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**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)**

**ANNUAL RESULTS ANNOUNCEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

The board (“**Board**”) of directors (“**Directors**”) of Pa Shun International Holdings Limited (“**Company**”) announces the annual results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2018 together with the comparative figures for the corresponding period in 2017. The Group’s annual results for the year ended 31 December 2018 are audited, and have been reviewed by the audit committee of the Company (“**Audit Committee**”).

**ANNUAL RESULTS HIGHLIGHTS**

- Revenue amounted to approximately RMB821,142,000 (2017: approximately RMB869,891,000).
- Loss for the year amounted to approximately RMB63,408,000 (2017: profit for the year of approximately RMB10,177,000).
- Adjusted loss for the year<sup>(1)</sup> amounted to approximately RMB16,522,000 (2017: adjusted profit for the year of approximately RMB10,177,000).
- Basic and diluted loss per share were RMB5.32 cent (2017: basic earnings per share of RMB1.01 cent) and N/A (2017: N/A), respectively.
- The Board does not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

<sup>(1)</sup> adjusted (loss)/profit for the year represents (loss)/profit for the year excluding the equity-settled share-based payments, the loss on disposal of a subsidiary, the gain on redemption of convertible bonds and the loss on issue of convertible bonds.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	NOTES	Year ended 31 December	
		2018 RMB'000	2017 RMB'000
<b>Revenue</b>	2(a)	<b>821,142</b>	869,891
Cost of sales		<u>(760,856)</u>	<u>(780,475)</u>
<b>Gross profit</b>		<b>60,286</b>	89,416
Other income and gains	3(a)	<b>19,193</b>	17,325
Other net loss	3(b)	<b>(42,661)</b>	(16,815)
Selling and distribution expenses		<b>(15,142)</b>	(14,166)
General and administrative expenses		<b>(55,314)</b>	(40,585)
Finance costs	4	<b>(15,668)</b>	(15,673)
Share of profit of associate		<u><b>1,259</b></u>	<u>–</u>
<b>(Loss)/profit before tax</b>	5	<b>(48,047)</b>	19,502
Income tax expense	6	<u><b>(15,361)</b></u>	<u>(9,325)</u>
<b>(Loss)/profit for the year</b>		<u><b>(63,408)</b></u>	<u>10,177</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(59,409)</b>	10,177
Non-controlling interests		<u><b>(3,999)</b></u>	<u>–</u>
<b>(Loss)/profit for the year</b>		<u><b>(63,408)</b></u>	<u>10,177</u>
<b>(Loss)/earnings per share (in RMB cents)</b>	8		
Basic		<u><b>(5.32)</b></u>	<u>1.01</u>
Diluted		<u><b>N/A</b></u>	<u>N/A</u>

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2018*

	<b>Year ended 31 December</b>	
	<b>2018</b>	2017
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
<b>(Loss)/profit for the year</b>	<b>(63,408)</b>	10,177
<b>Other comprehensive loss for the year</b>		
Item 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")	<b>(5,448)</b>	(7,637)
<b>Total comprehensive (loss)/income for the year</b>	<b>(68,856)</b>	2,540
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>(64,857)</b>	2,540
Non-controlling interests	<b>(3,999)</b>	–
<b>Total comprehensive (loss)/income for the year</b>	<b>(68,856)</b>	2,540

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	<i>NOTES</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		58,026	96,102
Prepaid land lease payments		2,315	4,060
Investment in associate		9,382	–
Goodwill		5,942	5,942
Biological assets		–	1,196
Other intangible assets		886	3,281
Prepayments for intangible assets		17,000	20,000
Other non-current assets		192,769	177,615
Deferred tax assets		4,117	7,053
		<b>290,437</b>	315,249
<b>CURRENT ASSETS</b>			
Inventories		55,573	60,372
Trade and other receivables	9	422,193	438,994
Prepayments and deposits paid		259,054	245,883
Derivative financial instruments		–	2,253
Amount due from an associate		10,834	–
Amounts due from related parties		1,078	97
Pledged bank deposits		41,111	49,364
Cash and cash equivalents		48,831	35,036
		<b>838,674</b>	831,999
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	94,277	142,047
Bank borrowings		35,824	26,009
Amount due to a shareholder		3,413	–
Amounts due to related parties		144	295
Amounts due to non-controlling interests		5,143	–
Corporate bonds payable		5,074	5,886
Convertible bonds		–	109,187
Income tax payable		13,930	12,443
		<b>157,805</b>	295,867
<b>NET CURRENT ASSETS</b>		<b>680,869</b>	536,132
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>971,306</b>	851,381

	<b>2018</b>	2017
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>		
Deferred income – government grant	<b>24,565</b>	25,076
Corporate bonds payable	<b>82,336</b>	68,854
Deferred tax liabilities	<b>7,932</b>	8,186
	<u><b>114,833</b></u>	<u>102,116</u>
<b>NET ASSETS</b>	<u><b>856,473</b></u>	<u>749,265</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>1,116</b>	856
Reserves	<b>869,580</b>	748,409
	<u><b>870,696</b></u>	<u>749,265</u>
<b>Total equity attributable to equity shareholders of the Company</b>	<b>870,696</b>	749,265
<b>Non-controlling interests</b>	<u><b>(14,223)</b></u>	<u>–</u>
<b>TOTAL EQUITY</b>	<u><b>856,473</b></u>	<u>749,265</u>

## Notes:

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

The consolidated financial statements of the Group, comprising the Company and its subsidiaries, have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), and accounting principles generally accepted in Hong Kong. These consolidated financial statements have also been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

#### New and revised HKFRSs applied in current year

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
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
Amendments to HKFRS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKFRS 40	Transfers of Investment Property

The application of these new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and financial position for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

## New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases <sup>1</sup>
HKFRS 17	Insurance Contracts <sup>3</sup>
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>
Amendments to HKFRS 3	Definition of a Business <sup>4</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>5</sup>
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement <sup>1</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2019

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined

<sup>3</sup> Effective for annual periods beginning on or after 1st January, 2021

<sup>4</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January, 2020

<sup>5</sup> Effective for annual periods beginning on or after 1st January, 2020

## 2. 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 revenue of each significant segment is as follows:

	<b>2018</b> <i>RMB'000</i>	2017 <i>RMB'000</i>
Pharmaceutical distribution	<b>754,498</b>	794,130
Self-operated retail pharmacies	<b>3,882</b>	542
Pharmaceutical manufacturing	<b>62,762</b>	75,219
	<b>821,142</b>	869,891

### (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 assessment of segment performance, the Group has presented the following reportable segments. No 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.



(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 years ended 31 December 2018 and 2017 is set out below.

	Year ended 31 December 2018							Total RMB'000
	Pharmaceutical distribution				Sub-total RMB'000	Self-operated retail pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	
	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	Others RMB'000				
Revenue from external customers	566,479	133,243	49,655	5,121	754,498	3,882	62,762	821,142
Inter-segment revenue	253	4,592	-	-	4,845	-	749	5,594
Reportable segment revenue	<u>566,732</u>	<u>137,835</u>	<u>49,655</u>	<u>5,121</u>	<u>759,343</u>	<u>3,882</u>	<u>63,511</u>	<u>826,736</u>
Reportable segment profit	<u>13,301</u>	<u>10,002</u>	<u>5,699</u>	<u>723</u>	<u>29,725</u>	<u>1,425</u>	<u>29,111</u>	<u>60,261</u>
Other segment information								
Depreciation and amortisation	-	-	-	-	-	-	675	675
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>675</u>	<u>675</u>
	Year ended 31 December 2017							Total RMB'000
	Pharmaceutical distribution				Sub-total RMB'000	Self-operated retail pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	
	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	Others RMB'000				
Revenue from external customers	477,874	209,438	64,033	42,785	794,130	542	75,219	869,891
Inter-segment revenue	41	1,519	-	-	1,560	-	3,926	5,486
Reportable segment revenue	<u>477,915</u>	<u>210,957</u>	<u>64,033</u>	<u>42,785</u>	<u>795,690</u>	<u>542</u>	<u>79,145</u>	<u>875,377</u>
Reportable segment profit	<u>18,538</u>	<u>14,535</u>	<u>10,837</u>	<u>3,060</u>	<u>46,970</u>	<u>134</u>	<u>42,197</u>	<u>89,301</u>
Other segment information								
Depreciation and amortisation	-	-	-	-	-	-	671	671
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>671</u>	<u>671</u>

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.

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
<b>Revenue</b>		
Reportable segment revenue	826,736	875,377
Elimination of inter-segment revenue	<u>(5,594)</u>	<u>(5,486)</u>
Consolidated revenue	<u><b>821,142</b></u>	<u><b>869,891</b></u>
<b>(Loss)/profit</b>		
Reportable segment profit	60,261	89,301
Elimination of inter-segment loss	<u>25</u>	<u>115</u>
Gross profit derived from external customers	60,286	89,416
Other income and gains	19,193	17,325
Other net loss	(42,661)	(16,815)
Selling and distribution expenses	(15,142)	(14,166)
General and administrative expenses	(55,314)	(40,585)
Finance costs	(15,668)	(15,673)
Share of profit of associate	<u>1,259</u>	<u>–</u>
Consolidated (loss)/profit before tax	<u><b>(48,047)</b></u>	<u><b>19,502</b></u>
<b>Other items</b>		
Depreciation and amortisation		
Reportable segment total	675	671
Unallocated total	<u>5,158</u>	<u>5,137</u>
Consolidated total	<u><b>5,833</b></u>	<u><b>5,808</b></u>

(iii) Revenue from individual customers contributing over 10% of the total revenue of the Group is as follows:

	<b>2018</b>	2017
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Revenue generated from pharmaceutical distribution		
Customer A	N/A	120,129
Customer B	N/A	93,405
	<u>                    </u>	<u>                    </u>

Revenue from each of the Customer A and Customer B for the year ended 31 December 2018 did not contribute 10% or more to the Group's revenue for the year.

The Group's revenue and profit from operations were entirely derived from activities of pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing in the PRC for the years ended 31 December 2018 and 2017 and the principal assets employed by the Group were located in the PRC as at 31 December 2018 and 2017. Accordingly, no analysis by geographical information is provided for the years ended 31 December 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 years ended 31 December 2018 and 31 December 2017 for the purposes of resource allocation and assessment of segment performance.

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

#### (a) Other income and gains

	<b>2018</b>	2017
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Franchise fee	<b>7,378</b>	9,934
Bank interest income	<b>193</b>	1,103
Interest income from loan receivables	<b>518</b>	895
Gain on change in fair value of biological assets	<b>60</b>	131
Gain on disposal of intangible assets	<b>603</b>	–
Gain on redemption of convertible bonds	<b>7,516</b>	–
Net foreign exchange gains	–	2,276
Deferred income – government grant	<b>512</b>	512
Others	<b>2,413</b>	2,474
	<hr/> <b>19,193</b> <hr/>	<hr/> 17,325 <hr/>

(b) Other net loss

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Net foreign exchange losses	1,456	–
Impairment loss on:		
Deposits paid for acquisition of property, plant and equipment	–	10,000
Trade receivables	10,046	–
Other receivables	1,514	2,306
Prepayments for intangible assets	3,000	–
Write-off of other receivables	821	589
Loss on disposal of property, plant and equipment	4,163	1,023
Loss on disposal of a subsidiary	903	–
Loss on disposal of prepaid land lease	1,780	–
Loss on issue of convertible bonds	42,043	–
Loss on change in fair value of derivative financial instruments	–	4,943
Reversal of impairment loss on:		
Deposits for acquisition of property, plant and equipment	(10,000)	–
Inventories	–	(720)
Trade receivables	(2,974)	(1,326)
Other receivables	(10,091)	–
	<u>42,661</u>	<u>16,815</u>

#### 4. FINANCE COSTS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Interest on:		
Bank borrowings	241	1,384
Bank overdrafts	–	1,019
Corporate bonds payable	9,438	5,786
Convertible bonds	5,558	6,725
Other borrowings	125	45
Bills charges and other bank charges	306	714
	<u>15,668</u>	<u>15,673</u>

#### 5. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax is arrived at after charging:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Cost of inventories ( <i>note i</i> )	760,856	780,475
Salaries, wages and other benefits	18,218	15,331
Contributions to defined contribution retirement plans	2,115	2,381
Total staff costs ( <i>note ii</i> )	20,333	17,712
Amortisation of intangible assets	178	218
Amortisation of prepaid land lease payments	205	100
Depreciation of property, plant and equipment	5,450	5,490
Auditors' remuneration		
Audit services	1,285	1,289
Non-audit services	185	173
Operating lease charges in respect of property rentals	1,848	1,625
Research and development expenses	819	8,000
Equity-settled share-based payments	11,456	–

(i) Cost of inventories includes staff costs and depreciation expenses totalled RMB1,398,000 (2017: RMB1,446,000) which are also included in the respective total amounts disclosed separately above.

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

## 6. INCOME TAX EXPENSE

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current tax		
PRC Enterprise Income Tax	12,680	12,480
Deferred tax		
Origination and reversal of temporary differences	<u>2,681</u>	<u>(3,155)</u>
	<u><b>15,361</b></u>	<u><b>9,325</b></u>

- (i) The Group is subject to income tax on an entity based on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.
- (ii) Pursuant to 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 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 years presented.
- (iv) Except for Chengdu Toyot Pa Shun Pharmacy Co., Ltd. (“**Chengdu Pashun**”), the Group’s PRC subsidiaries are subject to PRC Enterprise Income Tax at the statutory rate of 25% (2017: 25%).

Having applied for preferential income tax treatment under the Notice on the Issues of Tax Policies for Thorough Implementation of Western Development Strategy, Chengdu Pashun, a wholly-owned subsidiary of the Company, 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.

## 7. DIVIDEND

No dividend was paid, declared or proposed during the year ended 31 December 2018 (2017: Nil) nor had any dividend been proposed since the end of the reporting period (2017: Nil).

## 8. (LOSS)/EARNINGS PER SHARE

### (a) Basic loss/earnings per share

The calculation of basic loss/earnings per share is based on the loss attributable to equity shareholders of the Company of RMB59,409,000 (2017: profit of RMB10,177,000) and the weighted average of approximately 1,117,006,000 ordinary shares (2017: 1,007,429,000 ordinary shares) in issue during the year.

### (b) Diluted loss/earnings per share

The calculation of diluted loss/earnings per share is based on the loss/profit attributable to equity shareholders of the Company and the weighted average number of ordinary shares, as follows:

#### (i) Loss/earnings

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
(Loss)/earnings for the purpose of basic earnings per share	<b>(59,409)</b>	10,177
Effect of diluted potential ordinary shares:		
Interest on convertible bonds	<b>5,558</b>	6,725
Gain on redemption of convertible bonds	<b>(7,516)</b>	–
Loss on change in fair value of derivative financial instruments	–	4,943
	<hr/>	<hr/>
(Loss)/earnings for the purpose of diluted loss/earnings per share	<b><u>N/A</u></b>	<b><u>N/A</u></b>



(ii) *Weighted average number of ordinary shares*

	<b>2018</b>	2017
	<b>Number of</b>	Number of
	<b>shares</b>	shares
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares for the purpose of basic loss/earnings per share	<b>1,117,006</b>	1,007,429
Effect of conversion of convertible bonds	<u><b>169,337</b></u>	<u>176,658</u>
Weighted average number of ordinary shares for the purpose of diluted loss/earnings per share	<u><u><b>N/A</b></u></u>	<u><u><b>N/A</b></u></u>

The computation of diluted loss/earnings per share does not assume the exercise of the Company's share options granted because the exercise price of those share options was higher than the average market price of shares for both of the years presented.

Diluted loss/earnings per share for the years ended 31 December 2018 and 31 December 2017 is not presented as the effects arising from the convertible bonds are anti-dilutive.

**9. TRADE AND OTHER RECEIVABLES**

	<b>2018</b>	2017
	<b>RMB'000</b>	<b>RMB'000</b>
Trade and commercial bills receivables	<b>346,191</b>	337,366
Bank bills receivables	<b>1,325</b>	32,052
Other receivables	<u><b>74,677</b></u>	<u>69,576</u>
	<u><u><b>422,193</b></u></u>	<u><u>438,994</u></u>

### Ageing analysis of trade and commercial bills receivables

As at 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:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within 1 month	86,861	96,001
1 to 3 months	114,552	113,334
4 to 6 months	76,497	76,854
Over 6 months	68,281	51,177
	<u>346,191</u>	<u>337,366</u>

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

### 10. TRADE AND OTHER PAYABLES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade payables	30,428	60,652
Bills payables	11,730	37,395
Other payables, deposits received and accrued expenses	52,119	44,000
	<u>94,277</u>	<u>142,047</u>

As at the end of the reporting period, the ageing analysis of trade payables, based on dates of goods delivery, is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within 1 month	4,855	18,945
1 to 3 months	3,570	14,111
Over 3 months	22,003	27,596
	<u>30,428</u>	<u>60,652</u>

The credit period granted by suppliers is 30 to 180 days.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Group continued to focus on the pharmaceutical distribution and pharmaceutical manufacturing businesses in the PRC in 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 year ended 31 December 2018, the Group recorded a total revenue of approximately RMB821.1 million, representing a decrease of approximately 5.6% from approximately RMB869.9 million for the year ended 31 December 2017. This decrease was primarily due to the drop in revenue from the Group's pharmaceutical distribution to franchise retail pharmacy chain stores, hospital and other medical institutions and pharmaceutical manufacturing due to the keen competition resulting from the implementation of the Two-Invoice System, which required the maintenance work to be performed by the manufacturer. The 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.

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

The Group's cost of sales decreased by approximately 2.5% from approximately RMB780.5 million for the year ended 31 December 2017 to approximately RMB760.9 million for the year ended 31 December 2018. This decrease was primarily due to decrease in sales for the Group's pharmaceutical distribution and pharmaceutical manufacturing segments.

The Group's gross profit decreased by approximately 32.6% from approximately RMB89.4 million for the year ended 31 December 2017 to approximately RMB60.3 million for the year ended 31 December 2018. The Group's gross margin decreased from approximately 10.3% for the year ended 31 December 2017 to approximately 7.3% for the year ended 31 December 2018. Such decrease is primarily attributable to the vigorous competition and limitation of the pricing strategy of pharmaceutical distribution to wholesalers and franchise retail pharmacy chain stores with the in-depth implementation of the Two-Invoice System.

## **Selling and Distribution Expenses**

The Group's selling and distribution expenses increased by approximately 6.9% from approximately RMB14.2 million for the year ended 31 December 2017 to approximately RMB15.1 million for the year ended 31 December 2018. This increase was primarily due to the increase in staff costs and advertising expenses as a result of the coverage of broader sales areas by the Group in 2018.

## **General and Administrative Expenses**

The Group's general and administrative expenses increased by approximately 36.3% from approximately RMB40.6 million for the year ended 31 December 2017 to approximately RMB55.3 million for the year ended 31 December 2018. This increase was primarily due to the payment of consultancy fee for advisory on business development in 2018 and recognition of the equity-settled share-based payments in the year ended 31 December 2018 as a result of the grant of share options by the Company to subscribe for an aggregate of 100,000,000 shares of the Company on 7 September 2018.

## **Other Income and Gains**

Other income and gains increases by approximately 10.8% from approximately RMB17.3 million for the year ended 31 December 2017 to approximately RMB19.2 million for the year ended 31 December 2018. The other income and gains during the year ended 31 December 2018 mainly comprised the franchise fee of approximately RMB7.4 million. The increase of other income and gains was primarily due to gain on redemption of convertible bonds of approximately RMB\$7.5 million in 2018, which is offset by the decrease in franchise income and net foreign exchange gains in 2018.

## **Other Net Loss**

Other net loss increased by approximately 153.7% from approximately RMB16.8 million for the year ended 31 December 2017 to approximately RMB42.7 million for the year ended 31 December 2018. The increase was mainly due to the loss on issue of convertible bonds of approximately RMB42.0 million and the impairment loss on trade receivables of approximately RMB10.0 million recognised in 2018, offset by the reversal of impairment loss on deposits for acquisition of property, plant and equipment and other receivables of approximately RMB10.0 million and approximately RMB10.1 million respectively for the year ended 31 December 2018.

## **Finance Costs**

Finance costs amounted to approximately RMB15.7 million for the year ended 31 December 2018, which had no material change as compared with that of approximately RMB15.7 million for the year ended 31 December 2017.

## **(Loss)/profit before Tax**

(Loss)/profit before tax decreased by approximately 346.4% from approximately RMB19.5 million for the year ended 31 December 2017 to approximately RMB48.0 million for the year ended 31 December 2018. This decrease was primarily due to the deteriorated operating performance of the Group and the recognition of equity-settled share-based payments and the loss on issue of convertible bonds in 2018.

## **Income Tax Expense**

Income tax expense increased by approximately 64.7% from approximately RMB9.3 million for the year ended 31 December 2017 to approximately RMB15.4 million for the year ended 31 December 2018. This increase was primarily due to higher profit generated from certain companies engaged in the pharmaceutical distribution in 2018.

## **(Loss)/Profit for the Year and Net (Loss)/Profit Margin**

As a result of the foregoing, the Group's (loss)/profit for the year decreased by approximately 723.1% from profit of approximately RMB10.2 million for the year ended 31 December 2017 to loss of approximately RMB63.4 million for the year ended 31 December 2018. The Group's net (loss) profit margin decreased from profit margin of 1.2% for the year ended 31 December 2017 to loss margin of 7.7% for the year ended 31 December 2018.

Excluding the equity-settled share-based payments, the loss on disposal of a subsidiary, the gain on redemption of convertible bonds and the loss on issue of convertible bonds, the adjusted loss for the year ended 31 December 2018 was approximately RMB16,522,000, representing a decrease of approximately 262.3% from the adjusted profit of approximately RMB10,177,000 for the year ended 31 December 2017.

## **BUSINESS REVIEW**

In 2018, the Group's revenue generated by the pharmaceutical distribution segment amounted to approximately RMB754.5 million, representing a decrease of approximately 5% as compared with approximately RMB794.1 million for 2017. Such decrease was primarily due to the implementation of the Two-Invoice System, which only allowed a single level of distributors for the sale of pharmaceutical products from drug manufacturers to medical institutions, had caused vigorous competition and deteriorated the gross margin of the entire segment.

For the year ended 31 December 2018, the Group's revenue from the self-operated retail pharmacies segment amounted to approximately RMB3.9 million, representing an increase of approximately 616.2% from approximately RMB542,000 for the year ended 31 December 2017. 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 year ended 31 December 2018, the Group's revenue from the pharmaceutical manufacturing segment amounted to approximately RMB62.8 million, representing a decrease of approximately 16.6% from approximately RMB75.2 million for the year ended 31 December 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 on its solid foundation in Southwest China and make good use of its existing resources and networks to capture the opportunities to expand to other business through various business development strategies, including but not limited to the construction of international logistics centers to improve the operational efficiency of the distribution business of the Group. On 19 March 2019, the Company acquired the entire issued share capital of Bisan Parkwell Consultants Limited (“**Bisan Parkwell**”), which holds 49% of the legal and beneficial interest in the issued share capital of a company incorporated in Malaysia, the principal assets of which comprise 48 units located in the building called “The Apple” located in Melaka, Malaysia, which is a multi-storey building. The Board considers that this acquisition represents a good investment opportunity for the Group to explore and invest in the Malaysia property market. The Company currently intends to hold the properties for investment purpose to generate rental income for the Group and will engage a local professional property manager to manage the properties and the leasing business upon the completion of construction of the properties.

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group had total cash and cash equivalents of approximately RMB48.8 million as at 31 December 2018 as compared with approximately RMB35.0 million as at 31 December 2017.

The Group recorded net current assets of approximately RMB680.9 million and approximately RMB536.1 million as at 31 December 2018 and 31 December 2017 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 5.31 as at 31 December 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 31 December 2018, the Group’s gearing ratio was 3.7% (31 December 2017: 14.3%).

As at 31 December 2018, the total amount of bank loans was approximately RMB35.8 million, as compared with approximately RMB26.0 million as at 31 December 2017.

As at 31 December 2018, the total number of issued ordinary shares of the Company was 1,357,874,000 shares (31 December 2017: 1,064,564,000 shares) (“**Shares**”). In each of 2016 and 2018, 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 31 December 2018, 175,690,000 share options remained outstanding. Please refer to the announcements of the Company dated 8 July 2016 and 7 September 2018 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 year ended 31 December 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 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. Completion of subscription of the 2018 Convertible Bonds took place on 24 September 2018. 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 year.

## **CONTINGENT LIABILITIES**

As at 31 December 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 year ended 31 December 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 31 December 2018, the Group had a total of 203 (2017: 298) staff, primarily in the PRC. The total staff cost was approximately RMB20.3 million (2017: RMB17.7 million) for the year ended 31 December 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 31 December 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 year under review:

	<b>Available to use</b>	<b>Utilised (as at 31 December 2018)</b>	<b>Unutilised (as at 31 December 2018)</b>
<b>Use of the Net Proceeds</b>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
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	-
	<u>249.5</u>	<u>147.8</u>	<u>101.7</u>

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 31 December 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.

The Convertible Bonds were redeemed by the Company on 24 September 2018.

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, 29 May 2018 and 6 June 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 did not bear any interest. The 2018 Convertible Bonds were convertible into Shares at the initial conversion price of HK\$0.50 per Share (subject to adjustments). The maturity of the 2018 Convertible Bonds was the date falling on the second anniversary of the date of issue of the 2018 Convertible Bonds (i.e. 24 September 2018).

The net proceeds from the issue of the 2018 Convertible Bonds, after deducting related transaction costs, was approximately HK\$132.8 million of which the amount was fully utilised for redemption of the Convertible Bonds as at 31 December 2018.

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 was 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 grant of the specific mandate for the allotment and issue of the Shares upon conversion of the 2018 Convertible Bonds ("**Specific Mandate**"); 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).

Completion of the 2018 Subscription Agreement took place on 24 September 2018 as a result of which the 2018 Convertible Bonds in the aggregate principal amount of HK\$134,500,000 was issued by the Company to Mr. Chen pursuant to the Subscription Agreement.

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, 24 September 2018 and the Company's circular dated 17 August 2018.

## **EVENTS AFTER THE END OF REPORTING PERIOD**

On 8 March 2019, Ready Gain Limited (“**Ready Gain**”), a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Yu Kin Wai Perway and Mr. Chu Hin Alfonso, being the independent third parties to the Group, in relation to the acquisition of the entire issued share capital of Bisan Parkwell by Ready Gain at a total consideration of HK\$45,325,000, which shall be satisfied by the allotment and issue of 82,409,090 Shares by the Company at HK\$0.55 per Share.

Bisan Parkwell is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holding. It holds 49% of the legal and beneficial interest in the issued share capital of a company incorporated in Malaysia, the principal assets of which comprise 48 units located in the building called “The Apple” located in Melaka, Malaysia, which is a multi-storey building consisting of 361 units in total, all of which will be used as serviced apartments. The aggregate gross floor area of the 48 units is approximately 54,279 square feet. Completion of the acquisition took place on 19 March 2019, upon which 82,409,090 Shares have been allotted and issued by the Company at HK\$0.55 per Share, and Bisan Parkwell has become an indirect wholly-owned subsidiary of the Company. Details of this acquisition are set out in the Company's announcement dated 8 March 2019.

On 8 March 2019, Big Wish Global Limited (“**Big Wish**”), a direct wholly-owned subsidiary of the Company, and Mawar F & B Group Sdn Bhd (the “**Vendor**”), being the independent third party to the Group, entered into an agreement, pursuant to which Big Wish conditionally agreed to acquire, and the Vendor conditionally agreed to sell, 45% of the entire issued share capital of VR Green Sdn Bhd (“**VR Green**”) at a total consideration of HK\$35,100,000 which shall be satisfied by the allotment and issue of 63,818,181 Shares by the Company at HK\$0.55 per Share. VR Green is a company incorporated in Malaysia with limited liability and is principally engaged in property development and investment. The principal asset of VR Green will be a freehold building land (measuring approximately 9,308 square metres) which is currently held under HS(D) 246768, P7553, in Bandar Baru Kota Sri Mas, District of Seremban, State of Negeri Sembilan. However, the agreement has been terminated on 28 March 2019 due to the unsatisfaction of the condition precedent in relation to due diligence as set out in the agreement. Details of this transaction are set out in the Company’s announcements dated 8 March 2019 and 28 March 2019.

## **DIVIDEND**

The Board does not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

## **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 year ended 31 December 2018, the Company has complied with the code provisions set out in the CG Code then in force, 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 Yenfei 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 three 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. Wong Tak Shing and Mr. Lu Yongchao. 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 annual financial results for the year ended 31 December 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 year ended 31 December 2018.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the year ended 31 December 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  
**Pa Shun International Holdings Limited**  
**Mr. Chen Yenfei**  
*Chairman and Chief Executive Officer*

Hong Kong, 29 March 2019

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

*This annual results announcement is published on the websites of The Stock Exchange of Hong Kong Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company at [www.pashun.cn](http://www.pashun.cn) under the section of "Investor Relations/HKEx Filings" respectively.*

*The annual report of the Company for the year ended 31 December 2018 will be dispatched to the shareholders of the Company and will be available on the same websites in due course.*