百信集团
PASHUN GROUP

**Pa Shun International Holdings Limited**
**百 信 國 際 控 股 有 限 公 司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 574)**

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the "**Board**") of directors (the "**Directors**") of Pa Shun International Holdings Limited (the "**Company**") is pleased to announce the interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017. The Group's interim results are unaudited, but have been reviewed by the audit committee of the Company (the "**Audit Committee**").

## INTERIM RESULTS HIGHLIGHTS

- Revenue amounted to approximately RMB418,295,000 (2017: approximately RMB387,879,000).
- Profit for the period amounted to approximately RMB7,971,000 (2017: approximately RMB10,389,000).
- Basic earnings per share for the six months ended 30 June 2018 amounted to approximately RMB0.75 cents (Basic and diluted earnings per share for the six months ended 30 June 2017: RMB1.04 cents and RMB1.00 cents respectively).
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (2017: Nil).

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 June 2018*

| | Notes | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | ***RMB'000*** | *RMB'000* |
| | | **(unaudited)** | (unaudited) |
| **Revenue** | *3(a)* | **418,295** | 387,879 |
| Cost of sales | | **(377,044)** | (343,815) |
| **Gross profit** | | **41,251** | 44,064 |
| Other income and gains | *4(a)* | **13,985** | 9,652 |
| Other net loss | *4(b)* | **(4,797)** | (5,275) |
| Selling and distribution expenses | | **(11,410)** | (11,128) |
| General and administrative expenses | | **(18,252)** | (15,147) |
| Finance costs | *5* | **(7,930)** | (6,239) |
| Share of profit of associate | | **164** | – |
| **Profit before tax** | *6* | **13,011** | 15,927 |
| Income tax expense | *7* | **(5,040)** | (5,538) |
| **Profit for the period attributable to equity shareholder of the Company** | | **7,971** | 10,389 |

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | ***RMB cent*** | *RMB cent* |
| | | **(unaudited)** | (unaudited) |
| **Earnings per share** | *8* | | |
| Basic | | **0.75** | 1.04 |
| Diluted | | **N/A** | 1.00 |

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2018*

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| **Profit for the period** | **7,971** | 10,389 |
| **Other comprehensive income for the period** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of financial statements of entities outside the People's Republic of China ("**PRC**" or "**China**") | **5,874** | 295 |
| **Total comprehensive income for the period** | **13,845** | 10,684 |
| **Attributable to:** | | |
| Equity shareholders of the Company | **13,845** | 10,684 |
| Non-controlling interests | **–** | – |
| **Total comprehensive income for the period** | **13,845** | 10,684 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2018*

| | Notes | **30 June 2018** **RMB'000** **(unaudited)** | 31 December 2017 RMB'000 (audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **91,266** | 96,102 |
| Prepaid land lease payments | | **3,911** | 4,060 |
| Investment in associate | | **8,287** | – |
| Goodwill | | **5,942** | 5,942 |
| Biological assets | | **1,196** | 1,196 |
| Other intangible assets | | **940** | 3,281 |
| Prepayments for intangible assets | | **20,000** | 20,000 |
| Other non-current assets | | **177,615** | 177,615 |
| Deferred tax assets | | **9,285** | 7,053 |
| | | **318,442** | 315,249 |
| **CURRENT ASSETS** | | | |
| Inventories | | **87,761** | 60,372 |
| Trade and other receivables | *10* | **405,267** | 438,994 |
| Prepayments and deposits paid | | **213,411** | 245,883 |
| Financial assets at fair value though profit or loss | | **3,201** | 2,253 |
| Amounts due from related parties | | **12** | 97 |
| Pledged bank deposits | | **41,881** | 49,364 |
| Cash and cash equivalents | | **76,078** | 35,036 |
| | | **827,611** | 831,999 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *11* | **143,166** | 142,047 |
| Bank borrowings | | **1,009** | 26,009 |
| Amounts due to related parties | | **150** | 295 |
| Corporate bonds payable | | **4,785** | 5,886 |
| Convertible bonds | | **108,106** | 109,187 |
| Income tax payable | | **14,378** | 12,443 |
| | | **271,594** | 295,867 |
| **NET CURRENT ASSETS** | | **556,017** | 536,132 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **874,459** | 851,381 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2018*

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| **NON-CURRENT LIABILITIES** | | |
| Deferred income – government grant | **24,821** | 25,076 |
| Corporate bonds payable | **78,563** | 68,854 |
| Deferred tax liabilities | **7,965** | 8,186 |
| | **111,349** | 102,116 |
| **NET ASSETS** | **763,110** | 749,265 |
| **CAPITAL AND RESERVES** | | |
| Share capital | **856** | 856 |
| Reserves | **762,254** | 748,409 |
| Total equity attributable to equity shareholders of the Company | **763,110** | 749,265 |
| Non-controlling interests | **–** | – |
| **TOTAL EQUITY** | **763,110** | 749,265 |

# NOTES

## 1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information 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 ("**HKICPA**") and the applicable disclosure provisions of the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The unaudited condensed consolidated interim financial information has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2. The interim financial results are unaudited but have been reviewed by the Audit Committee.

The preparation of the unaudited condensed consolidated interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

## 2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKAS that are first effective for the current accounting period of the Group.

| | |
|---|---|
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| Amendments to HKFRS 15 | Clarification to HKFRS 15 Revenue from Contracts with Customers |
| Amendments to HKAS 40 | Transfers of Investment Property |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |
| Annual Improvements 2014-2016 Cycle | Amendments to HKFRS 1 and HKAS 28 |

The application of the above amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") in the current interim period has had no material effect on the Group's results and financial position for the current or prior periods.

The Group has not early adopted the new HKFRSs that have been issued but are not yet effective. The Directors are currently assessing the impact of these new HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's results of operations and financial position.

## 3. REVENUE AND SEGMENT REPORTING

### a) Revenue

The principal activities of the Group are pharmaceutical distribution, self-operated retail pharmacies and manufacture of pharmaceutical products in the PRC.

Revenue represents the sales value of goods supplied to customers. The amount of each significant category of revenue is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Pharmaceutical distribution | **380,438** | 350,691 |
| Self-operated retail pharmacies | **1,853** | – |
| Pharmaceutical manufacturing | **36,004** | 37,188 |
| | **418,295** | 387,879 |

All of the Group's revenue is recognised at a point of time for both periods.

### b) Segment reporting

The Group manages its business by business lines and distribution channels. In a manner consistent with the way in which information is reported internally to the executive Directors, being the chief operating decision makers, for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No other operating segments have been aggregated to form the following reportable segments.

– Pharmaceutical distribution: this segment generates revenue primarily from sales of pharmaceutical products to (i) wholesalers, (ii) franchise retail pharmacy chain stores and (iii) hospitals and other medical institutions in rural areas.

– Self-operated retail pharmacies: this segment generates revenue primarily from sales of pharmaceutical and healthcare products, cosmetic products and daily necessities in self-operated retail pharmacies.

– Pharmaceutical manufacturing: this segment generates revenue primarily from sales of pharmaceutical products manufactured by the Group.

The Group's revenue and operating profit were entirely derived from activities of pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing in the PRC and the principal assets employed by the Group were located in the PRC for the six months ended 30 June 2018 and 2017. Accordingly, no analysis by geographical segments has been provided for the six months ended 30 June 2018 and 2017.

No analysis of the Group's assets and liabilities by operating segments was regularly provided to the chief operating decision makers for review during the six months ended 30 June 2018 and 2017 for the purposes of resource allocation and performance assessment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

***(i) Segment revenue and results***

Segment information regarding the Group's revenue and results as provided to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2018 and 2017 is set out below.

| | Six months ended 30 June 2018 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Pharmaceutical distribution | | | | | | | |
| | Sales to wholesalers | Sales to franchise retail pharmacy chain stores | Sales to hospitals and other medical institutions in rural areas | Others | Sub-total | Self-operated retail pharmacies | Pharmaceutical manufacturing | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue from external customers | 296,710 | 58,087 | 24,600 | 1,041 | 380,438 | 1,853 | 36,004 | 418,295 |
| Inter-segment revenue | – | 65 | – | – | 65 | – | 780 | 845 |
| Reportable segment revenue | 296,710 | 58,152 | 24,600 | 1,041 | 380,503 | 1,853 | 36,784 | 419,140 |
| Reportable segment profit | 13,797 | 5,604 | 2,728 | 126 | 22,255 | 554 | 18,450 | 41,259 |
| Other segment information | | | | | | | | |
| Depreciation and amortisation | – | – | – | – | – | – | 444 | 444 |

| | Six months ended 30 June 2017 (unaudited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pharmaceutical distribution | | | | | | |
| | Sales to wholesalers *RMB'000* | Sales to franchise retail pharmacy chain stores *RMB'000* | Sales to hospitals and other medical institutions in rural areas *RMB'000* | Sub-total *RMB'000* | Self-operated retail pharmacies *RMB'000* | Pharmaceutical manufacturing *RMB'000* | Total *RMB'000* |
| Revenue from external customers | 211,096 | 105,647 | 33,948 | 350,691 | – | 37,188 | 387,879 |
| Inter-segment revenue | – | 101 | – | 101 | – | 1,039 | 1,140 |
| Reportable segment revenue | 211,096 | 105,748 | 33,948 | 350,792 | – | 38,227 | 389,019 |
| Reportable segment profit | 6,239 | 9,616 | 7,268 | 23,123 | – | 20,958 | 44,081 |
| Other segment information | | | | | | | |
| Depreciation and amortisation | – | – | – | – | – | 283 | 283 |

### *(ii) Reconciliations of reportable segment revenue and profit or loss*

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| **Revenue** | | |
| Reportable segment revenue | **419,140** | 389,019 |
| Elimination of inter-segment revenue | **(845)** | (1,140) |
| Consolidated revenue *(note 3(a))* | **418,295** | 387,879 |
| **Profit** | | |
| Reportable segment profit | **41,259** | 44,081 |
| Elimination of inter-segment profit | **(8)** | (17) |
| Gross profit derived from external customers | **41,251** | 44,064 |
| Other income and gains | **13,729** | 9,652 |
| Other net loss | **(4,541)** | (5,275) |
| Selling and distribution expenses | **(11,410)** | (11,128) |
| General and administrative expenses | **(18,252)** | (15,147) |
| Finance costs | **(7,930)** | (6,239) |
| Share of profit of associate | **164** | – |
| Consolidated profit before tax | **13,011** | 15,927 |

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| **Other items** | | |
| Depreciation and amortisation | | |
| Reportable segment total | **444** | 283 |
| Unallocated total | **3,027** | 3,076 |
| Consolidated total | **3,471** | 3,359 |

## 4. OTHER INCOME AND GAINS AND OTHER NET LOSS

### (a) Other income and gains

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Franchise fee | **2,086** | 4,770 |
| Bank interest income | **117** | 710 |
| Rental income | **–** | 22 |
| Deferred income – government grant | **256** | 441 |
| Gain on change in fair value of derivative financial instruments | **960** | 2,154 |
| Gain on disposal of intangible assets | **566** | – |
| Reversal of impairment on deposits paid for acquisition of property, plant and equipment | **10,000** | – |
| Others | **–** | 1,555 |
| | **13,985** | 9,652 |

### (b) Other net loss

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Impairment loss on trade receivables | **–** | 6,038 |
| Loss in connection with land exchange | **4,797** | – |
| Reversal of impairment loss on: | | |
| – inventories | **–** | (719) |
| – other receivables | **–** | (44) |
| | **4,797** | 5,275 |

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Interest on: | | |
| Bank borrowings | **146** | 673 |
| Corporate bonds payable | **4,444** | 1,808 |
| Convertible bonds | **3,152** | 3,378 |
| Other borrowings | **–** | 30 |
| Bills charges and other bank charges | **188** | 350 |
| | **7,930** | 6,239 |

## 6. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Cost of inventories sold *(note i)* | **377,044** | 343,815 |
| Salaries, wages and other benefits | **7,119** | 7,585 |
| Contributions to defined contribution retirement plans | **1,011** | 1,445 |
| Total staff costs *(note ii)* | **8,130** | 9,030 |
| Amortisation of intangible assets | **88** | 246 |
| Amortisation of prepaid land lease payments | **153** | 134 |
| Depreciation of property, plant and equipment | **3,230** | 2,979 |
| Auditors' remuneration | | |
| Audit services | **142** | 53 |
| Non-audit services | **162** | 258 |
| Operating lease charges in respect of property rentals | **484** | 593 |

*Notes:*

(i) Cost of inventories sold for the six months ended 30 June 2018 includes staff costs and depreciation and amortisation expenses totalled RMB509,000 (2017: RMB645,000) which are also included in the respective total amounts disclosed separately above.

(ii) The total staff costs include directors' emoluments.

## 7. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| **Current tax – PRC Enterprise Income Tax** | | |
| Provision for the period | **7,493** | 5,118 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(2,453)** | 420 |
| | **5,040** | 5,538 |

i) The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

ii) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

iii) No provision for Hong Kong Profits Tax for the six months ended 30 June 2018 and 2017 has been made in the consolidated statement of profit or loss as the Group has no assessable profits arising in Hong Kong for both of the periods presented.

iv) The Group's PRC subsidiaries are subject to PRC Enterprise Income Tax at the statutory rate of 25%.

Chengdu Toyot Pa Shun Pharmacy Co., Ltd. ("**Chengdu Pashun**"), a wholly-owned subsidiary of the Company, applied for preferential income tax treatment under the Notice on the Issues of Tax Policies for Thorough Implementation of Western Development Strategy. Chengdu Pashun obtained the approval from local tax authority and is entitled to a preferential income tax rate of 15% for the period from 1 January 2011 to 31 December 2020.

## 8. EARNINGS PER SHARE

### a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on the profit attributable to ordinary equity shareholders of the Company of RMB7,971,000 (2017: RMB10,389,000) and the weighted average of 1,064,564,000 ordinary shares (2017: 1,000,000,000 ordinary shares) in issue.

### b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2018 and 2017 is based on the following data:

#### *(i) Earnings*

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Earnings for the purpose of basic earnings per share | **7,971** | 10,389 |
| Effect of diluted potential ordinary shares | | |
| Interest on convertible bonds *(Note)* | **–** | 3,378 |
| Gain on change in fair value of financial assets at fair value through profit or loss | **–** | (2,154) |
| Earnings for the purpose of diluted earnings per share | **7,971** | 11,613 |

***(ii) Number of shares***

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***Number of shares*** | *Number of shares* |
| | ***'000*** | *'000* |
| | **(unaudited)** | (unaudited) |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,064,564** | 1,000,000 |
| Effect of conversion of convertible bonds | **200,000** | 160,000 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **N/A** | 1,160,000 |

The computation of diluted earning per share had not taken into account the effects of convertible bonds as it would result in increase in earnings per share for the six months ended 30 June 2018.

## 9. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2018 (2017: Nil).

## 10. TRADE AND OTHER RECEIVABLES

| | **At 30 June 2018** | At 31 December 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (audited) |
| Trade and commercial bills receivables | **303,122** | 337,366 |
| Bank bills receivables | **30,295** | 32,052 |
| Other receivables | **71,850** | 69,576 |
| | **405,267** | 438,994 |

**Ageing analysis of trade and commercial bills receivables**

As of the end of the reporting period, the ageing analysis of trade and commercial bills receivables, based on dates of goods delivery and net of allowance for doubtful debts, is as follows:

| | At 30 June 2018 *RMB'000* (unaudited) | At 31 December 2017 *RMB'000* (audited) |
|---|---|---|
| Within 1 month | **39,922** | 96,001 |
| 1 to 3 months | **172,097** | 113,334 |
| 4 to 6 months | **29,303** | 76,854 |
| Over 6 months | **61,800** | 51,177 |
| Trade and commercial bills receivables, net of allowance for doubtful debts | **303,122** | 337,366 |

An average credit period of 30 to 180 days is granted by the Group to its customers.

## 11. TRADE AND OTHER PAYABLES

| | At 30 June 2018 *RMB'000* (unaudited) | At 31 December 2017 *RMB'000* (audited) |
|---|---|---|
| Trade creditors *(note)* | **75,507** | 60,652 |
| Bills payables | **23,181** | 37,395 |
| Salaries, wages and welfare payables | **4,090** | 9,947 |
| Other payables and accrued expenses | **27,487** | 16,203 |
| Deposits received from customers | **9,895** | 14,326 |
| Consideration payable for acquisition of a subsidiary | **2,000** | 2,000 |
| Other tax payables | **1,006** | 1,524 |
| | **143,166** | 142,047 |

*Note:*

An ageing analysis of trade creditors, based on the dates of goods delivery, is as follows:

| | At 30 June 2018 *RMB'000* (unaudited) | At 31 December 2017 *RMB'000* (audited) |
|---|---|---|
| Within 1 month | **17,558** | 18,945 |
| 1 to 3 months | **14,704** | 14,111 |
| Over 3 months | **43,245** | 27,596 |
| | **75,507** | 60,652 |

The credit term granted to the Group by its suppliers is 30 days.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

The Group continued to focus on the pharmaceutical distribution and pharmaceutical manufacturing businesses in the PRC during the six months ended 30 June 2018. For the self-operated retail pharmacies business, the Group continued to seek mergers and acquisitions opportunities in respect of established retail pharmacy chains in order to revitalize the business segment.

### Revenue

For the six months ended 30 June 2018, the Group recorded a total revenue of RMB418.3 million, representing an increase of approximately 7.8% from RMB387.9 million for the six months ended 30 June 2017. This increase was primarily due to the growth in revenue from the Group's pharmaceutical distribution to wholesalers and franchise retail pharmacy chain stores.

### Cost of Sales, Gross Profit and Gross Margin

The Group's cost of sales increased by approximately 9.7% from RMB343.8 million for the six months ended 30 June 2017 to RMB377.0 million for the six months ended 30 June 2018. This increase was primarily due to increase in cost of sales for the Group's pharmaceutical distribution segment.

The Group's gross profit decreased by approximately 6.4% from RMB44.1 million for the six months ended 30 June 2017 to RMB41.3 million for the six months ended 30 June 2018. The Group's gross margin decreased from 11.4% for the six months ended 30 June 2017 to 9.9% for the six months ended 30 June 2018. Such decrease is primarily attributable to the reducing profit margin on pharmaceutical distribution segment which was due to the vigourou competition after the implementation of Two-Invoice System in the PRC in 2017. Two-Invoice System allows a maximum of two tax-valid invoices to be issued during the distribution process from a manufacturer to the final customers, of which one invoice is issued by the manufacturer to its distributor, and another invoice is issued by the distributor to the final customer.

**Selling and Distribution Expenses**

The Group's selling and distribution expenses slightly increased by approximately 2.5% from RMB11.1 million for the six months ended 30 June 2017 to RMB11.4 million for the six months ended 30 June 2018.

**General and Administrative Expenses**

The Group's general and administrative expenses increased by approximately 20.5% from RMB15.1 million for the six months ended 30 June 2017 to RMB18.3 million for the six months ended 30 June 2018. This increase was primarily due to the payment of consultancy fee for advisory on business development for the six months ended 30 June 2018.

**Other Income and Gains**

Other income and gains increased by approximately 44.9% from RMB9.7 million for the six months ended 30 June 2017 to RMB14.0 million for the six months ended 30 June 2018. The other income and gains during the six months ended 30 June 2018 mainly comprised of the reversal of impairment on deposits paid for acquisition of property, plant and equipment of RMB10.0 million. The increase of other income and gain was primarily due to such reversal of impairment which was offset by the decrease in franchise income and decrease of gain on change in fair value of derivative financial instruments.

**Other Net Loss**

Other net loss decreased by approximately 9.1% from RMB5.3 million for the six months ended 30 June 2017 to RMB4.8 million fo the six months ended 30 June 2018. The decrease was mainly due to the absence of impairment loss on trade receivables for the six months ended 30 June 2018, as compared to the impairment loss on trade receivables of RMB6.0 million for the six months ended 30 June 2017 while offset by a loss in connection of land exchange in the PRC of RMB4.5 million for the six months ended 30 June 2018.

**Finance Costs**

Finance costs increased by approximately 27.1% from RMB6.2 million for the six months ended 30 June 2017 to RMB7.9 million for the six months ended 30 June 2018. This increase was primarily due to the increase in interest from the Company's corporate bonds that were issued in first half of 2017.

### Profit before Tax

Profit before tax decreased by approximately 18.3% from RMB15.9 million for the six months ended 30 June 2017 to RMB13.0 million for the six months ended 30 June 2018. This decrease was primarily due to the decrease in gross profit generated and the increase in general and administrative expenses and finance costs, offset by the increase in other income and gains.

### Income Tax Expense

Income tax expense decreased by approximately 9.0% from RMB5.5 million for the six months ended 30 June 2017 to RMB5.0 million for the six months ended 30 June 2018. This decrease was primarily due to the reversal of deferred tax liabilities arising from the fair value increment of property, plant and equipment upon acquisition of 鹽池縣醫藥藥材有限公司 (in English for identification purpose only, Yanchi County Medical & Pharmaceutical Herbal Co., Ltd.) during the year ended 31 December 2017, through the depreciation of assets.

### Profit for the Period and Net Profit Margin

As a result of the foregoing, the Group's profit for the period decreased by approximately 23.3% from RMB10.4 million for the six months ended 30 June 2017 to RMB8.0 million for the six months ended 30 June 2018. The Group's net profit margin decreased from 2.7% for the six months ended 30 June 2017 to 1.9% for the six months ended 30 June 2018.

## BUSINESS REVIEW

For the six months ended 30 June 2018, the Group's revenue generated by the pharmaceutical distribution segment amounted to RMB380.4 million, representing an increase of approximately 8.5% as compared with RMB350.7 million for the comparative period in 2017. Such increase was primarily attributable to the increase of the revenue from the sales to wholesalers and franchise retail chain pharmacies though the overall growth of this segment was offset by the reduction in revenue from the sales to the hospitals and other medical institutions in rural areas. The "Two-Invoice System" implemented in April 2017 in Sichuan, which only allows a single level of distributors for the sale of pharmaceutical products from drug manufacturers to medical institutions, has caused vigourous competition and deteriorated the gross margin of the entire segment.

For the six months ended 30 June 2018, the Group's revenue from the self-operated retail pharmacies segment amounted to RMB1.9 million. The Group will continue to seek mergers and acquisition opportunities in respect of established retail pharmacy chains in order to revitalize the business segment.

For the six months ended 30 June 2018, the Group's revenue from the pharmaceutical manufacturing segment amounted to RMB36.0 million, representing a decrease of approximately 3.2% from RMB37.2 million for the six months ended 30 June 2017. Such decrease was mainly attributable to the sluggish market for traditional embrocation products.

## OUTLOOK

Against the backdrop of stable economic growth and pharmaceutical industry reform in China, the Group will continue to leverage its solid foundation in Southwest China and make good use of its existing resources and networks to opportunistically expand into other innovative areas through various business development strategies, including (i) speeding up the construction of international logistics centers to improve the operational efficiency of the distribution business; (ii) optimising the product structure to cover traditional Chinese medicine, health food and other health sectors; (iii) extending presence to the upstream industry chain and participate in the purchase of traditional Chinese medicine; and (iv) continuing to search for potential mergers and acquisition targets to improve the profitability of the Group.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group had total cash and cash equivalents of RMB76.1 million as at 30 June 2018 as compared with RMB35.0 million as at 31 December 2017.

The Group recorded net current assets of RMB556.0 million and RMB536.1 million as at 30 June 2018 and 31 December 2017 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 3.05 as at 30 June 2018, as compared with 2.81 as at 31 December 2017.

The Group's gearing ratio is represented by net debts divided by total equity plus net debts. The Group's net debts include bank and other borrowings, corporate bond payables and convertible bonds, less cash and cash equivalents and pledged bank deposits. As at 30 June 2018, the Group's gearing ratio was 8.9% (31 December 2017: 14.4%).

As at 30 June 2018, the total amount of bank loans was RMB1.0 million, as compared with RMB26.0 million as at 31 December 2017.

As at 30 June 2018, the total number of issued ordinary shares of the Company was 1,064,564,000 shares (31 December 2017: 1,064,564,000 shares) ("**Shares**"). In 2016, the Company has granted to certain eligible persons share options ("**Options**") to subscribe for an aggregate of 100,000,000 Shares under the share option scheme adopted by the Company by ordinary resolution of all shareholders of the Company passed on 26 May 2015. As at 30 June 2018, 100,000,000 share options remained outstanding. Please refer to the announcement of the Company dated 8 July 2016 for details of the grant of the Options.

On 15 December 2016, the Company entered into a convertible bonds subscription agreement ("**Subscription Agreement**") with, among others, Chance Talent Management Limited ("**Purchaser**"), pursuant to which, on 29 December 2016, the Company has issued to the Purchaser (a) the 4% secured guaranteed convertible bonds in the principal amount of HK$72,000,000 which entitle the holders thereof to convert the outstanding principal amount of such bonds into Shares at the initial conversion price of HK$0.6 per Share ("**Series 1 CB**"); and (b) the 4% secured guaranteed convertible bonds in the principal amount of HK$48,000,000 which entitle the holders thereof to convert the outstanding principal amount of such bonds into Shares at the initial conversion price of HK$1.2 per Share ("**Series 2 CB**", collectively with Series 1 CB as the "**Convertible Bonds**"). On 20 July 2017, the Company executed the supplemental deed ("**Supplemental Deed**") with, among others, the Purchaser, pursuant to which the parties have conditionally agreed to enter into the supplemental bond instruments of each of the Convertible Bonds ("**Supplemental Bond Instruments**"), to amend certain terms and conditions of the Convertible Bonds. On 29 May 2018, the Company further executed an additional supplemental deed ("**Second Supplemental Deed**") with, among others, the Purchaser, pursuant to which the parties have conditionally agreed to further amend certain terms of the Subscription Agreement and enter into additional supplemental bond instruments of each of the Convertible Bonds ("**Second Supplemental Bond Instruments**"), to further amend certain terms and conditions and obtain waiver to certain covenants of the Convertible Bonds. Please refer to the section headed "Issue of the Convertible Bonds" in this announcement for further details.

During the year ended 31 December 2017, the Company issued 36 batches of unsecured corporate bonds, with principal amount of HK$106.4 million, to various independent third parties at par value, bearing coupon rates of 6.5% to 7% per annum and with maturity periods from 2 to 7.5 years. During the six months ended 30 June 2018, the Company issued additional corporate bonds with principal amount of HK$7,500,000 to various independent third parties.

On 27 June 2018, the Company entered into a conditional subscription agreement ("**2018 Subscription Agreement**") with the Mr. Chen Yenfei ("**Mr. Chen**"), the chairman of the Board, the chief executive officer and a controlling shareholder (having the meaning ascribed to it under the Listing Rules) of the Company, pursuant to which the Company has conditionally agreed to issue, and Mr. Chen has conditionally agreed to subscribe for, the unsecured non-interest bearing convertible bonds in the aggregate principal amount of HK$134,500,000 ("**2018 Convertible Bonds**"). The 2018 Convertible Bonds are convertible into Shares at the initial conversion price of HK$0.50 per Share (subject to adjustments). The maturity of the 2018 Convertible Bonds will be the date falling on the second anniversary of the date of issue of the 2018 Convertible Bonds. It is intended that the Company shall utilise the net proceeds from the issue of the 2018 Convertible Bonds for the repayment of the Convertible Bonds. Completion of subscription of the 2018 Convertible Bonds ("**Completion**") is subject to the conditions precedent of the 2018 Subscription Agreement. Please refer to the section headed "Connected Transaction in relation to Subscription for Convertible Bonds under Specific Mandate" in this announcement for further details.

The Group actively and regularly reviews and manages its capital structure to enhance its financial strength for the Group's long-term development. There were no changes in the Group's approach to capital management during the period under review.

## CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any significant contingent liabilities.

## FOREIGN EXCHANGE RISKS

The functional currency of the Group is Renminbi while a portion of funds raised by the Group from its initial public offering and issue of corporate and convertible bonds is still in the form of bank deposits denominated in Hong Kong dollars. Therefore, it may be subject to the risks of exchange rate fluctuations of the Renminbi and the Hong Kong dollars. Apart from the above, most of the assets and transactions of the Group are dominated in Renminbi, and the Group mainly settles its operating expenses in the PRC with income generated from operations in Renminbi, thus the Group is not exposed to any significant foreign exchange risks.

## SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2018, the Group did not make any significant investments, acquisitions or disposals that would constitute a notifiable transaction under Chapter 14 of the Listing Rules.

## HUMAN RESOURCES

As at 30 June 2018, the Group had a total of 327 staff, primarily in the PRC. The total staff cost was RMB8.1 million for the six months ended 30 June 2018.

The Group believes its human resources are its valuable assets and maintains its firm commitment to attracting, developing and retaining talented employees, in addition to providing dynamic career opportunities and cultivating a favorable working environment. The Group constantly invests in training across diverse operational functions and offers competitive remuneration packages and incentives to all employees. The Group regularly reviews its human resources policies for addressing corporate development needs.

## USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Shares are listed on the Main Board of the Stock Exchange on 19 June 2015 with net proceeds ("**Net Proceeds**") from the global offering of approximately HK$249.5 million (after deducting underwriting commissions and related expenses). As at 30 June 2018, the Group had utilised HK$147.8 million of the Net Proceeds and the unutilised Net Proceeds amounted to HK$101.7 million.

The following table sets forth a breakdown of the use of the Net Proceeds during the period under review:

| **Use of the Net Proceeds** | **Available to use** | **Utilised (as at 30 June 2018)** | **Unutilised (as at 30 June 2018)** |
|---|---|---|---|
| | *HK$ million* | *HK$ million* | *HK$ million* |
| Logistics center and related expenses | 121.3 | 121.0 | 0.3 |
| Acquisition or establishment of self-operated retail pharmacy stores | 116.2 | 14.8 | 101.4 |
| Working capital and other general corporate purposes | 12.0 | 12.0 | – |
| | 249.5 | 147.8 | 101.7 |

The Net Proceeds which have not been utilised have been deposited into interest bearing bank accounts with licensed commercial banks in China and Hong Kong. The Directors intended to continue to apply the unutilised Net Proceeds in the manner as set out in the prospectus of the Company dated 9 June 2015.

## ISSUE OF THE CONVERTIBLE BONDS

On 15 December 2016, the Company has entered into the Subscription Agreement, pursuant to which, on 29 December 2016, the Company issued to the Purchaser the Series 1 CB in the principal amount of HK$72,000,000 and the Series 2 CB in the principal amount of HK$48,000,000.

The Directors consider that the issue of the Convertible Bonds is an appropriate means of raising additional capital for the Company since (i) they will not have an immediate dilution effect on the shareholding of existing shareholders; and (ii) if the conversion rights attached to the Convertible Bonds ("**Conversion Rights**") are exercised, the shareholder base of the Company will be enlarged by bringing in new investor(s) and it is expected that the financial position of the Group will be improved to provide for the existing and future business of the Group.

The net proceeds from the issue of the Convertible Bonds, after deducting related transaction costs, was approximately HK$113.1 million of which the amount was fully utilised as at 30 June 2018.

On 20 July 2017, the Company executed the Supplemental Deed with, among others, the Purchaser, pursuant to which the parties have conditionally agreed to enter into the Supplemental Bond Instruments to amend certain terms and conditions of the Convertible Bonds. The Supplemental Bond Instruments were executed by the Company on 2 August 2017. Pursuant to the Supplemental Bond Instruments, the initial conversion price of Series 2 CB has been adjusted from HK$1.2 per Share to HK$0.6 per Share.

Assuming the exercise in full of the Conversion Rights at the initial conversion price of HK$0.6 per Share in respect of the Series 1 CB and the amended initial conversion price of HK$0.6 per Share in respect of the Series 2 CB, an aggregate of 200,000,000 Shares would be issued.

On 29 May 2018, the Company executed the Second Supplemental Deed with, among others, the Purchaser, pursuant to which the parties conditionally agreed to, among others, further amend certain terms of the Subscription Agreement and enter into the Second Supplemental Bond Instruments to further amend certain terms and conditions and obtain waiver to certain covenant of the Convertible Bonds. Pursuant to the Second Supplemental Bond Instruments, the definition of "Security Top-Up Triggering Event" was amended to refer to a situation where the Collateral Coverage Ratio (as defined in the Subscription Agreement) on any Trading Day (as defined in the Subscription Agreement) falls below 1.75 for three consecutive Trading Days, instead of the original situation where the Collateral Coverage Ratio on any Trading Day falls below 1.6. The Second Supplemental Bond Instruments were executed by the Company on 6 June 2018.

As at the date of the Subscription Agreement, the Supplemental Deed and the Second Supplemental Deed, the closing price of the Share as quoted on the Stock Exchange amounted to HK$0.51, HK$0.415 and HK$0.5, respectively.

Details of the Convertible Bonds, the amendments to the Convertible Bonds and the second amendments to the Convertible Bonds are set out in the Company's announcements dated 15 December 2016, 29 December 2016, 20 July 2017 and 29 May 2018.

## CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

On 27 June 2018, the Company entered into the 2018 Subscription Agreement with Mr. Chen, pursuant to which the Company has conditionally agreed to issue, and Mr. Chen has conditionally agreed to subscribe for, the 2018 Convertible Bonds in the aggregate principal amount of HK$134,500,000.

Under the terms and conditions of the 2018 Convertible Bonds, the 2018 Convertible Bonds will not bear any interest. The 2018 Convertible Bonds are convertible into Shares at the initial conversion price of HK$0.50 per Share (subject to adjustments). The maturity of the 2018 Convertible Bonds will be the date falling on the second anniversary of the date of issue of the 2018 Convertible Bonds. Assuming full conversion of the 2018 Convertible Bonds at the initial conversion price of HK$0.50, 269,000,000 Shares will be issued under a specific mandate.

The gross proceeds and net proceeds from the issue of the 2018 Convertible Bonds will be HK$134,500,000 and approximately HK$132,755,000 respectively. It is intended that the Company shall utilise the net proceeds from the issue of the 2018 Convertible Bonds for the repayment of the Convertible Bonds.

Mr. Chen is the chairman of the Board and the chief executive officer and a controlling shareholder (having the meaning ascribed to it under the Listing Rules) of the Company and is therefore a connected person of the Company. As at the date of the 2018 Subscription Agreement, Mr. Chen was beneficially interested in 484,040,000 Shares, representing approximately 45.47% of the existing issued share capital of the Company. Upon full conversion of the 2018 Convertible Bonds, 269,000,000 Shares will be allotted and issued to Mr. Chen (or his nominee) and the interests of Mr. Chen and parties acting in concert with him in the voting rights of the Company will increase from approximately 45.47% to approximately 56.47% (assuming that there is no change in the issued share capital of the Company up to the Completion). Accordingly, Mr. Chen would be obliged to make a mandatory general offer to the shareholders of the Company for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by him pursuant to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers as such increase will have the effect of increasing Mr. Chen's holding of voting rights of the Company by more than 2% from the lowest percentage holding of Mr. Chen within the period of 12 months, unless the waiver ("**Whitewash Waiver**") is obtained from the Executive Director of the Corporate Finance Division of the Securities and Futures Commission ("**Executive**").

An extraordinary general meeting of the Company ("**EGM**") will be held on 3 September 2018 to consider and, if thought fit, approve, among other things: (i) the 2018 Subscription Agreement and the transactions contemplated thereunder; (ii) the specific mandate for the allotment and issue of the Shares upon conversion of the 2018 Convertible Bonds; and (iii) the application for the Whitewash Waiver, whereby Mr. Chen and parties acting in concert with him and their respective associates and other shareholders who are interested or involved in the 2018 Subscription Agreement and/or the Whitewash Waiver shall abstain from voting on the relevant resolution(s).

The 2018 Subscription Agreement and the transactions contemplated thereunder will not proceed if the Whitewash Waiver is not granted by the Executive or the 2018 Subscription Agreement and the transactions contemplated thereunder and the application for the Whitewash Waiver are not approved by the independent shareholders of the Company at the EGM.

Further details of the 2018 Subscription Agreement and the Whitewash Waiver are set out in the Company's announcement dated 27 June 2018, 17 July 2018, 3 August 2018, 17 August 2018 and the Company's circular dated 17 August 2018.

## DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018.

## CORPORATE GOVERNANCE

The Group has committed to achieving high corporate governance standards in order to safeguard the interests of shareholders and enhance corporate value and accountability of the Company. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Listing Rules as its own code of corporate governance. During the six months ended 30 June 2018, the Company has complied with the code provisions set out in the CG Code, except for the code provision A.2.1 of the CG Code.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Chen is the chairman and chief executive officer of the Company. He has extensive experience in medicine industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the Group's senior management, which comprise experienced and high caliber individuals. The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors and has a strong independence element in its composition.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

## AUDIT COMMITTEE

The primary responsibilities of the Audit Committee include (but not limited to) assisting the Board to provide an independent review and supervision of the Group's financial and accounting policies, to oversee the financial control, internal control and risk management systems of the Group, to oversee the audit process, and to perform other duties and responsibilities as delegated by the Board.

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Liu Liangzhong, Mr. Min Feng and Mr. Wong Tak Shing. The chairman of the Audit Committee is Mr. Liu Liangzhong who has appropriate professional qualifications. The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed the internal controls and financial reporting matters, including a review of the interim financial results for the six months ended 30 June 2018.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, all the Directors have complied with the required standard as set out in the Model Code during the six months ended 30 June 2018.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By order of the Board of Directors
**Pa Shun International Holdings Limited**
**Mr. Chen Yenfei**
*Chairman and Chief Executive Officer*

Hong Kong, 31 August 2018

*As at the date of this announcement, the executive Directors are Mr. Chen Yenfei and Mr. Shen Shun; the non-executive Director is Mr. Zhang Xiongfeng; and the independent non-executive Directors are Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Min Feng.*

*This interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at www.pashun.cn under the section of "Investor Relations/HKEx Filings" respectively. The interim report of the Company for the six months ended 30 June 2018 will be dispatched to the shareholders of the Company and will be available on the same websites in due course.*