthcare services, based on our deep understanding of Internet healthcare, we will continue to integrate Internet technologies and skillsets to enhance healthcare service offerings. We prioritize user value while making commitments to all-inclusive services and work towards the strengthening of medical resources aggregation, and expansion of medical service coverage. Moreover, the Group will increase investments in grassroot medical services and create more innovative business models based on upgrading existing healthcare service platform so as to provide users with one-stop solutions to health problems in all scenarios.

As the level of national disposable income increases and the public health awareness rises, the Group will continue to focus on increasing user value through integrating the existing businesses and diversifying personalized insurance offerings by utilizing its advantages in Internet and data innovation. Based on the “treatment + medication + insurance” model, a closed-loop model of Internet healthcare service will be established, which will be a one-stop healthcare service system that integrates online and offline resources, allowing us to address the needs of users’ healthcare journey every step of the way. It is Alibaba Health’s firm belief that in a decade or two, the goal of becoming the “professional caretaker of every person and his/her family” will be realized through our efforts.

Save as disclosed, there has been no material change in the development of the Group’s business and financial position, and no important event affecting the Group has occurred since the publication of the annual report of the Company for the year ended March 31, 2021.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

The key financial information of the Group for the six months ended September 30, 2021 and September 30, 2020 is summarized as follows:

	Six months ended September 30,		
	2021	2020	Change
	RMB'000	<i>RMB'000</i>	%
Revenue	9,357,715	7,162,031	30.7
Gross profit	1,870,775	1,860,316	0.6
Gross profit margin	20.0%	26.0%	N/A
Other income and gains	386,364	142,811	170.5
Fulfillment	(979,811)	(749,449)	30.7
Sales and marketing expenses	(983,714)	(508,737)	93.4
Administrative expenses	(170,531)	(143,003)	19.2
Product development expenses	(322,750)	(229,449)	40.7
Other expenses	(5,073)	(7,567)	(33.0)
Finance costs	(737)	(1,580)	(53.4)
Operating (loss)/profit	(205,477)	363,342	N/A
Share of profit/(loss) of joint ventures	1,329	(5,694)	N/A
Share of loss of associates	(25,714)	(33,207)	(22.6)
(Loss)/profit for the Reporting Period	(231,568)	278,554	N/A
Net (loss)/profit attributable to owners of the parent	(231,771)	283,431	N/A
NON-HKFRS ADJUSTMENTS			
Adjusted net (loss)/profit	(282,850)	435,759	N/A

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

— Revenue

Revenue of the Group for the Reporting Period amounted to RMB9,357,715,000, representing an increase of RMB2,195,684,000 or 30.7% as compared with RMB7,162,031,000 for the six months ended September 30, 2020. The increase in revenue was mainly attributable to the rapid growth in revenue from pharmaceutical direct sales business during the Reporting Period.

— *Pharmaceutical Direct Sales Business*

The pharmaceutical direct sales business of the Group comprises our direct B2C retail, related advertisement business and our B2B centralized procurement and distribution business. During the Reporting Period, the general revenue from pharmaceutical direct sales business reached RMB8,118,994,000, representing a year-on-year increase of 34.5%. The rapid growth in revenue was mainly attributable to (i) the continual enrichment of the categories of goods sold through the Group's direct B2C retail and SKUs; (ii) the optimization of the customer purchase experience by upgrading customer service comprehensively, enhancing supply chain capabilities and actively developing our infrastructure to significantly improve conversion rate of medication consultation and delivery timeliness; (iii) accelerated business deployment of prescription drug sales business, enriched SKUs for prescription drugs, improved medication services and chronic disease services care services, and continued increase in drug use duration and repeat purchase rate of users, which in turn expanded the sales volume of prescription drugs; and (iv) ongoing cooperation with well-known pharmaceutical companies to help them reach more customers and boost sales with our professional digital marketing capability.

— *Pharmaceutical E-commerce Platform Business*

Our pharmaceutical e-commerce platform business comprises the e-commerce platform business (relating to pharmaceutical products, health food and medical devices, etc.) 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 new pharmaceutical retail business. As at September 30, 2021, the Group had acquired the e-commerce platform business of pharmaceutical products, medical devices and healthcare products, health food, sexual health and family planning products, contact lenses, and medical and healthcare service categories from Alibaba Group. During the Reporting Period, the total revenue of the above businesses amounted to RMB1,010,257,000, representing a year-on-year increase of 9.2%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

— Healthcare and Digital Services Business

During the Reporting Period, the Group has continued to integrate Internet technologies and skillsets to overcome the time and space constraints and enhance healthcare service offerings. The Group continued to establish its online platform of “Dr. Deer APP + Alipay healthcare channel” to provide diversified, multi-layered and seamless online-to-offline transition of appropriate, convenient and high-quality healthcare services to customers coming from all channels, including Taobao, Tmall, Alipay, “Dr. Deer” APP, and Quark Search, so as to make the quality medical resources more accessible to the public. In order to improve the quality and accessibility of medical and healthcare services at a fast pace, the Group focused on expanding platform models for cooperation with vaccination, health screening, testing and other medical and healthcare service organizations during the Reporting Period. This allowed the Group to successfully expand service supply and satisfy users’ needs with convenient one-stop medical and healthcare services both online and offline. Digital services business includes tracking business. The Group’s proprietary tracking platform, “Ma Shang Fang Xin”, continues to grow steadily throughout the Reporting Period, offering more value-added services, further expanding to the area of distribution, and increasing the coverage of retail terminals. During the Reporting Period, the Group recorded revenue from medical and healthcare services and digital services business including online diagnosis and treatment, physical examination, vaccination and nucleic acid testing, dental care, mental care and nursing services which amounted to RMB228,464,000, representing a year-on-year growth of 13.9%, which was mainly attributable to the rapid growth of the GMV generated by the medical and healthcare services from various terminals, yet partially offset by the result of the switch from a direct sales mode to a platform mode of certain businesses and the platform commissions income being recognized on a net basis.

A revenue of RMB28,649,000 was recorded from the Group’s acquisition of Xiaolu TCM during the Reporting Period, which was included in healthcare and digital services business.

— Gross profit and gross profit margin

The Group recorded gross profit for the Reporting Period of RMB1,870,775,000. Gross profit margin for the Reporting Period was 20.0%, as compared with 26.0% of the corresponding period of the preceding year. This was mainly attributable to the following reasons: (i) a decrease in the proportion of revenue from pharmaceutical e-commerce platform business which has higher gross profit margin; (ii) a decrease in the gross profit margin of the pharmaceutical direct sales business as a result of the increase in the Group’s market share of online B2C pharmaceutical sales for the Reporting Period; and (iii) a significant growth of prescription drug business with lower gross profit margin and increase in its proportion of revenue as a result of the Group’s accelerated business deployment of prescription drug sales business for the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

— Other income and gains

Other income and gains for the Reporting Period amounted to RMB386,364,000, representing an increase of RMB243,553,000 or 170.5% as compared with RMB142,811,000 for the corresponding period of the preceding year. This was mainly due to the increase in fair value gains on financial assets at fair value through profit or loss (“**FVPL**”) during the Reporting Period. In particular, the financial assets at FVPL mainly represented the gain on changes in fair value of RMB113,376,000 and RMB94,623,000 recognized by Shandong ShuYu Civilian Pharmacy Corp. Ltd.^ (山東漱玉平民大藥房連鎖股份有限公司) and LinkDoc, respectively.

— Fulfillment

Warehousing, logistics and customer service expenses, commissions on the Tmall Platform, payment of handling fees and relevant staff costs incurred by the Group’s pharmaceutical direct sales business were included in fulfillment costs. Fulfillment costs for the Reporting Period amounted to RMB979,811,000, representing an increase of RMB230,362,000 or 30.7% from RMB749,449,000 for the corresponding period of the preceding year. Such increase was mainly due to the growth in revenue of the pharmaceutical direct sales business. During the Reporting Period, fulfillment costs accounted for 12.1% of the revenue from pharmaceutical direct sales business, declining from 12.4% 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 Reporting Period amounted to RMB983,714,000, representing an increase of RMB474,977,000 or 93.4% as compared with RMB508,737,000 for the corresponding period of the preceding year. Such increase was mainly due to (i) the Group’s increasing investment in building the brand awareness of Tmall’s Pharmaceutical Platform and Alibaba Health Pharmacy; (ii) the increase in the deployment of corresponding market resources to increase its market share of online B2C drug sales, and accelerate business deployment of prescription drug sales business; and (iii) the increase in the headcount of its sales and operation functions and operation personnel of innovative business segments such as “Dr. Deer” APP and Neighborhood Healthcare.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

— Administrative expenses

Administrative expenses for the Reporting Period amounted to RMB170,531,000, representing an increase of RMB27,528,000 or 19.2% as compared with RMB143,003,000 for the corresponding period of the preceding year. Such increase was mainly attributable to the business growth which led to an increase in relevant management personnel costs, back-end supporting costs, shared service costs, and professional costs. Administrative expenses accounted for 1.8% of the Group's total revenue for the Reporting Period, lower than the 2.0% recorded for the corresponding period of the preceding year, which benefited from sound cost controls and continuously emerging economies of scale.

— Product development expenses

Product development expenses for the Reporting Period amounted to RMB322,750,000, representing an increase of RMB93,301,000 or 40.7% as compared with RMB229,449,000 for the corresponding period of the preceding year. Such increase was mainly due to the Group's continuous investment in personnel of the Company's research and development function. During the Reporting Period, the Group continued to recruit more information technology engineers to further invest in capacity-building for intelligent supply chain; enhanced investment in technological research and development in the areas of operation refinement in the Group's pharmaceutical direct sales business, customer experiences in prescription refills and regulatory compliance and safety of prescription drugs; and continued to invest in medical and healthcare services products such as "Dr. Deer" APP.

— Share of profit of joint ventures

Share of profits of joint ventures represented the share of net operating results of the Group's 45%-owned joint venture, Zhejiang Bianque Health Data Technology Company Limited[^] (浙江扁鵲健康數據技術有限公司) and our 13.72%-owned joint venture, Jiangsu Zijin Hongyun Health Industry Investment LLP[^] (江蘇紫金弘雲健康產業投資合夥企業(有限合夥)). For the Reporting Period, share of profit of joint ventures was RMB1,329,000, while share of losses of joint ventures of RMB5,694,000 was recorded for the corresponding period of the preceding year.

— Share of losses of associates

The Group actively invests in the healthcare segment. The Group's share of losses of associates for the Reporting Period amounted to RMB25,714,000, representing a decrease of RMB7,493,000 or 22.6% as compared with the share of losses of associates of RMB33,207,000 recorded for the corresponding period of the preceding year. The share of losses of associates for the Reporting Period was mainly attributable to the delayed progress of projects of certain associates of the Group providing services to hospitals due to the impact of COVID-19, and the fact that some associates were still in the transformation or growing stage.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

During the Reporting Period, the Group's loss amounted to RMB231,568,000, as compared with earnings of RMB278,554,000 for the corresponding period of the preceding year. The Group's adjusted net loss amounted to RMB282,850,000, as compared with adjusted net profit of RMB435,759,000 for the corresponding period of the preceding year. Adjusted net (loss)/profit is based on the (loss)/profit for the corresponding period after excluding non-operating profit or loss items such as share-based compensation expenses, change in fair value of financial assets at FVPL (non-current portion), gain or loss on deemed partial disposal of associates (net of tax). The adjusted net loss for the Reporting Period was mainly attributable to: (i) the increase in the deployment of the Group's resources in a series of innovative business areas such as the "Dr. Deer" APP, Neighborhood Healthcare and health insurance; (ii) the continuous investment in technological research and development in the areas of drug supply chain capabilities, including drug storage and logistics, as well as operation refinement in the Group's pharmaceutical direct sales business, customer experiences in prescription refills and regulatory compliance and safety of prescription drugs during the Reporting Period; (iii) the Group's increasing investment in building the brand awareness of Tmall's Pharmaceutical Platform and Alibaba Health Pharmacy; and (iv) decrease in operating margin of the Group's direct sales business as the Group increased its market share of online B2C drug sales, accelerated business deployment of prescription drug sales business and increased the deployment of corresponding market resources.

To supplement the Group's consolidated financial statements presented in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the Group has also reported its adjusted net (loss)/profit, which is not required under, or presented in accordance with, HKFRSs, 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 items which our management considers as not indicative of our operational performance. We believe that 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 (loss)/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 it should not be regarded as being independent from the operational results or financial position presented according to HKFRSs, or as an alternative to analyze the relevant operational results or financial position. In addition, the definition of such non-HKFRS indicator may vary from those applied in other companies.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The adjusted net profit/loss for the six months ended September 30, 2021 and 2020 set out in the table below represents adjustments to the most direct and comparable financial indicator calculated and presented in accordance with HKFRSs (i.e. profit/(loss) for the Reporting Period):

	Six months ended September 30,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
(Loss)/profit for the Reporting Period	(231,568)	278,554
Excluding		
– Share-based compensation	182,975	198,514
– Fair value gains on financial assets at FVPL, net of tax	(210,555)	(34,444)
– Gain on deemed partial disposal of an associate, net of tax	(23,702)	(6,865)
Adjusted net (loss)/profit	<u>(282,850)</u>	<u>435,759</u>

FINANCIAL RESOURCES, LIQUIDITY AND FOREIGN EXCHANGE EXPOSURES

The cash and other liquid financial resources of the Group as at September 30, 2021 and the corresponding comparative figures as at March 31, 2021 were summarized as follows:

	September 30, 2021	March 31, 2021
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	11,256,451	11,636,769
Short-term investment at FVPL		
– Wealth management products	<u>26,680</u>	<u>–</u>
Cash and other liquid financial resources	<u>11,283,131</u>	<u>11,636,769</u>

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Cash flows of the Group for the six months ended September 30, 2021 and September 30, 2020 were as follows:

	Six months ended September 30,	
	2021 RMB'000	2020 RMB'000
Net cash flows generated from operating activities	597,704	566,400
Net cash flows generated from/(used in) investing activities	1,341,079	(4,396,292)
Net cash flows (used in)/generated from financing activities	(20,816)	8,957,393
Net increase in cash and cash equivalents	1,917,967	5,127,501
Cash and cash equivalents at the beginning of the period	7,252,275	2,594,981
Effects of exchange rate changes	(123,909)	(209,205)
Cash and cash equivalents at the end of the period as stated in the interim condensed consolidated statement of cash flows	9,046,333	7,513,277
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	11,256,451	12,267,628
Non-pledged time deposits with original maturity over three months	(2,210,118)	(4,754,351)
Cash and cash equivalents at the end of period as stated in the interim condensed consolidated statement of cash flows	9,046,333	7,513,277

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

For the Reporting Period, net cash flows generated from operating activities amounted to RMB597,704,000, which was primarily attributable to our loss before income tax from continuing operations of RMB229,862,000, as adjusted by: (i) non-cash or non-operating activities expense items, which primarily comprised addition of share-based compensation expenses of RMB182,975,000, and deduction of gain on financial assets at FVPL of RMB224,102,000 and bank and other interest income of RMB86,458,000; (ii) changes in working capital, which primarily comprised an increase in trade and bills payables of RMB1,641,864,000, an increase in other payables and accruals of RMB85,629,000, an increase in prepayments, other receivables and other assets of RMB364,155,000, an increase in inventories of RMB314,878,000, and an increase in trade receivables of RMB191,736,000; and (iii) addition of interest received of RMB97,108,000.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

— Net cash flows generated from investing activities

For the Reporting Period, net cash flows generated from investing activities was RMB1,341,079,000, which was primarily attributable to the amount generated from the disposal of fixed deposits for a term of over three months of RMB2,174,376,000, net cash used in acquisition activities of RMB742,068,000, the net cash used in the purchase of financial assets at FVPL of RMB72,000,000, and net cash used in capital injection in associates of RMB59,701,000 during the Reporting Period.

— Net cash flows used in financing activities

For the Reporting Period, net cash flows used in financing activities was RMB20,816,000, which was primarily attributable to the principal portion of lease payments of RMB22,226,000 during the Reporting Period.

— Gearing ratio

As at September 30, 2021, the Group did not have any borrowings, and hence no gearing ratio was shown.

As at September 30, 2021, the Group did not have any material contingent liabilities and had not pledged any Group assets for bank loans or 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 Reporting Period. The board (the "**Board**") of directors (the "**Directors**") of Alibaba Health 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 changed its presentation currency from Hong Kong dollars to Renminbi starting from the year ended March 31, 2016 to better 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EMPLOYEES AND REMUNERATION POLICIES

The number of full-time employees of the Group as at September 30, 2021 was 1,334 (1,033 as at March 31, 2021). Total staff costs of the Group for the Reporting Period amounted to RMB614.5 million (RMB440.3 million for the six months ended September 30, 2020). 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 its 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 utilize 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 realized 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, China CITIC Bank, 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 size of the investment, be approved by the financial controller or chief financial officer. The Company's short-term investments at FVPL as at September 30, 2021 amounted to approximately RMB26.7 million (March 31, 2021: Nil) representing the short-term investments held by a subsidiary of the Company operating Xiaolu TCM, which the Group acquired during the Reporting Period.

During the Reporting Period, the Group did not have any significant investments nor did the Group carry out any material acquisition and disposal of subsidiaries, associates and joint ventures.

ADDITIONAL INFORMATION

DIRECTORS

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

Executive Directors:

Mr. ZHU Shunyan (Chairman and Chief Executive Officer)

Mr. TU Yanwu

Mr. SHEN Difan (appointed on October 13, 2021)

Non-executive Directors:

Mr. WU Yongming (resigned on October 13, 2021)

Mr. XU Hong (resigned on October 13, 2021)

Mr. LI Faguang (appointed on October 13, 2021)

Independent Non-executive Directors:

Mr. LUO Tong

Mr. WONG King On Samuel

Ms. HUANG Yi Fei (Vanessa)

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 2021 annual report dated May 25, 2021, up to the date of this report is set out below:

Mr. WU Yongming and Mr. XU Hong have resigned as non-executive Directors, with effect from October 13, 2021.

Mr. SHEN Difan (“**Mr. Shen**”) has been appointed as an executive Director and Mr. LI Faguang has been appointed as a non-executive Director, with effect from October 13, 2021.

On November 24, 2021, the remuneration committee of the Company and the Board have considered and approved the remuneration of Mr. Shen. Mr. Shen shall be entitled to receive a salary of RMB115,000 per month as chief operation officer of the Company, but does not receive any remuneration for his position as an executive Director. His remuneration as chief operation officer of the Company was determined with reference to his experience and prevailing market rates. Under his employment contract, Mr. Shen is also entitled to discretionary bonuses paid out either in the form of cash, RSUs or share options of the Company, which shall be determined by the Board based on his performance as well as other allowances and benefits including but not limited to share-based compensation expenses and pension scheme contributions.

ADDITIONAL INFORMATION (CONTINUED)

SHARE AWARD SCHEME

At the special general meeting of the Company held on November 24, 2014 (the “**Adoption Date**”), the Shareholders 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 the Shareholders at the annual general meeting of the Company held on July 30, 2020 (the “**2020 Specific Mandate**”) authorized the Board to exercise all the powers of the Company to grant Share Awards. The 2020 Specific Mandate lapsed at the conclusion of the annual general meeting of the Company held on July 30, 2021, when the specific mandate was then renewed by the approval of the Shareholders (the “**2021 Specific Mandate**”). As at September 30, 2021, Share Awards in respect of a total of 393,849,364 underlying shares, which represent approximately 2.92% of the Company’s total issued shares as at September 30, 2021, remain available to be granted under the Share Award Scheme under the 2021 Specific Mandate.

ADDITIONAL INFORMATION (CONTINUED)

Details of the options and RSUs granted during the Reporting Period and/or outstanding as at September 30, 2021 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 as at March 31, 2021	Date of grant/ conditional grant ⁽¹³⁾	Granted during the period	Exercise price (HK\$)	Options exercised during the period ⁽¹⁴⁾	Options or RSUs lapsed/ cancelled during the period	RSUs vested during the period	Number of shares represented by options or RSUs outstanding as at September 30, 2021
Mr. ZHU Shunyan	Options	2,900,000	June 15, 2020 ⁽¹⁾	—	19.940	—	—	—	2,900,000
	RSUs	500,000	June 15, 2020	—	—	—	—	—	500,000
	Options	—	June 15, 2021 ⁽²⁾	421,250	18.212	—	—	—	421,250
	RSUs	—	June 15, 2021	168,500	—	—	—	—	168,500
Mr. TU Yanwu	RSUs	77,000	June 14, 2019	—	—	—	—	—	77,000
	RSUs	770,000	September 18, 2019	—	—	—	—	385,000	385,000
	Options	145,000	June 15, 2020 ⁽¹⁾	—	19.940	—	—	—	145,000
	RSUs	58,000	June 15, 2020	—	—	—	—	14,500	43,500
Employees of the Group	Options	—	June 15, 2021 ⁽²⁾	67,250	18.212	—	—	—	67,250
	RSUs	—	June 15, 2021	26,900	—	—	—	—	26,900
	Options	508,000	September 7, 2015 ⁽³⁾	—	5.184	—	—	—	508,000
	Options	216,500	April 28, 2016 ⁽⁴⁾	—	5.320	29,250	—	—	187,250
	Options	2,379,750	July 29, 2016 ⁽⁵⁾	—	5.558	241,500	76,250	—	2,062,000
	Options	1,047,500	February 2, 2017 ⁽⁶⁾	—	3.626	—	—	—	1,047,500
	Options	116,000	February 22, 2017 ⁽⁷⁾	—	3.610	116,000	—	—	—
	Options	854,250	June 14, 2017 ⁽⁸⁾	—	3.902	413,250	—	—	441,000
	Options	2,732,250	August 3, 2017 ⁽⁹⁾	—	3.686	984,750	—	—	1,747,500
	RSUs	644,500	August 3, 2017	—	—	—	—	644,500	—
	Options	2,287,750	October 10, 2017 ⁽¹⁰⁾	—	4.400	20,000	—	—	2,267,750
	RSUs	415,000	October 10, 2017	—	—	—	—	415,000	—
	Options	809,500	February 1, 2018 ⁽¹¹⁾	—	4.144	50,000	—	—	759,500
	RSUs	273,750	February 1, 2018	—	—	—	—	32,250	241,500
	RSUs	6,933,639	June 8, 2018	—	—	—	559,375	354,250	6,020,014
	RSUs	3,587,500	July 31, 2018	—	—	—	82,250	1,716,000	1,789,250
	RSUs	1,428,291	October 10, 2018	—	—	—	130,000	624,328	673,963
	RSUs	1,553,842	January 31, 2019	—	—	—	56,598	79,000	1,418,244
	RSUs	11,352,000	June 14, 2019	—	—	—	1,032,500	—	10,319,500
	RSUs	6,272,377	August 2, 2019	—	—	—	202,000	2,213,000	3,857,377
RSUs	1,309,948	September 18, 2019	—	—	—	40,000	598,000	671,948	
RSUs	3,012,518	February 24, 2020	—	—	—	1,047,452	158,572	1,806,494	
RSUs	2,104,963	March 16, 2020	—	—	—	70,000	540,247	1,494,716	
Options	2,741,339	June 15, 2020 ⁽¹⁾	—	19.940	—	1,596,339	—	1,145,000	
RSUs	12,843,074	June 15, 2020	—	—	—	924,286	2,798,075	9,120,713	
Options	119,000	September 15, 2020 ⁽¹²⁾	—	18.660	—	—	—	—	119,000
RSUs	4,062,023	September 15, 2020	—	—	—	202,343	662,244	3,197,436	
RSUs	1,960,950	December 15, 2020	—	—	—	259,000	—	1,701,950	
RSUs	1,658,000	March 15, 2021	—	—	—	135,000	—	1,523,000	
Options	—	June 15, 2021 ⁽²⁾	—	1,215,250	18.212	—	—	—	1,215,250
RSUs	—	June 15, 2021	—	18,153,300	—	—	981,900	—	17,171,400
RSUs	—	September 15, 2021	—	10,808,722	—	—	—	11,875	10,796,847
Employees of the affiliates of the Company	Options	500,000	June 15, 2020 ⁽¹⁾	—	19.940	—	—	—	500,000
	RSUs	1,208,000	June 15, 2020	—	—	—	338,000	202,500	667,500
	RSUs	14,700	September 15, 2020	—	—	—	14,700	—	—
	RSUs	—	June 15, 2021	—	238,900	—	—	—	238,900
	RSUs	—	September 15, 2021	—	18,200	—	—	—	18,200

ADDITIONAL INFORMATION (CONTINUED)

Notes:

- (1) The closing price per share is HK\$20.65 as stated in the daily quotation sheets issued by the Stock Exchange on June 12, 2020, being the trading day immediately before the date of grant.
- (2) The closing price per share is HK\$17.90 as stated in the daily quotation sheets issued by the Stock Exchange on June 11, 2021, 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\$5.23 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.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) 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.
- (9) 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.
- (10) 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.
- (11) 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.
- (12) The closing price per share is HK\$18.76 as stated in the daily quotation sheets issued by the Stock Exchange on September 14, 2020, being the trading day immediately before the date of grant.
- (13) The options and RSUs granted have a specific vesting schedule of not more than four years.
- (14) 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\$12.33 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, 2020 and 2021, respectively, please refer to Note 2.4 to the Group's consolidated financial statements for the year ended March 31, 2021 and Note 17 to the interim condensed consolidated financial statements for the six months ended September 30, 2021.

ADDITIONAL INFORMATION (CONTINUED)

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section titled “Connected Transactions” of the Company’s annual report dated May 25, 2021, 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 Reporting Period.

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

As at September 30, 2021, 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 (the “Model Code”) as set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Nature of interest	Number of ordinary shares and underlying shares held, capacity and nature of interest	
		Total interest in shares	Approximate percentage of the Company's share capital
Mr. ZHU Shunyan	Beneficial owner and equity derivative interests ⁽¹⁾	4,489,750	0.03%
Mr. TU Yanwu	Beneficial owner and equity derivative interests ⁽²⁾	1,208,650	0.01%
Mr. WU Yongming (resigned on October 13, 2021)	Beneficial owner	1,262,000	0.01%

Notes:

- (1) Mr. ZHU Shunyan beneficially held 500,000 ordinary shares of the Company and subject to vesting, he is interested in 3,989,750 shares underlying the 3,321,250 options and 668,500 RSUs granted to him in accordance with the Share Award Scheme.
- (2) Mr. TU Yanwu beneficially held 464,000 ordinary shares of the Company and subject to vesting, he is interested in 744,650 shares underlying the 212,250 options and 532,400 RSUs granted to him in accordance with the Share Award Scheme.

ADDITIONAL INFORMATION (CONTINUED)

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. ZHU Shunyan	Beneficial owner, equity derivative interests and interests of spouse ⁽¹⁾	2,435,168*	0.01%
Mr. WU Yongming (resigned on October 13, 2021)	Beneficial owner and interests of spouse ⁽²⁾	1,632,000*	0.01%
	Founder of a discretionary trust ⁽³⁾	32,779,272*	0.15%
Mr. XU Hong (resigned on October 13, 2021)	Beneficial owner and equity derivative interests ⁽⁴⁾	459,040	0.00%

Notes:

(1) These interests represented 2,079,168* ordinary shares or underlying ordinary shares and 196,000* restricted share units beneficially held by Mr. ZHU Shunyan and 160,000* ordinary shares or underlying shares held by his spouse.

(2) These interests represented 32,000* ordinary shares held by Mr. WU Yongming, and 1,600,000* ordinary shares held by his spouse.

(3) These interests represented 32,779,272* ordinary shares or underlying ordinary shares held by two private discretionary trusts whereby Mr. WU Yongming is the founder.

(4) These interests represented 185,040* ordinary shares or underlying ordinary shares and 274,000* 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.

Save as disclosed above, as at September 30, 2021, 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.

ADDITIONAL INFORMATION (CONTINUED)

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

As at September 30, 2021, the following interests or short positions in the shares and underlying shares 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	Note	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	8,596,939,415	63.73%
Perfect Advance Holding Limited	(1)	Beneficial owner	3,103,816,661	23.01%
	(1)	Persons acting in concert	932,337,347	6.91%
Alibaba Investment Limited	(1)	Interest of controlled corporation	4,036,154,008	29.92%
Innovare Tech Limited	(1)	Beneficial owner	932,337,347	6.91%
	(1)	Persons acting in concert	3,103,816,661	23.01%
Yunfeng Fund II, L.P.	(1)	Interest of controlled corporation	4,036,154,008	29.92%
Yunfeng Investment GP II, Ltd.	(1)	Interest of controlled corporation	4,036,154,008	29.92%
Yunfeng Investment II, L.P.	(1)	Interest of controlled corporation	4,036,154,008	29.92%
Mr. YU Feng	(1)	Interest of controlled corporation	4,036,154,008	29.92%
Mr. MA Yun	(1)	Interest of controlled corporation	4,096,730,008	30.37%
Ali JK Nutritional Products Holding Limited	(1)	Beneficial owner	4,560,785,407	33.81%
Uni-Tech International Group Limited	(2)	Beneficial owner	777,484,030	5.76%
21CN Corporation	(2)	Interest of controlled corporation	777,484,030	5.76%
Pollon Internet Corporation	(2)	Interest of controlled corporation	777,484,030	5.76%
Ms. CHEN Xiao Ying	(2)	Interest of controlled corporation	777,484,030	5.76%

Notes:

- (1) Perfect Advance Holding Limited ("**Perfect Advance**") holds 3,103,816,661 shares of the Company and Innovare Tech Limited ("**Innovare**") holds 932,337,347 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 932,337,347 shares in the Company held by Innovare.

ADDITIONAL INFORMATION (CONTINUED)

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, (i) each of Yunfeng Fund II, L.P., Yunfeng Investment II, L.P., Yunfeng Investment GP II, Ltd. and Mr. YU Feng is also deemed to have an interest in 4,036,154,008 shares via Innovare; and (ii) Mr. MA Yun is deemed to have an interest in 4,036,154,008 shares via Innovare and 60,576,000 shares via Antfin (Hong Kong) Holding Limited through his controlled corporations within the meaning of Part XV of the SFO.

Ali JK Nutritional Products Holding Limited (“**Ali JK**”) holds 4,560,785,407 shares. Ali JK is owned by Alibaba Holding as to 100%. Therefore, Alibaba Holding is deemed to have an interest in an aggregate of 8,596,939,415 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 21CN Corporation. 21CN Corporation is wholly-owned by Pollon Internet Corporation, which is wholly-owned by Ms. CHEN Xiao Ying.

Save as disclosed above, as at September 30, 2021, there were no other parties who 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 has resolved that no interim dividend be declared for the six months ended September 30, 2021 (for the six months ended September 30, 2020: Nil).

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities, except that a trustee of the Share Award Scheme purchased a total of 1,300,000 shares of the Company on the market to satisfy the share awards granted to connected employees of the Company upon vesting.

ISSUE FOR CASH OF EQUITY SECURITIES**Placing of New Shares under General Mandate**

On August 5, 2020, the Company entered into a placing agreement (the “**Placing Agreement**”) with Citigroup Global Markets Limited and Credit Suisse (Hong Kong) Limited (the “**Placing Agents**”) in relation to the placing of an aggregate of 498,753,118 new ordinary shares of the Company (the “**Placing Share(s)**”) at the placing price of HK\$20.05 per Placing Share (exclusive of brokerage, transaction levy of the Securities and Futures Commission and trading fee of the Stock Exchange payable by the purchasers) (the “**Placing Price**”) on the terms and conditions set out in the Placing Agreement (the “**Placing**”). The aggregate nominal value of the Placing Shares was HK\$4,987,531.18. The Placing Price of HK\$20.05 per Placing Share represents (i) a discount of approximately 8.03% to the closing price of HK\$21.80 per share as quoted on the Stock Exchange on August 4, 2020, being the last trading day immediately prior to the date of the Placing Agreement; and (ii) a discount of approximately 6.18% to the average closing price of HK\$21.37 per share as quoted on the Stock Exchange for the last five consecutive trading days up to and including August 4, 2020, being the date immediately prior to the date of the Placing Agreement. The aggregate net proceeds from the Placing was HK\$9,964.2 million, representing a net Placing Price

ADDITIONAL INFORMATION (CONTINUED)

of approximately HK\$19.98 per Placing Share. As stated in the daily quotation sheets issued by the Stock Exchange, on August 5, 2020, being the date which the Placing Agreement was entered into, the closing price per share was HK\$21.25. The Group conducted the Placing based on its insights into, and optimism for the prospects of, the Internet healthcare industry, as well as the need for the Group to further develop its healthcare business and continue its rapid development. The Group viewed the Placing as an opportunity for the Group to raise capital while broadening its shareholder and capital base.

The Placing was completed on August 12, 2020 (the “**Completion Date**”), where a total of 498,753,118 new ordinary shares of the Company, representing approximately 3.71% of the total issued share capital of the Company as at the Completion Date (as enlarged by the allotment and issue of the Placing Shares), have been successfully placed to not less than six placees at a price of HK\$20.05 per Placing Share who are professional, institutional and/or individual investors. The Placing Shares were allotted and issued under the general mandate granted by the Shareholders at the annual general meeting of the Company held on July 30, 2020.

The aggregate gross proceeds from the Placing amount to approximately HK\$10,000.0 million and the aggregate net proceeds (after deduction of the commissions and expenses relating to the Placing) from the Placing amount to approximately HK\$9,964.2 million (the “**Placing Net Proceeds**”), representing a net issue price of approximately HK\$19.98 per Placing Share. For further details of the Placing, please refer to the announcements of the Company dated August 5, 2020 and August 12, 2020 (the “**Placing Announcements**”).

As at September 30, 2021, the Group had applied the Placing Net Proceeds as follows:

Use of Placing Net Proceeds	Planned use of Placing Net Proceeds as disclosed in the Placing Announcements	Actual use of Placing Net Proceeds for the year ended March 31, 2021	Actual use of Placing Net Proceeds for the six months ended September 30, 2021	Unutilized Placing Net Proceeds	Expected timeframe for utilizing the Placing Net Proceeds ^(Note)
Develop the Group's pharmaceutical and healthcare omni-channel business and medical and healthcare services business	Approximately HK\$7,971.4 million–HK\$8,967.8 million	HK\$906.3 million	HK\$818.6 million	HK\$6,246.5 million–HK\$7,242.9 million	October 1, 2021–December 31, 2022
Further develop the Group's digital infrastructure and innovative business	Approximately HK\$996.4 million–HK\$1,992.8 million	HK\$116.6 million	HK\$11.0 million	HK\$868.8 million–HK\$1,865.2 million	October 1, 2021–December 31, 2022

Note:

The Placing Net Proceeds have been and will be applied in the manner consistent with the use of proceeds as disclosed in the Placing Announcements. The expected timeframe for utilizing the Placing Net Proceeds is based on the best estimation of the future market conditions made by the Group as at the date of this report. It will be subject to change based on the current and future developments of market conditions. The remaining unutilized portion of the Placing Net Proceeds have been deposited in reputable banks.

ADDITIONAL INFORMATION (CONTINUED)

Issue of New Shares under Specific Mandate

On July 12, 2019, a total of 302,976,000 ordinary shares (the “**Subscription Shares**”) of the Company were issued to Ali JK Nutritional Products Holding Limited (“**Ali JK**”) and Antfin (Hong Kong) Holding Limited (“**Antfin**”) for a total cash consideration of HK\$2,272,320,000 (the “**Subscription Net Proceeds**”) at a net subscription price of approximately HK\$7.5 per share, pursuant to the subscription agreements (the “**Subscription Agreements**”) dated May 23, 2019 entered into by the Company with Ali JK and Antfin, respectively. Ali JK and Antfin are connected persons of the Company. The aggregate nominal value of the Subscription Shares was HK\$3,029,760. The transactions under the Subscription Agreements (the “**Subscriptions**”) therefore constituted connected transactions of the Company in accordance with the Listing Rules. As stated in the daily quotation sheets issued by the Stock Exchange, on May 23, 2019 and July 12, 2019, being the date which the Subscription Agreements were entered into and the date of issue of the Subscription Shares, respectively, the closing price per share was HK\$7.58 and HK\$7.15, respectively. The Subscription Shares were allotted and issued under the specific mandate granted by the Shareholders at the special general meeting of the Company held on July 10, 2019. The Subscriptions enabled the Group to raise funds for its expanding business operations and to maintain a healthy cash position, while keeping its borrowings and the corresponding interest expenses low. For further details of the Subscriptions, please refer to the announcement dated May 23, 2019 and the circular (the “**Subscription Circular**”) dated June 24, 2019 of the Company.

As at September 30, 2021, the Group had applied the Subscription Net Proceeds as follows:

Use of Subscription Net Proceeds	Planned use of Subscription Net Proceeds as disclosed in the Subscription Circular	Actual use of Subscription Net Proceeds as at March 31, 2021	Actual Use of Subscription Net Proceeds for the six months ended September 30, 2021		Expected timeframe for utilizing the Subscription Net Proceeds ^(Note)
			Utilized Subscription Net Proceeds	Unutilized Subscription Net Proceeds	
Repayment of loans for funding ongoing business operations and expansion and recruitment of personnel to develop Internet-based medical services and intelligent medicine services	HK\$1,136,160,000	HK\$1,136,160,000	Nil	Nil	Not applicable
Previous committed investments and investment projects under review	HK\$568,080,000	HK\$568,080,000	Nil	Nil	Not applicable
Future strategic investment opportunities	HK\$568,080,000	HK\$255,852,000	HK\$312,228,000	Nil	Not applicable

Note:

The Subscription Net Proceeds have been or will be applied in the manner consistent with the use of proceeds as disclosed in the Subscription Circular. The expected timeframe for utilizing the remaining Subscription Net Proceeds is based on the best estimation of the future market conditions made by the Group as at the date of this report. It will be subject to change based on the current and future developments of market conditions. The remaining unutilized portion of the Subscription Net Proceeds has been deposited in reputable banks.

ADDITIONAL INFORMATION (CONTINUED)

Save as disclosed above and the options exercised by the relevant grantees under the Share Award Scheme as disclosed in this report, the Company had not issued for cash any equity securities (including securities convertible into equity securities) for the Reporting Period and no other proceeds has been brought forward from any issue of securities for cash as at September 30, 2021.

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, 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 matters:

According to Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. ZHU Shunyan (“**Mr. Zhu**”) has been appointed as both the Chairman of the Board and the Chief Executive Officer of the Company, with effect from March 16, 2020. After joining the Group, Mr. Zhu is primarily responsible for overseeing the Group’s general management and business development and for formulating business strategies and policies for our business management and operations. The Directors consider that it is the most suitable for Mr. Zhu to hold both the positions of the Chairman of the Board and the Chief Executive Officer as they believe that it will ensure consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group. The Board is also of the view that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of the Chairman of the Board and the Chief Executive Officer at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment. The appointment of Mr. TU Yanwu (“**Mr. Tu**”) as an executive Director became effective on October 23, 2020. However, he was not subject to election by the Shareholders at the special general meetings held on March 1 and 29, 2021, respectively. The Board considered that it was more appropriate to have the election be considered by the Shareholders at the annual general meeting on July 30, 2021 (the “**2021 AGM**”) so that re-election of all eligible Directors who were subject to retirement by rotation could be considered by the Shareholders at the same time in the 2021 AGM. As a result, Mr. Tu retired and offered himself for re-election and was re-elected as the executive Director at the 2021 AGM.

Code Provision C.1.2 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.

ADDITIONAL INFORMATION (CONTINUED)

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the dealings of the Directors in the Company's securities. In response to specific enquiries made by the Company, all Directors have confirmed that they have complied with the Model Code in their securities transactions throughout the Reporting Period.

REVIEW OF INTERIM RESULTS

The Group's interim results for the Reporting Period have not been audited, but have been reviewed by the audit committee of the Company and the independent auditor of the Company, Ernst & Young.

Hong Kong

November 24, 2021

INDEPENDENT REVIEW REPORT



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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 35 to 80, which comprises the condensed consolidated statement of financial position of Alibaba Health Information Technology Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as at September 30, 2021 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The 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 (“**HKICPA**”).

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 HKICPA. 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.

INDEPENDENT REVIEW REPORT (CONTINUED)

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

Hong Kong

November 24, 2021

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended September 30, 2021

	<i>Notes</i>	2021 Unaudited RMB'000	2020 Unaudited RMB'000
REVENUE	4	9,357,715	7,162,031
Cost of sales		(7,486,940)	(5,301,715)
Gross profit		1,870,775	1,860,316
Other income and gains	5	386,364	142,811
Operating expenses			
Fulfillment	6	(979,811)	(749,449)
Sales and marketing expenses		(983,714)	(508,737)
Administrative expenses		(170,531)	(143,003)
Product development expenses		(322,750)	(229,449)
Other expenses		(5,073)	(7,567)
Finance costs	7	(737)	(1,580)
Share of profits and losses of:			
Joint ventures	8	1,329	(5,694)
Associates	9	(25,714)	(33,207)
(LOSS)/PROFIT BEFORE TAX	10	(229,862)	324,441
Income tax expense	11	(1,706)	(45,887)
(LOSS)/PROFIT FOR THE PERIOD		(231,568)	278,554
Attributable to:			
Owners of the parent		(231,771)	283,431
Non-controlling interests		203	(4,877)
		(231,568)	278,554
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		RMB(1.72)cents	RMB2.17 cents
Diluted		RMB(1.72)cents	RMB2.16 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended September 30, 2021

	2021 Unaudited RMB'000	2020 Unaudited RMB'000
(LOSS)/PROFIT FOR THE PERIOD	<u>(231,568)</u>	<u>278,554</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Translation from functional currency to presentation currency	(11,924)	13,521
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Translation from functional currency to presentation currency	(156,510)	(220,066)
Equity investment designated at fair value through other comprehensive income ("FVOCI"):		
Changes in fair value	286	(18,484)
Income tax effect	(29)	1,848
NET OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	<u>(156,253)</u>	<u>(236,702)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(168,177)</u>	<u>(223,181)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u>(399,745)</u>	<u>55,373</u>
Attributable to:		
Owners of the parent	(399,948)	60,250
Non-controlling interests	203	(4,877)
	<u>(399,745)</u>	<u>55,373</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2021

Notes	September 30, 2021 Unaudited RMB'000	March 31, 2021 Audited RMB'000
NON-CURRENT ASSETS		
Property and equipment	20,060	13,428
Right-of-use assets	73,709	38,861
Other intangible assets	335,526	2,935
Goodwill	845,305	54,576
Investments in joint ventures	159,578	98,548
Investments in associates	2,170,968	2,173,938
Long-term receivables	10,070	9,524
Equity investment designated at fair value through other comprehensive income ("FVOCI")	161,104	163,212
Financial assets at fair value through profit or loss ("FVPL")	1,255,772	984,456
Total non-current assets	<u>5,032,092</u>	<u>3,539,478</u>
CURRENT ASSETS		
Inventories	1,759,702	1,468,609
Trade and bills receivables	14 505,028	313,615
Prepayments, other receivables and other assets	1,074,743	769,716
Financial assets at fair value through profit or loss	26,680	—
Restricted cash	3,541	11,017
Cash and cash equivalents	11,256,451	11,636,769
Total current assets	<u>14,626,145</u>	<u>14,199,726</u>
CURRENT LIABILITIES		
Lease liabilities	25,423	20,334
Trade and bills payables	15 4,233,630	2,551,550
Other payables and accruals	871,459	588,169
Contract liabilities	214,819	190,541
Tax payable	6,921	50,278
Total current liabilities	<u>5,352,252</u>	<u>3,400,872</u>
NET CURRENT ASSETS	<u>9,273,893</u>	<u>10,798,854</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>14,305,985</u>	<u>14,338,332</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at September 30, 2021

	<i>Notes</i>	September 30, 2021 Unaudited RMB'000	March 31, 2021 Audited RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		114,226	39,322
Lease liabilities		42,404	17,406
Other non-current liabilities		100,887	—
Total non-current liabilities		257,517	56,728
Net assets		14,048,468	14,281,604
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>16</i>	118,875	118,859
Treasury shares	<i>16</i>	(32,596)	(22,265)
Reserves		13,987,753	14,205,356
		14,074,032	14,301,950
Non-controlling interests		(25,564)	(20,346)
Total equity		14,048,468	14,281,604

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2020

Attributable to owners of the parent												
Notes	Share capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000	Merger reserve RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Equity investment at fair value through other comprehensive income revaluation reserve RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At April 1, 2020 (audited)	106,108	22,344,732	(13,039)	(16,397,767)	150,697	210,730	41,545	123,205	(1,297,066)	5,269,145	(66,630)	5,202,515
Profit for the period (unaudited)	—	—	—	—	—	—	—	—	283,431	283,431	(4,877)	278,554
Change in fair value of equity investment designated at FVOCI, net of tax (unaudited)	—	—	—	—	—	—	(16,636)	—	—	(16,636)	—	(16,636)
Translation from functional currency to presentation currency (unaudited)	—	—	—	—	(206,545)	—	—	—	—	(206,545)	—	(206,545)
Total comprehensive loss for the period (unaudited)	—	—	—	—	(206,545)	—	(16,636)	—	283,431	60,250	(4,877)	55,373
Issue of new shares (unaudited)	16	12,283	20,698,113	—	(11,791,812)	—	—	—	—	8,918,584	—	8,918,584
Share-based compensation expenses (unaudited)	—	—	—	—	—	187,685	—	—	—	187,685	—	187,685
Issue of new shares for restricted share units ("RSU") (unaudited)	16	62	—	(62)	—	—	—	—	—	—	—	—
Vested awarded shares transferred to employees (unaudited)	16	—	67,715	7,744	—	(75,459)	—	—	—	—	—	—
Exercise of share options (unaudited)	16	110	84,689	—	—	(24,821)	—	—	—	59,978	—	59,978
Deemed interest of an interest-free loan to a non-wholly owned subsidiary (unaudited)	—	—	—	—	—	—	—	(336)	—	(336)	336	—
Acquisition of minority interests (unaudited)	—	—	—	—	—	—	—	(41,249)	—	(41,249)	41,139	(110)
Deregister of a subsidiary (unaudited)	—	—	—	—	—	—	—	—	(62)	(62)	—	(62)
Statutory reserves (unaudited)	—	—	—	—	—	—	—	12,282	(12,282)	—	—	—
Share of capital reserve of an associate (unaudited)	—	—	—	—	—	—	—	13,677	—	13,677	—	13,677
At September 30, 2020 (unaudited)	118,563	43,195,249	(5,357)	(28,189,579)	(55,848)	298,135	24,909	107,579	(1,025,979)	14,467,672	(30,032)	14,437,640

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended September 30, 2021

Notes	Attributable to owners of the parent											Total equity RMB'000
	Share capital RMB'000	Share premium account RMB'000	Treasury share RMB'000	Merger reserve RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Equity investment at fair value through other comprehensive income revaluation reserve RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At April 1, 2021 (audited)	118,859	43,281,281*	(22,265)	(28,189,579)*	(452,462)*	363,949*	43,971*	143,848*	(985,652)*	14,301,950	(20,346)	14,281,604
Profit for the period (unaudited)	-	-	-	-	-	-	-	-	(231,771)	(231,771)	203	(231,568)
Change in fair value of equity investment designated at FVOCI, net of tax (unaudited)	-	-	-	-	-	-	257	-	-	257	-	257
Translation from functional currency to presentation currency (unaudited)	-	-	-	-	(168,213)	-	-	(221)	-	(168,434)	-	(168,434)
Total comprehensive loss for the period (unaudited)	-	-	-	-	(168,213)	-	257	(221)	(231,771)	(399,948)	203	(399,745)
Share-based compensation expenses (unaudited)	-	-	-	-	-	134,682	-	-	-	134,682	-	134,682
Share-based compensation consideration (unaudited)	-	-	-	-	-	17,796	-	-	-	17,796	-	17,796
Repurchase of shares (unaudited)	-	16,519	(16,519)	-	-	-	-	-	-	-	-	-
Vested awarded shares transferred to employees (unaudited)	16	92,136	6,188	-	-	(93,583)	-	7,962	-	12,703	-	12,703
Exercise of share options (unaudited)	16	9,418	-	-	-	(3,234)	-	-	-	6,200	-	6,200
Deemed interest of an interest-free loan to a non-wholly owned subsidiary (unaudited)	-	-	-	-	-	-	-	631	-	631	(631)	-
Deregistration of a subsidiary (unaudited)	-	-	-	-	-	-	-	-	-	-	(4,790)	(4,790)
Transfers to statutory reserves (unaudited)	-	-	-	-	-	-	-	1,890	(1,890)	-	-	-
Share of capital reserve of an associate (unaudited)	-	-	-	-	-	-	-	18	-	18	-	18
At September 30, 2021 (unaudited)	118,875	43,399,354*	(32,596)	(28,189,579)*	(620,675)*	419,610*	44,228*	154,128*	(1,219,313)*	14,074,032	(25,564)	14,048,468

* These reserve accounts comprise the consolidated reserves of RMB13,987,753,000 (September 30, 2020: RMB14,354,466,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended September 30, 2021

	Notes	Six months ended September 30,	
		2021 Unaudited RMB'000	2020 Unaudited RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax		(229,862)	324,441
Adjustments for:			
Share of (profits)/losses of joint ventures	8	(1,329)	5,694
Share of losses of associates	9	25,714	33,207
Interest income	5	(85,029)	(62,068)
Other interest income	5	(1,429)	(513)
Gain on deemed partial disposal of associates	5	(23,702)	(8,679)
Gain on disposal of items of property and equipment	5	(21)	—
Finance costs	7	737	1,580
Dividend income from financial assets at fair value through profit or loss	5	(3,750)	(1,363)
Fair value gains on financial assets at fair value through profit or loss	5	(224,102)	(46,851)
Gain on deregistration of a subsidiary		—	(62)
Depreciation of property and equipment	10	3,055	1,394
Depreciation of right-of-use assets	10	17,539	11,886
Depreciation of investment property	10	—	3,276
Amortisation of intangible assets	10	2,465	978
Covid-19-related rent concessions from lessors		(74)	—
Impairment/(reversal of impairment) of trade receivables	10	842	(63)
Impairment of inventories	10	20,616	1,364
Write-off of inventories	10	3,838	3,745
Foreign exchange differences, net	10	(9,666)	3,545
Share-based compensation expenses	17	182,975	198,514
		(321,183)	470,025
Increase in trade and bills receivables		(191,736)	(15,658)
Increase in prepayments, other receivables and other assets		(364,155)	(130,472)
(Increase)/decrease in inventories		(314,878)	30,408
Decrease in restricted cash		7,476	41,396
(Increase)/decrease in long-term receivables		(546)	14,527
Increase in trade and bills payables		1,641,864	52,703
Increase in other payables and accruals		85,629	67,634
Increase/(decrease) in contract liabilities		24,244	(11,195)
Effect of foreign exchange rate changes, net		(24,683)	5,406

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended September 30, 2021

	Notes	Six months ended September 30,	
		2021 Unaudited RMB'000	2020 Unaudited RMB'000
Cash generated from operations		542,032	524,774
Interest received		97,108	55,226
Interest paid		(737)	(1,580)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") taxes paid		(38,488)	(12,020)
Hong Kong taxes paid		(2,211)	—
Net cash flows generated from operating activities		597,704	566,400
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment		(6,778)	(1,450)
Purchase of items of other intangible assets		(56)	(497)
Purchase of financial assets at fair value through profit or loss		(72,000)	—
Proceeds from disposal of financial assets at fair value at profit or loss		26,679	403,415
Proceeds from disposal of items of property and equipment		622	205
Business acquisitions	19(A)	(742,068)	—
Acquisition of an associate		—	(10,000)
Capital injection in an associate		—	(61,004)
(Increase)/decrease of time deposits with original maturity over three months		2,174,376	(4,754,351)
Receipts of repayment of loans to a third party		13,900	25,000
Dividend received from investment in an associate		976	—
Interest received		1,379	1,137
Dividend received from financial assets at fair value through profit or loss		3,750	1,363
Capital injection in a joint venture		(59,701)	—
Acquisition of non-controlling interests		—	(110)
Net cash flows generated from/(used in) investing activities		1,341,079	(4,396,292)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended September 30, 2021

	Six months ended September 30,	
	2021 Unaudited RMB'000	2020 Unaudited RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of new shares	—	8,917,172
Proceeds from exercise of share options	6,200	59,978
Principal portion of lease payments	(22,226)	(19,757)
Investment returned to a non-controlling shareholder on the deregistration of a subsidiary	(4,790)	—
Net cash flows (used in)/generated from financing activities	(20,816)	8,957,283
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	7,252,275	2,594,981
Effect of foreign exchange rate changes	(123,909)	(209,205)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	9,046,333	7,513,277
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	9,046,333	6,951,558
Non-pledged time deposits with original maturity of three months or less when acquired	—	561,719
Non-pledged time deposits with original maturity over three months when acquired	2,210,118	4,754,351
CASH AND CASH EQUIVALENTS AS STATED IN THE INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	11,256,451	12,267,628
Non-pledged time deposits with original maturity over three months	(2,210,118)	(4,754,351)
CASH AND CASH EQUIVALENTS AS STATED IN THE INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	9,046,333	7,513,277

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2021

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, People 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 direct sales business, pharmaceutical e-commerce platform business, medical and healthcare services business and digital infrastructure business.

In the opinion of the directors of the Company (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 information for the six months ended September 30, 2021 (the “**Reporting Period**”) has 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 information does 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, 2021, 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 17). 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 (CONTINUED)

For the six months ended September 30, 2021

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 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended March 31, 2021, except for the adoption of the following revised HKFRSs for the first time for the current period’s financial information.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**2.2 Changes in accounting policies and disclosures (continued)**

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“**RFR**”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy.

The Group has applied the amendments prospectively to transactions or other events that occurred on or after April 1, 2021. The amendments did not have any impact on the financial position and performance of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**2.2 Changes in accounting policies and disclosures (continued)**

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after April 1, 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has adopted the amendment on April 1, 2021 and applied the practical expedient during the six-month period ended September 30, 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before June 30, 2022 as a direct consequence of the covid-19 pandemic. A reduction in the lease payments arising from the rent concessions of RMB73,665 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the six-month period ended September 30, 2021.

3 OPERATING SEGMENT INFORMATION

The Group is primarily engaged in pharmaceutical direct sales business, pharmaceutical e-commerce platform business, healthcare and digital services business. Given that the chief operating decision maker of the Company considers that the Group's business mentioned above is operated and managed as a single segment, accordingly, no segment information is presented.

Geographical information**(a) Revenue from external customers**

	Six months ended September 30,	
	2021 Unaudited RMB'000	2020 Unaudited RMB'000
Mainland China	8,980,689	6,911,668
Hong Kong	377,026	250,363
	9,357,715	7,162,031

The revenue information above is based on the locations of the customers for whom services are provided, or the locations of the warehouses from which inventories are shipped.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

3 OPERATING SEGMENT INFORMATION (CONTINUED)**Geographical information (continued)****(b) Non-current assets**

	September 30, 2021 Unaudited RMB'000	March 31, 2021 Audited RMB'000
Mainland China	3,449,814	2,199,264
Hong Kong	155,332	183,022
	<u>3,605,146</u>	<u>2,382,286</u>

The non-current asset information above is based on the locations of the assets and excludes equity investment designated at FVOCI, financial assets at FVPL and long-term receivables.

Information about a major customer

During the six months ended September 30, 2021, there was no revenue derived from transactions with a single external customer which amounted to 10% or more of the Group's revenue (for the six months ended September 30, 2020: Nil).

4 REVENUE

The Group is primarily engaged in pharmaceutical direct sales business, pharmaceutical e-commerce platform business, healthcare and digital services business.

An analysis of revenue is as follows:

	Six months ended September 30,	
	2021 Unaudited RMB'000	2020 Unaudited RMB'000
Pharmaceutical direct sales business	8,118,994	6,036,024
Pharmaceutical e-commerce platform business	1,010,257	925,383
Healthcare and digital services business ¹	228,464	200,624
Total	<u>9,357,715</u>	<u>7,162,031</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

4 REVENUE (CONTINUED)

Revenue from contracts with customers

Disaggregated revenue information

	Six months ended September 30,	
	2021 Unaudited RMB'000	2020 Unaudited RMB'000
Type of goods or services:		
Sales of products	7,664,374	5,709,524
Provision of services	1,693,341	1,452,507
Total revenue from contracts with customers	<u>9,357,715</u>	<u>7,162,031</u>
Timing of revenue recognition:		
At a point in time	8,737,181	6,774,746
Over time	620,534	387,285
Total revenue from contracts with customers	<u>9,357,715</u>	<u>7,162,031</u>

- 1 Given that digital infrastructure business served medical and healthcare services and retail terminals more broadly during the Reporting Period, medical and healthcare services business and digital infrastructure business were integrated into healthcare and digital services business to better reflect the Group's business classification. Breakdown of revenue for the corresponding period ended September 30, 2020 has been restated.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

5 OTHER INCOME AND GAINS

	Six months ended September 30,	
	2021 Unaudited RMB'000	2020 Unaudited RMB'000
Other Income		
Bank interest income	85,029	62,068
Government grants	32,494	14,570
Foreign exchange difference, net	9,666	—
Management fee income from a joint venture	4,533	4,545
Dividend income from financial asset at FVPL	3,750	1,363
Other interest income	1,429	513
Rental income from investment property operating leases	—	3,997
Others	1,638	225
	<u>138,539</u>	<u>87,281</u>
Gains		
Fair value gains on financial assets at FVPL	224,102	46,851
Gain on deemed partial disposal of associates	23,702	8,679
Gain on disposal of items of property and equipment	21	—
	<u>247,825</u>	<u>55,530</u>
Total	<u>386,364</u>	<u>142,811</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*For the six months ended September 30, 2021***6 FULFILLMENT**

Fulfillment primarily consists of those costs incurred in warehousing, logistics, operation and customer services, which are associated with the Group's pharmaceutical direct sales business.

7 FINANCE COSTS

Finance costs is interest on lease liabilities.

8 SHARE OF PROFITS/(LOSSES) OF JOINT VENTURES

The Group recorded share of profits from joint ventures for the six months ended September 30, 2021 (for the six months ended September 30, 2020: share of losses).

9 SHARE OF LOSSES OF ASSOCIATES

The Group recorded share of losses from associates for the six months ended September 30, 2021 (for the six months ended September 30, 2020: share of losses), except for Dongfang Customs, from which the Group recorded share of profits for the six months ended September 30, 2021 (for the six months ended September 30, 2020: share of profits).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

10 (LOSS)/PROFIT BEFORE TAX

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

	Six months ended September 30,	
	2021	2020
	Unaudited	Unaudited
	RMB'000	RMB'000
Cost of goods sold*	6,601,557	4,516,205
Cost of services provided* (excluding employee benefit expense and share-based compensation expenses)	836,669	772,434
Depreciation of property and equipment	3,055	1,394
Depreciation of right-of-use assets	17,539	11,886
Depreciation of an investment property	—	3,276
Amortisation of intangible assets	2,465	978
Fair value gains on financial assets at FVPL [#]	(224,102)	(46,851)
Impairment of inventories*	20,616	1,364
Impairment/(reversal of impairment) of trade receivables [#]	842	(63)
Write-off of inventories [#]	3,838	3,745
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	405,041	235,599
Pension scheme contributions	26,462	6,211
Share-based compensation expenses (note 17)	182,975	198,514
	614,478	440,324
Foreign exchange differences, net	(9,666)	3,545

[#] These items are included in "Other income and gains" and "Other expenses" in the interim condensed consolidated statement of profit or loss.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

11 INCOME TAX EXPENSE

	Six months ended September 30,	
	2021	2020
	Unaudited	Unaudited
	RMB'000	RMB'000
Current-Hong Kong		
Charge for the period	61	4,625
Current-Mainland China		
Charge for the period	10,329	23,613
Underprovision/(overprovision) in prior years	190	(1,695)
Deferred	(8,874)	19,344
Total tax charge for the period	1,706	45,887

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong.

In general, the PRC subsidiaries of the Company are subject to the PRC corporate income tax rate of 25% except for two PRC subsidiaries which are entitled to a preferential tax rate of 15%.

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

12 DIVIDENDS

The board of Directors (the "**Board**") has resolved that no interim dividend be declared for the six months ended September 30, 2021 (for the six months ended September 30, 2020: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

13 (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount is based on the loss for the period attributable to owners of the parent of RMB231,771,000 (for the six months ended September 30, 2020: profit of RMB283,431,000), and the weighted average number of ordinary shares of 13,477,924,055 in issue during the period (for the six months ended September 30, 2020: 13,038,227,696).

No adjustment has been made to the basic loss per share amount presented for the six months ended September 30, 2021 in respect of a dilution as the impact of share options and restricted share units outstanding had an anti-dilutive effect on the basic loss per share amount presented.

The calculation of the diluted earnings per share amount for the six months ended September 30, 2020 is based on the profit for the six months ended September 30, 2020 attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the six months ended September 30, 2020, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted (loss)/earnings per share are based on:

	Six months ended September 30,	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	<u>(231,771)</u>	<u>283,431</u>
	Number of shares	Number of shares
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	<u>13,477,924,055</u>	13,038,227,696
Effect of dilution — weighted average number		
Share options	—	15,470,532
Restricted share units	—	67,593,236
	<u>13,477,924,055</u>	<u>13,121,291,464</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

14 TRADE AND BILLS RECEIVABLES

	September 30, 2021	March 31, 2021
	Unaudited	Audited
	RMB'000	RMB'000
Trade receivables	496,403	326,766
Bills receivable	36,055	13,437
	532,458	340,203
Impairment	(27,430)	(26,588)
	505,028	313,615

The Group's trading terms with some of its customers are on credit. The Group provides credit periods 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, 2021 are amounts due from fellow subsidiaries of approximately RMB58,783,000 (March 31, 2021: RMB53,161,000) and the Group's associates of approximately RMB288,000 (March 31, 2021: RMB91,000), which are repayable on credit terms similar to those offered to other similar customers of the Group.

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, 2021	March 31, 2021
	Unaudited	Audited
	RMB'000	RMB'000
Within 3 months	228,489	177,677
3 to 12 months	240,484	122,501
	468,973	300,178

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

15 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, 2021 Unaudited RMB'000	March 31, 2021 Audited RMB'000
Within 3 months	1,935,429	1,268,105
3 to 12 months	1,708,858	1,184,311
Over 12 months	589,343	99,134
	<u>4,233,630</u>	<u>2,551,550</u>

Included in the Group's trade payables as at September 30, 2021 are amounts due to fellow subsidiaries of approximately RMB1,806,059,000 (March 31, 2021: RMB1,284,969,000), which are repayable on credit terms similar to those offered by other similar suppliers of the Group.

16 SHARE CAPITAL**Shares**

	September 30, 2021 Unaudited RMB'000	March 31, 2021 Audited RMB'000
Issued and fully paid 13,489,819,792(March 31, 2021: 13,487,965,042) ordinary shares of HK\$0.01 each	<u>118,875</u>	<u>118,859</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

16 SHARE CAPITAL (CONTINUED)

Shares (continued)

	Number of shares in issue (unaudited)	Share capital (unaudited) RMB'000	Treasury shares (unaudited) RMB'000
At April 1, 2020	12,074,135,224	106,108	(13,039)
Exercise of share options (note a)	12,062,750	110	—
Vested awarded shares transferred to employees (note b)	—	—	7,744
Issue of shares for RSUs (note c)	6,800,000	62	(62)
Issue of shares (note d)	<u>1,359,627,318</u>	<u>12,283</u>	<u>—</u>
At September 30, 2020	<u>13,452,625,292</u>	<u>118,563</u>	<u>(5,357)</u>
At April 1, 2021	13,487,965,042	118,859	(22,265)
Exercise of share options (note a)	1,854,750	16	—
Vested awarded shares transferred to employees (note b)	—	—	6,188
Repurchase of shares (note e)	<u>—</u>	<u>—</u>	<u>(16,519)</u>
At September 30, 2021	<u>13,489,819,792</u>	<u>118,875</u>	<u>(32,596)</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

16 SHARE CAPITAL (CONTINUED)

Shares (continued)

Note a: The total number of options exercised during the six months ended September 30, 2021 is 1,854,750 (for the six months ended September 30, 2020: 12,062,750).

Note b: The number of treasury shares transferred to owners of vested restricted share units during the six months ended September 30, 2021 is 11,449,341 (for the six months ended September 30, 2020: 12,311,319).

Note c: The number of shares of HK\$0.01 each were issued for restricted share units to be vested in future period during the six months ended September 30, 2020 is 6,800,000.

Note d: On April 9, 2020, 860,874,200 shares were issued to Ali JK Nutritional Products Holding Limited (“**Ali JK Nutritional**”) at a subscription price of HK\$9.38 per share for a total cash consideration of HK\$8,075,000,000 (approximately RMB7,280,678,000). This constituted connected transaction of the Company in accordance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“**Listing Rules**”). For details of the transaction, please refer to the announcement of the Company dated February 7, 2020.

On August 5, 2020, the Company entered into a placing agreement with the placing agents in relation to the placing of an aggregate of 498,753,118 new shares at the placing price of HK\$20.05 per placing share. On August 12, 2020, a total of 498,753,118 new shares have been successfully placed, the gross proceeds were HK\$10,000,000,000 and the net proceeds were HK\$9,964,200,000 (approximately RMB8,917,172,000). For details of the placing, please refer to announcements of the Company dated August 5, 2020 and August 12, 2020.

Note e: In July 2021, 1,300,000 shares of HK\$0.01 each were repurchased for restricted share units to be vested by certain current directors and directors who resigned after September 30, 2020 at a total cash consideration of RMB16,519,000.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*For the six months ended September 30, 2021***17 SHARE-BASED COMPENSATION EXPENSES****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.

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).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

17 SHARE-BASED COMPENSATION EXPENSES (CONTINUED)**Share award scheme (continued)**

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 <i>HK\$ per share</i>	Number of options Unaudited <i>'000</i>	Number of RSUs Unaudited <i>'000</i>
Outstanding at April 1, 2020	4.84	28,679	85,761
Granted during the period	19.92	6,698	20,172
Forfeited during the period	3.66	(306)	(10,184)
Exercised or transferred during the period	<u>5.45</u>	<u>(12,063)</u>	<u>(12,310)</u>
Outstanding at September 30, 2020	<u><u>8.92</u></u>	<u><u>23,008</u></u>	<u><u>83,439</u></u>
Average fair value per option/RSU at September 30, 2020		RMB4.28	RMB9.23
Outstanding at April 1, 2021	10.14	17,280	62,040
Granted during the period	18.21	1,704	29,415
Forfeited during the period	19.94	(1,596)	(6,076)
Exercised or transferred during the period	<u>4.02</u>	<u>(1,855)</u>	<u>(11,449)</u>
Outstanding at September 30, 2021	<u><u>10.75</u></u>	<u><u>15,533</u></u>	<u><u>73,930</u></u>
Average fair value per option/RSU at September 30, 2021		RMB4.73	RMB11.26

The exercise price of RSUs is nil. For options outstanding at the end of the Reporting Period, the exercise prices range from HK\$3.626 to HK\$19.940. The exercise period of the options is from the vesting date to 10 years from the grant date. Approximately 15,533,000 share options of the Group were outstanding as at September 30, 2021 with the weighted average remaining contractual life of 6.96 years (for the six months ended September 30, 2020: 7.45 years).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

17 SHARE-BASED COMPENSATION EXPENSES (CONTINUED)**Share award scheme (continued)**

As at September 30, 2021, the remaining vesting periods for the options and RSUs granted range from 3 months to 48 months.

The fair value of options granted during the six months ended September 30, 2021 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, 2021 (Unaudited)
Fair value of the Company's shares at the grant date	HK\$8.62~HK\$8.73
Expected volatility (%)	60
Expected dividend (%)	0.00
Exercise multiple	2.5
Exercise price	HK\$18.21
Risk-free interest rate (%)	1.06
Forfeiture rate (%)	21~24

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, 2021 and September 30, 2020 were determined based on the market value of the Company's shares at the respective grant dates.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

17 SHARE-BASED COMPENSATION EXPENSES (CONTINUED)**Share award scheme (continued)**

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

	Six months ended September 30,	
	2021	2020
	Unaudited	Unaudited
	RMB'000	<i>RMB'000</i>
Cost of sales	9,919	6,077
Fulfillment	11,181	13,465
Sales and marketing expenses	58,448	68,092
Administrative expenses	42,616	48,094
Product development expenses	60,811	62,786
	182,975	198,514

At the end of the Reporting Period, the Company had approximately 15,533,000 options and 73,930,000 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 84,531,000 additional ordinary shares of the Company and additional share capital of HK\$845,310 (equivalent to approximately RMB702,085) (before issue expenses) and release of approximately 4,932,000 treasury shares.

18 COMMITMENTS

The Group had the following capital commitments at the end of the Reporting Period.

	September 30,	March 31,
	2021	2021
	Unaudited	Audited
	RMB'000	<i>RMB'000</i>
Contracted, but not provided for:		
Capital injection of investments	57,800	167,500

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

19 BUSINESS COMBINATIONS UNDER COMMON CONTROL**(A) Business combinations not under common control*****Acquisition of International AIQING Technology Investment Co., Ltd. (the “International AIQING Acquisition”)***

On July 26, 2021, Ali JK Medical Products Limited (“**Ali JK Medical**”), a subsidiary of the Group, International AIQING Technology Investment Co., Ltd. (“**International AIQING**”) and its original shareholders (the “**Vendor**”) entered into an equity transfer agreement, pursuant to which, Ali JK Medical conditionally agreed to purchase and the Vendor conditionally agreed to sell its entire 100% equity interest in International AIQING, for a consideration of approximately of United States Dollars (“**USD**”) 163,417,000 (equivalent to approximately RMB1,053,222,000), which is to be satisfied by (i) cash of USD144,327,000 (equivalent to approximately RMB930,205,000); (ii) contingent cash payment of USD16,328,000 (equivalent to approximately RMB105,221,000), which is to be paid on the first and second anniversary date of the closing date, respectively, which is subject to adjustments dependent on the performance of International AIQING; and (iii) issuing replacement restricted shares of approximately of 1,426,000 of the Company with a total fair value of USD2,431,000 (equivalent to approximately RMB15,669,000) at the acquisition date for the unvested Employee Share Option Plans shares (“**ESOP**”) of International AIQING with a fair value of USD2,762,000 (equivalent to approximately RMB17,796,000) at acquisition date, which were to be issued at the first RSU grant date of the Company after the mature date of the original ESOP. The International AIQING Acquisition was made as part of the Group’s strategy to expand its online medical-service related business, which was mainly carried out by Beijing Zichen Zhenyang Technology Limited, an indirect subsidiary of International AIQING, with a brand name known as Xiaolu TCM. The transaction was completed on 10 September 2021, and accordingly International AIQING became a wholly owned subsidiary of the Group. As at September 30, 2021, a cash consideration of USD122,886,000 (equivalent to approximately RMB792,018,000) was paid to International AIQING’s original shareholders, and the remaining amount of USD37,769,000 (equivalent to approximately RMB243,408,000) is to be paid after certain conditions are fulfilled.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

19 BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONTINUED)

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

Acquisition of International AIQING Technology Investment Co., Ltd. (the “International AIQING Acquisition”) (continued)

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

	Fair value recognised on acquisition
	<i>RMB'000</i>
Property and equipment	3,502
Other intangible assets	335,000
Inventories	544
Trade receivables	488
Prepayments, other receivables and other assets	12,996
Financial assets at FVPL	35,980
Cash and cash equivalents	50,340
Trade payables	(40,202)
Other payables and accruals	(50,412)
Contract liabilities	(34)
Deferred tax liabilities	(83,750)
	<hr/>
Total identifiable net assets at fair value	264,452
Goodwill on acquisition	788,770
	<hr/>
	1,053,222
Satisfied by:	
Cash	930,205
Contingent cash payment included in other payables and accruals and other non-current liabilities	105,221
Replacement Awards*	17,796
	<hr/>
Total purchase consideration	1,053,222
	<hr/> <hr/>

* Replacement awards represent the replacement of the then unvested ESOP of International AIQING with a fair value of RMB17,796,000 at acquisition date by the RSU of the Company, which constitutes a portion of acquisition consideration and is included in the employee share-based compensation reserve.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

19 BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONTINUED)**(A) Business combinations not under common control (continued)*****Acquisition of International AIQING Technology Investment Co., Ltd. (the “International AIQING Acquisition”) (continued)***

The Group incurred no transaction cost for this acquisition.

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

As part of the purchase agreement, contingent consideration payable is determined based on the amount of gross merchandise volume of International AIQING for each of the two years ending 30 April 2022 and 2023 and the accumulated net profit of the two years ending 30 April 2023. The initial amount recognised was RMB105,221,000, which was determined using the Monte Carlo Simulation model under the income approach and was within Level 3 fair value measurement.

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

	<i>RMB'000</i>
Cash consideration	(792,018)
Cash and bank balances acquired	<u>50,340</u>
Net outflow of cash and cash equivalents included in cash flows from investing activities	<u><u>(741,678)</u></u>

Since the acquisition, International AIQING contributed RMB28,649,000 to the Group's revenue and loss of RMB1,752,000 to the consolidated loss for the six months ended September 30, 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

19 BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONTINUED)**(A) Business combinations not under common control (continued)*****Acquisition of Guangzhou Zhongbai Lide Vitiligo Treatment Center (the “Zhongbai acquisition”)***

On May 6, 2021, Ali Health Network Hospital Co., Ltd. (“**Ali Health Network**”), a subsidiary of the Group, Guangzhou Zhongbai Lide Vitiligo Treatment Center^ (廣州中白力德門診部有限公司) (“**Zhongbai**”) and Xue Xipeng (“**Mr. Xue**”), a third party entered into an equity transfer agreement, pursuant to which, Ali Health Network conditionally agreed to purchase and Mr. Xue conditionally agreed to sell its entire 100% equity interest in Zhongbai, for a cash consideration of approximately of RMB2,200,000, of which RMB440,000 has been paid during the period. The Zhongbai Acquisition was made as part of the Group’s strategy to expand its offline medical-service related business. The transaction was completed on June 17, 2021, and accordingly Zhongbai became a wholly owned subsidiary of the Group.

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

	Fair value recognised on acquisition
	<i>RMB'000</i>
Property and equipment	8
Inventories	125
Trade Receivables	31
Prepayment, other receivables and other assets	127
Cash and cash equivalents	50
Trade payables	(14)
Other payables and accruals	(86)
	<hr/>
Total identifiable net assets at fair value	241
Goodwill on acquisition	1,959
	<hr/>
	2,200
Satisfied by cash	2,200
	<hr/> <hr/>

The Group incurred no transaction cost for this acquisition.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

19 BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONTINUED)**(A) Business combinations not under common control (continued)****Acquisition of Guangzhou Zhongbai Lide Vitiligo Treatment Center (the “Zhongbai acquisition”) (continued)**

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

	<i>RMB'000</i>
Cash consideration	(440)
Cash and bank balances acquired	<u>50</u>
Net outflow of cash and cash equivalents included in cash flows from investing activities	<u>(390)</u>

Since the acquisition, Zhongbai contributed RMB600,000 to the Group's revenue and loss of RMB524,000 to the consolidated loss for the six months ended September 30, 2021.

(B) Business combinations under common control

On April 9, 2020, the Group acquired 100% equity interest in Ali JK ZNS Limited and its subsidiaries, Ali JK ZNS (HK) Limited, and Hangzhou Defu Health Management Co., Ltd.[^] (杭州得賦健康管理有限公司), (collectively referred to as the “**Ali JK ZNS Group**”) from Ali JK Nutritional, the (“**Vendor**”), a direct-wholly-owned subsidiary of Alibaba Holding. As the Company and Ali JK ZNS 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 of HK\$8,075.0 million was satisfied by the Company issuing 860,874,200 shares on April 9, 2020 to the Vendor. The fair value of these consideration shares was HK\$12,982.0 million (approximately RMB11,793.2 million) based on the market price of HK\$15.08 per ordinary share as at April 9, 2020. The difference of RMB11,791.8 million between the fair value of consideration shares issued of approximately RMB11,793.2 million and the carrying amount of approximately RMB1.4 million of the net asset of Ali JK ZNS 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 sale of target products and services 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 were completed.

Since the acquisition, Ali JK ZNS Group contributed RMB87,193,000 to the Group's revenue and profit of RMB52,316,000 to the consolidated profit for the six months ended September 30, 2020.

[^] For identification purpose only

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

20 RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions detailed elsewhere in this financial information, the Group had the following material transactions:

	Notes	2021 Unaudited RMB'000	2020 Unaudited RMB'000
Ultimate holding company:			
Share-based compensation expenses attributable to connected persons	(i)	9,143	17,294
Marketing services received from Alibaba Group	(ii)	367,814	135,405
Shared services received from Alibaba Group	(iii)	79,960	120,280
Internet information and other related services received from Alibaba Group	(iv)	128,687	144,311
Fellow subsidiaries:			
Cloud computing services received from Alibaba Cloud Computing Ltd. ("Alibaba Cloud")	(v)	70,995	2,003
Logistics and warehouse services received from Hangzhou Cainiao Supply Chain Management Co., Ltd. ("Hangzhou Cainiao")	(vi)	138,861	102,439
Payment services received from Alipay.com Co., Ltd. ("Alipay")	(vii)	32,512	30,992
Technical services received from Tmall Entities [®] regarding Blue Cap Health Food [#]	(viii)	36,195	34,613
Technical services received from Tmall Entities regarding medical devices, healthcare products, adult products, and medical and healthcare services	(viii)	405,610	372,571
Technical services received from Taobao Holding Limited ("Taobao Holding") regarding Tmall Products and Services and Tmall Global Products and Services*	(viii)	127,470	76,899
Purchases of products from Taobao Holding	(ix)	—	7,531
Business sourcing and promotion services from Koubei (Shanghai) Information Technology Co., Ltd. ("Koubei")	(x)	—	11,047
Incentive fee received from Hangzhou Alimama Software Services Co., Ltd. ("Alimama")	(ii)	—	103
Outsourced and value-added services provided to Taobao Holding	(xi)	51,005	47,070
Tracking related services provided to Taobao Holding	(xii)	548	870
Sales of products to Taobao Holding	(ix)	—	484
Rent received from Taobao Holding		—	3,997
Software Services provided to Taobao Holding	(xiii)	23,110	13,463
Business sourcing and promotion services provided to Koubei	(x)	206	—
Subscription agreement with Ali JK Nutritional/Antfin (Hong Kong) Holding Limited		—	7,280,678
Associates:			
Sales of products	(xiv)	674	4,871

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

20 RELATED PARTY TRANSACTIONS (CONTINUED)**(I) Transactions with related parties (continued)**

@ Tmall Entities refers to 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)

Blue Cap Health Food refers to a kind of health food approved by the State Administration for Market Regulation of China.

* Tmall Products and Services are comprised of pharmaceutical products, medical purpose food products, medical devices, adult products, healthcare products, medical and healthcare services and the target Blue Cap Health Food sold through Tmall Supermarket only.

Tmall Global Products and Services are comprised of pharmaceutical products, medical devices, healthcare products, medical purpose food products, medical and healthcare services.

^ For identification purpose only

Notes:

(i) On June 15, 2020, the Company granted 2,900,000 options and 500,000 RSUs to Mr. ZHU Shunyan, an executive Director, the current chairman of the Board and chief executive officer of the Company, and hence a connected person of the Company under the Share Award Scheme. On the same day, the Company granted 292,500 options and 117,000 RSUs to Mr. WANG Qiang, the then executive Director (resigned on October 23, 2020), and hence a connected person of the Company, and 290,000 options and 116,000 RSUs to other connected persons (other than the Directors), under the Share Award Scheme. Further details of the transaction were set out in the announcement of the Company dated June 15, 2020.

On September 15, 2020, the Company granted 119,000 options and 47,600 RSUs to one other connected person (other than the Directors), under the Share Award Scheme. Further details of the transaction were set out in the announcement of the Company dated September 15, 2020.

On June 15, 2021, the Company granted 421,250 options and 168,500 RSUs to Mr. ZHU Shunyan, an executive Director, the current chairman of the Board and chief executive officer of the Company, and hence a connected person of the Company under the Share Award Scheme. On the same day, the Company granted 67,250 options and 26,900 RSUs to Mr. TU Yanwu, an executive Director and the chief financial officer of the Company, and hence a connected person of the Company under the Share Award Scheme. The Company granted a total of 481,000 options and 192,400 RSUs to two directors of the subsidiaries of the Company, and hence connected persons of the Company under the Share Award Scheme. Further details of the transaction were set out in the announcement of the Company dated June 15, 2021.

(ii) On February 5, 2021, Alibaba Holding and the Company renewed the 2021 Advertising Services Framework Agreement by entering into the 2022 Advertising Services Framework Agreement for a term of one year from April 1, 2021 to March 31, 2022, pursuant to which Alibaba Group agreed to provide to the Group certain advertising services and the Group agreed to pay Alibaba Group advertising fees. The service fee is subject to the standard service agreement of Alibaba Holding as amended from time to time. Further details of the transaction were set out in the announcement of the Company dated February 5, 2021. The transaction was approved by the Company's independent shareholders at a special general meeting.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

20 RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

Notes: (continued)

(ii) (continued)

On March 30, 2021, Alimama[^] (杭州阿里媽媽軟件服務有限公司), an indirect-wholly-owned subsidiary of Alibaba Holding and Alibaba Health (Hong Kong) Technology Company Limited (“**Alibaba Health (HK)**”), an indirectly wholly-owned subsidiary of the Company, renewed the 2021 Agency Agreement by entering into the 2022 Agency Agreement for a term of one year from April 1, 2021 to March 31, 2022, pursuant to which Alibaba Health (HK) agreed to refer Alibaba Health Group[#]'s connected clients to purchase marketing and advertising services from Alimama and/or its affiliates. As the marketing agent, the Group is entitled to receive incentive fees. These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved. Further details of the transaction were set out in the announcement of the Company dated March 30, 2021.

[#] Alibaba Health Group refers to Alibaba Health (HK) and its subsidiaries.

(iii) On March 30, 2021, Alibaba Holding and the Company renewed the 2021 Shared Services Agreement by entering into the 2022 Shared Services Agreement for a term of one year from April 1, 2021 to March 31, 2022, pursuant to which Alibaba Holding agreed to procure the Alibaba Service Providers[#] to provide to the Group the shared services. The service fee is determined according to the agreement between the parties and may be adjusted from time to time by written agreement between the parties. Further details of the transaction were set out in the announcement of the Company dated March 30, 2021.

[#] 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.

(iv) On February 5, 2021, Alibaba Holding and the Company renewed the 2021 Platform Services Framework Agreement by entering into the 2022 Platform Services Framework Agreement for a term of one year from April 1, 2021 to March 31, 2022, pursuant to which the AGH relevant entities[#] agreed to provide to the Group platform services including but not limited to Internet information related software technical services and other related services. These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved. Further details of the transaction were set out in the announcement of the Company dated February 5, 2021. The transaction was approved by the Company's independent shareholders at a special general meeting.

[#] AGH relevant entities refers to Alibaba Holding and its subsidiaries and affiliates, including but not limited 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), Alibaba (China) Software Co., Ltd.[^] (阿里巴巴(中國)軟件有限公司), Zhejiang Taobao Network Co., Ltd.[^] (浙江淘寶網絡有限公司), Taobao (China) Software Co., Ltd.[^] (淘寶(中國)軟件有限公司), Ecart Services Malaysia Sdn. Bhd., Lazada Singapore Pte. Ltd., Lazada Ltd., Lazada E-Services Philippines, Inc., PT. Ecart Webportal Indonesia, Recess Company Limited, Kobron Hong Kong Development Limited, Taobao China Holding Limited (“**Taobao China**”), Alibaba.com Singapore E-Commerce Private Limited (“**Alibaba Singapore**”), Zhejiang Alibaba Communication Technology Co., Ltd.[^] (浙江阿里巴巴通信技術有限公司), DingTalk Technology Co., Ltd.[^] (釘釘科技有限公司), DingTalk (China) Information Technology Co., Ltd.[^] (釘釘(中國)信息技術有限公司), Tmall Technology and Tmall Network and their subsidiaries, collectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

20 RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

Notes: (continued)

- (v) On March 30, 2021, Alibaba Health Technology (China) Co., Ltd.[^] (阿里健康科技(中國)有限公司) (“**Alibaba Health (China)**”), an indirect-wholly-owned subsidiary of the Company, and Alibaba Cloud[^] (阿里雲計算有限公司), a consolidated entity of Alibaba Holding, renewed the 2021 Cloud Computing Services Agreement by entering into the 2022 Cloud Computing Services Agreement for a term of one year from April 1, 2021 to March 31, 2022, pursuant to which Alibaba Cloud agreed to provide certain cloud computing services and other related services to the Group. These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved. Further details of the transaction were set out in the announcement of the Company dated March 30, 2021.
- (vi) On February 5, 2021, Hangzhou Cainiao[^] (杭州菜鳥供應鏈管理有限公司), an indirect- non-wholly-owned subsidiary of Alibaba Holding, and the Company, renewed the 2021 Logistics Services Framework Agreement by entering into the 2022 Logistics Services Framework Agreement for a term of one year from April 1, 2021 to March 31, 2022, pursuant to which Cainiao Group* agreed to provide various logistics services and other related services to the Group. These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved. Further details of the transaction were set out in the announcement of the Company dated February 5, 2021. The transaction was approved by the Company's independent shareholders at a special general meeting.
- # Cainiao Group refers to Hangzhou Cainiao and its subsidiaries and affiliates.
- (vii) On March 30, 2021, the Company and Alipay[^] (支付寶(中國)網絡技術有限公司), a wholly-owned subsidiary of Ant Group CO., Ltd. (螞蟻科技集團股份有限公司) renewed the 2021 Payment Services Framework Agreement by entering into the 2022 Payment Services Framework Agreement for a term of one year from April 1, 2021 to March 31, 2022, pursuant to which Alipay agreed to provide the Group with payment, settlement and other related services on the Alibaba Group Platform and the Group agreed to pay the relevant service fees. The service fee is based on the agreement otherwise negotiated by both parties. Further details of the transaction were set out in the announcement of the Company dated March 30, 2021.
- (viii) On March 27, 2020, 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)) (“**Alibaba Health (Hangzhou)**”), an indirect-wholly-owned subsidiary of the Company and Tmall Entities, renewed the Framework Technical Services Agreement by entering into the 2021–2023 Framework Technical Services Agreement for a term of three years from April 1, 2020 to March 31, 2023, pursuant to which the Tmall Entities agreed to continue to provide infrastructure technical support for the operation of Tmall.com, including technical support, internet information services and secondary domain names and other services to merchants on Tmall.com, who provide Blue Cap Health Food products to customers (“**Target Business I**”). The Tmall Entities charge service fees of 50% of total software service fees received by Alibaba Health (Hangzhou) from the relevant merchants for the Target Business I transactions on Tmall.com. Further details of the transaction were set out in the announcement of the Company dated March 27, 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

20 RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

Notes: (continued)

(viii) (continued)

On February 5, 2021, Alibaba Health (Hangzhou) and Alibaba Health Technology (Hainan) Co., Ltd.[^] (阿里健康科技(海南)有限公司) (“**Alibaba Health (Hainan)**”), renewed the second Framework Technical Services Agreement with the Tmall Entities for a term of one year from April 1 2021 to March 31 2022, pursuant to which the Tmall Entities agreed to continue to provide software technical services, internet information services and secondary domain names and other services for the operation on Tmall.com in relation to certain categories of products and services (“**Target Business II**”). The Tmall Entities charge service fees of 50% of total software service fees received by Alibaba Health (Hangzhou) and Alibaba Health (Hainan) from the relevant merchants for the Target Business II transactions on Tmall.com. Further details of the transaction were set out in the announcement of the Company dated February 5, 2021. The transaction was approved by the Company’s independent shareholders at a special general meeting.

On February 6, 2020, the Company entered into a third Framework Technical Services Agreement with Taobao Holding, a wholly-owned subsidiary of Alibaba Holding, pursuant to which Taobao Holding agreed to procure its subsidiaries, including the Tmall Entities and Taobao China, to continue to provide infrastructure technical support for the operation of Tmall.com and Tmall Global (the “**Tmall Platforms**”), including software technical support, internet information services and secondary domain names and other services in respect of certain categories of products and services sold on the Tmall Platforms (“**Target Business III**”). Taobao Holding and its subsidiaries charge service fees of 40% of software service fees received by the Company from the target merchants for transactions of pharmaceutical products sales and 50% of the software service fees received by the Company from the target merchants for transactions selling the target products and services other than pharmaceutical products. The term of this Framework Technical Services Agreement commenced on the day following the completion of the Target Business III acquisition and will end on March 31, 2023. Further details of the transaction were set out in the announcement of the Company dated February 6, 2020. The transaction was approved by the Company’s independent shareholders at a special general meeting.

(ix) On March 26, 2021, the Company entered into the 2022 Supply and Purchase Framework Agreement with Hangzhou Xinxuan Electronic Commerce Co. LTD[^] (杭州心選電子商務有限公司), an indirect-wholly-owned subsidiary of Alibaba Holding for a term of one year from April 1, 2021 to March 31, 2022, pursuant to which the Company agreed to 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 also agreed to provide and/or purchase 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.

(x) On March 30, 2021, Alibaba Health (China) and Koubei[^] (口碑(上海)信息技術有限公司), a consolidated entity of Alibaba Holding, entered into the Koubei Services Framework Agreement for a term of one year from April 1, 2021 to March 31, 2022, pursuant to which each party (together with its respective affiliates) agreed to refer merchants providing certain categories of products and services to the other party for registering with platforms operated by such other party (and its affiliates). The service fee is subject to the specific negotiation between the two parties. Further details of the transaction were set out in the announcement of the Company dated March 30, 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

20 RELATED PARTY TRANSACTIONS (CONTINUED)**(I) Transactions with related parties (continued)***Notes: (continued)*

(xi) On March 30, 2021, Taobao Holding and Alibaba Health (Hainan), renewed the 2021 Outsourced Services Agreement by entering into the 2022 Outsourced Services Framework Agreement for a term of one year from April 1, 2021 to March 31, 2022, 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 Taobao Group[#]. These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved. Further details of the transaction were set out in the announcement of the Company dated March 30, 2021.

[#] Taobao Group refers to Taobao Holding and its subsidiaries and affiliates.

(xii) On March 30, 2021, Alibaba Health (HK) and Taobao China, an indirect-wholly-owned subsidiary of Alibaba Holding renewed the 2021 Tracking Services Agreement by entering into the 2022 Tracking Services Framework Agreement for a term of one year from April 1, 2021 to March 31, 2022, pursuant to which the Group agreed to provide services to Taobao China and its subsidiaries which included but not limited to the development, maintenance and operation service of a tracking system with product tracking, identification and certification functions. These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved. Further details of the transaction were set out in the announcement of the Company dated March 30, 2021.

(xiii) On March 30, 2021, the Company and Taobao Holding renewed the 2021 Software Services Framework Agreement by entering into the 2022 Software Services Framework Agreement for a term of one year from April 1, 2021 to March 31, 2022, pursuant to which the Group agreed to provide Taobao Group with e-commerce platform maintenance related software services and ancillary support services for merchants under certain categories of products and services on the Tmall Platforms, and in return Taobao Group agreed to pay the relevant service fees to the Group. These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved. Further details of the transaction were set out in the announcement of the Company dated March 30, 2021.

(xiv) The products provided to associates were provided as prices and on conditions offered to major customers.

[^] For identification purpose only

The related party transactions in respect of items from (i) to (xiii) above 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 (CONTINUED)

For the six months ended September 30, 2021

20 RELATED PARTY TRANSACTIONS (CONTINUED)**(II) Outstanding balances with related parties:**

In addition to the outstanding balances detailed elsewhere in these financial information, the balances with related parties as at September 30, 2021 and March 31, 2021 are listed below:

	September 30, 2021 Unaudited RMB'000	March 31, 2021 Audited RMB'000
(1) Amounts due from related parties:		
Fellow subsidiaries	80,745	70,046
Joint Venture	—	2,500
	80,745	72,546
(2) Amounts due to related parties:		
Fellow subsidiaries	25,914	44,829

The balances with fellow subsidiaries are unsecured, interest-free, and has no fixed terms of repayment.

(III) Compensation of key management personnel of the Group:

	Six months ended September 30	
	2021 Unaudited RMB'000	2020 Audited RMB'000
Short term employee benefits	4,917	8,282
Share-based compensation expenses	18,205	16,790
Pension scheme contributions	176	148
Performance related bonuses	3,650	4,697
Total compensation paid to key management personnel	26,948	29,917

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

21 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, 2021 (Unaudited) RMB'000	As at March 31, 2021 (Audited) RMB'000	As at September 30, 2021 (Unaudited) RMB'000	As at March 31, 2021 (Audited) RMB'000
Financial assets				
Financial assets at FVPL	1,282,452	984,456	1,282,452	984,456
Equity investment designated at FVOCI	161,104	163,212	161,104	163,212
Long-term receivables	10,070	9,524	9,309	9,127
Bills receivable	36,055	13,437	36,055	13,437
	<u>1,489,681</u>	<u>1,170,629</u>	<u>1,488,920</u>	<u>1,170,232</u>
Financial liabilities				
Contingent consideration included in other payables and accruals and other non-current liabilities	<u>105,221</u>	<u>—</u>	<u>105,221</u>	<u>—</u>

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables, current portion of lease liabilities and financial liabilities included in other payables and accruals and other non-current liabilities, 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 long-term receivables, bills receivable and non-current portion of 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, 2021 was assessed to be insignificant.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

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

The fair values of listed equity investments are based on quoted market prices and, where applicable, adjusted for discount for lack of marketability (“**DLOM**”). The fair values of unlisted equity investments designated at fair value through other comprehensive income (“**FVOCI**”) or fair values of unlisted equity investments designated at fair value through profit or loss (“**FVPL**”) have been estimated using a guideline company method and the key assumptions applied in the calculation are the comparable companies, relevant multiples and DLOM. Comparable companies are actively traded in stock market and the multiples are publicly available. Also, to adjust the fair value difference between a publicly traded company and a private company, an independent valuer has applied option price model to estimate the DLOM. The fair value of put option measured at fair value through profit or loss (“**FVPL**”) was estimated as at the date of grant and each financial reporting period end, using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The Directors believe that the estimated fair values resulting from the valuation techniques, 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 as 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 fair value of redeemable wealth management products included in financial assets at fair value through profit or loss is based on their principal amounts and expected return rates at inception.

The fair values of the contingent consideration payables are determined using the Monte Carlo Simulation model under the income approach.

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 September 2021:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted investments — LinkDoc	Valuation multiples	Average P/S multiple of peers	1.70 to 15.70	1% increase/decrease in multiple would result in increase/decrease in fair value by RMB5,416,000/RMB5,416,000
		DLOM	13%	1% increase/decrease in discount rate would result in decrease/increase in fair value by RMB879,000/RMB879,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

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

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 September 2021:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments – QingYun	Valuation multiples	Average P/E multiple of peers	12.93 to 66.90	1% increase/decrease in multiple would result in increase/decrease in fair value by RMB1,139,000/RMB1,139,000
		DLOM	38%	1% increase/decrease in discount would result in decrease/increase in fair value by RMB398,000/RMB579,000
Contingent consideration payables	Monte Carlo Simulation model	Volatility	20.0%	Insensitive
		Discount rate	15.7%	1% increase/decrease in discount rate would result in decrease/increase in fair value by RMB205,000/RMB205,000

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, 2021

	Fair value measurement using			Total (Unaudited) RMB'000
	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	
Equity investment designated at FVOCI	—	—	161,104	161,104
Financial assets at FVPL	26,680	605,363	650,409	1,282,452
Bills receivables	—	36,055	—	36,055
	<u>26,680</u>	<u>641,418</u>	<u>811,513</u>	<u>1,479,611</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

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

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

As at March 31, 2021

	Fair value measurement using			Total (Audited) RMB'000
	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	
Equity investment designated at FVOCI	—	—	163,212	163,212
Financial assets at FVPL	—	—	984,456	984,456
Bills receivables	—	13,437	—	13,437
	—	13,437	1,147,668	1,161,105

The movements in fair value measurements with Level 3 during the period are as follows:

	September 30, 2021 (Unaudited) RMB'000	March 31, 2021 (Audited) RMB'000
Equity investments at fair value through profit or loss		
At 1 April	984,456	462,778
Total gains recognised in profit or loss	216,316	55,290
Purchases	55,000	466,388
Transfer to level 2	(605,363)	—
At the end of the period	650,409	984,456

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

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

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

	September 30, 2021 (Unaudited) RMB'000	March 31, 2021 (Audited) RMB'000
Equity investments at fair value through other comprehensive income		
At 1 April	163,212	173,456
Total gains recognised in other comprehensive income	286	2,695
Exchange realignment	<u>(2,394)</u>	<u>(12,939)</u>
At the end of the period	<u><u>161,104</u></u>	<u><u>163,212</u></u>

Liabilities measured at fair value:

As at September 30, 2021

	Fair value measurement using			Total (Audited) RMB'000
	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	
Contingent consideration included in other payables and accruals and non-current liabilities	<u>—</u>	<u>—</u>	<u>105,221</u>	<u>105,221</u>
	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>105,221</u></u>	<u><u>105,221</u></u>

The Group did not have any financial liabilities measured at fair value as at March 31, 2021.

During the six months ended September 30, 2021 and the year ended March 31, 2020, there were no transfers of fair value measurements between Level 1 and Level 2.

During the six months ended September 30, 2021, there were no transfers of fair value measurements into or out of level 3 for financial liabilities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended September 30, 2021

22 SUBSEQUENT EVENTS

On October 15, 2021, the Group, through its subsidiary, Ali Health Pharmaceutical Chain Co., Ltd.[^] (阿里健康大藥房醫藥連鎖有限公司), entered into a lease agreement with an affiliated company Hangzhou Chuanfu Health Technology Co., Ltd.[^] (杭州傳賦健康科技有限公司), to lease a warehouse for storage of pharmaceutical products and medical devices and other reasonable and lawful purposes with a lease term of three years commencing from November 30, 2021. Rent and property management fee payable per annum (inclusive of tax) during the term of lease agreement shall be capped at RMB28.5 million, RMB29.7 million and RMB30.9 million, respectively. In accordance with HKFRS 16, the Group will recognise the value of the right-of-use asset in connection with the lease agreement on its consolidated statement of financial position after the reporting period.

On October 25, 2021, the Group, through its subsidiaries, Alibaba Health China and Hangzhou Hongyun Pukang Equity Investment Partnership (Limited Partnership), entered into a share transfer and subscription agreement, with Wuhan Landing Intelligence Medical Co., Ltd. (“**Landing**”) and its original shareholders (the “**Vendors**”). The Group agreed to acquire and the Vendors agreed to sale 5.28% equity interests in Landing for a cash consideration of RMB118,829,902, and the Group agreed to further inject RMB181,170,098 in cash into Landing to obtain additional 6.3151% equity interest in Landing. Immediately upon completion of the share transfer and subscription agreement, the registered capital of Landing shall increase to RMB25,931,233 and the Group shall hold a total of 11.5951% equity interest of Landing. The transaction has not been completed as at the date of the announcement.

Except for the matter described above, there is no significant events subsequent to 30 September 2021 which may materially affect the Group’s operating and financial performance as of the date of approval of this interim condensed consolidated financial information.

23 APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

This interim condensed consolidated financial information was approved and authorised for issue by the Board on November 24, 2021.

[^] For identification purpose only