



**百信集團**  
PASHUN GROUP

**Pa Shun Pharmaceutical International Holdings Limited**

**百信藥業國際控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 574

Interim Report **2015**

## CONTENTS

	Page
CORPORATE INFORMATION	2
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS	4
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	5
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	6
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	8
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS	9
NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT	10
MANAGEMENT DISCUSSION AND ANALYSIS	37
OTHER INFORMATION	43

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Mr. Chen Yenfei  
*(Chairman and Chief Executive Officer)*  
Mr. Su Si  
Mr. Shen Shun  
Mr. Zhou Jian

### NON-EXECUTIVE DIRECTORS

Mr. Li Ho Tan  
Mr. Masahiro Honna

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Liangzhong  
Mr. Wong Tak Shing  
Mr. Min Feng

### AUTHORISED REPRESENTATIVES

Mr. Chen Yenfei  
Mr. Pang, Peter Chun Ming

### JOINT COMPANY SECRETARIES

Mr. Pang, Peter Chun Ming  
*CPA (California Board of Accountancy), CFA*  
Mr. Tsoi, Yuen Hoi *HKICPA, ACCA*

### AUDIT COMMITTEE

Mr. Liu Liangzhong *(Chairman)*  
Mr. Wong Tak Shing  
Mr. Min Feng

### REMUNERATION COMMITTEE

Mr. Liu Liangzhong *(Chairman)*  
Mr. Chen Yenfei  
Mr. Wong Tak Shing

### NOMINATION COMMITTEE

Mr. Chen Yenfei *(Chairman)*  
Mr. Liu Liangzhong  
Mr. Min Feng

### CORPORATE GOVERNANCE COMMITTEE

Mr. Chen Yenfei *(Chairman)*  
Mr. Min Feng  
Mr. Zhou Jian

### REGISTERED OFFICE

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat 1907B, 19/F., Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

### PRINCIPAL PLACE OF BUSINESS IN THE PRC

Building C, Lan Hai Tian Di  
Zhenxing Road, Yingbin Avenue  
Jinniu District  
Chengdu, Sichuan Province  
PRC

**AUDITORS**

Crowe Horwath (HK) CPA LIMITED  
9/F, Leighton Centre  
77 Leighton Road  
Causeway Bay  
Hong Kong

**COMPLIANCE ADVISER**

China Everbright Capital Limited  
17/F, Far East Finance Centre  
16 Harcourt Road  
Hong Kong

**STOCK CODE**

00574

**COMPANY'S WEBSITE**

[www.pashun.com.cn](http://www.pashun.com.cn)

**PRINCIPAL BANKERS**

Bank of Communications Co., Ltd.  
China Everbright Bank Co., Ltd. (Hong Kong  
Branch)  
China Merchants Bank Co., Ltd.  
The Hong Kong and Shanghai Banking  
Corporation Limited

**PRINCIPAL SHARE REGISTRAR AND  
TRANSFER OFFICE**

Codan Trust Company (Cayman) Limited  
Cricket Square,  
Hutchins Drive,  
P.O. Box 2681,  
Grand Cayman KY1-1111,  
Cayman Islands

**HONG KONG SHARE REGISTRAR AND  
TRANSFER OFFICE**

Tricor Investor Services Limited  
Level 22,  
Hopewell Centre,  
183 Queen's Road East,  
Hong Kong

The board of directors (the “**Board**”) of Pa Shun Pharmaceutical 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 2015 together with the comparative figures for the corresponding period in 2014. The Group’s interim results are unaudited, but have been reviewed by the audit committee of the Company.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

*For the six months ended 30 June 2015 – Unaudited*

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2015 RMB’000</b>	2014 RMB’000
<b>Revenue</b>	3	<b>451,624</b>	402,440
Cost of sales		<b>(353,269)</b>	(306,310)
<b>Gross profit</b>		<b>98,355</b>	96,130
Other revenue	4	<b>11,393</b>	8,563
Other net loss		–	(1,989)
Selling and distribution expenses		<b>(16,742)</b>	(17,456)
General and administrative expenses		<b>(31,022)</b>	(25,813)
<b>Profit from operations</b>		<b>61,984</b>	59,435
Finance costs	5(a)	<b>(2,162)</b>	(4,561)
Change in fair value on convertible redeemable preferred shares	16	<b>37,471</b>	(20,204)
<b>Profit before taxation</b>	5	<b>97,293</b>	34,670
Income tax	6	<b>(14,540)</b>	(14,517)
<b>Profit for the period</b>		<b>82,753</b>	20,153
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>82,915</b>	20,083
Non-controlling interests		<b>(162)</b>	70
<b>Profit for the period</b>		<b>82,753</b>	20,153
<b>Earnings per share (in RMB cents)</b>	7		
Basic		<b>14.89</b>	3.82
Diluted		<b>5.93</b>	3.82

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015 – Unaudited

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
<b>Profit for the period</b>	<b>82,753</b>	20,153
<b>Other comprehensive income for the period, net of nil income tax</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	<u>184</u>	<u>(5,418)</u>
<b>Total comprehensive income for the period</b>	<b><u>82,937</u></b>	<b><u>14,735</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>83,099</b>	14,665
Non-controlling interests	<b><u>(162)</u></b>	<u>70</u>
<b>Total comprehensive income for the period</b>	<b><u>82,937</u></b>	<b><u>14,735</u></b>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At 30 June 2015 – Unaudited

	Note	30 June 2015 RMB'000	31 December 2014 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	83,037	80,905
Prepaid land lease payments		2,304	2,359
Intangible assets		5,759	6,024
Goodwill		1,295	1,295
Prepayment for intangible asset	10	20,000	20,000
Deferred tax assets		7,568	6,051
Other non-current assets	11	35,720	22,177
		<u>155,683</u>	<u>138,811</u>
<b>CURRENT ASSETS</b>			
Inventories		96,657	69,128
Trade and other receivables	12	426,936	363,799
Amount due from the Controlling Shareholder		1,983	675
Amount due from a related party		–	340
Pledged bank deposits	13	13,257	74,180
Cash and cash equivalents	13	244,550	67,059
		<u>783,383</u>	<u>575,181</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	150,455	184,332
Bank borrowings		30,000	50,000
Convertible redeemable preferred shares	16	–	220,355
Amount due to a director		9	210
Amounts due to other related parties		–	232
Current taxation		19,341	13,472
		<u>199,805</u>	<u>468,601</u>
<b>NET CURRENT ASSETS</b>			
		<u>583,578</u>	<u>106,580</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<u>739,261</u>	<u>245,391</u>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Continued)

At 30 June 2015 – Unaudited

	Note	30 June 2015 RMB'000	31 December 2014 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Convertible redeemable preferred shares	16	–	36,757
Deferred income – government grant		<u>26,913</u>	<u>27,354</u>
		<u>26,913</u>	<u>64,111</u>
<b>NET ASSETS</b>		<u>712,348</u>	<u>181,280</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	15	801	1
Reserves		<u>710,648</u>	<u>180,218</u>
<b>Total equity attributable to equity shareholders of the Company</b>		<b>711,449</b>	<b>180,219</b>
<b>Non-controlling interests</b>		<u>899</u>	<u>1,061</u>
<b>TOTAL EQUITY</b>		<u>712,348</u>	<u>181,280</u>

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2015 – Unaudited

Note	Attributable to equity shareholders of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	PRC		Other reserve RMB'000	Retained profits RMB'000	Total RMB'000		
			Statutory reserve RMB'000	Exchange reserve RMB'000					
<b>Balance at 1 January 2015</b>	1	-	31,905	3,534	(28,150)	172,929	180,219	1,061	181,280
<b>Changes in equity for six months ended 30 June 2015:</b>									
Profit for the period	-	-	-	-	-	82,915	82,915	(162)	82,753
Other comprehensive income for the period									
– Exchange differences on translation of financial statements of entities outside the PRC	-	-	-	184	-	-	184	-	184
Total comprehensive income for the period	-	-	-	184	-	82,915	83,099	(162)	82,937
Conversion of convertible redeemable preferred shares	15, 16	219,317	-	-	-	-	219,317	-	219,317
Capitalization issue	15(v)	(600)	-	-	-	-	-	-	-
Issuance of shares under IPO, net of share issuance expenses	15(vi)	200	228,614	-	-	-	228,814	-	228,814
Appropriation to PRC statutory reserve	-	-	2,638	-	-	(2,638)	-	-	-
<b>Balance at 30 June 2015</b>	<b>801</b>	<b>447,331</b>	<b>34,543</b>	<b>3,718</b>	<b>(28,150)</b>	<b>253,206</b>	<b>711,449</b>	<b>899</b>	<b>712,348</b>
<b>Balance at 1 January 2014</b>	1	-	22,138	9,463	(28,150)	136,752	140,204	876	141,080
<b>Changes in equity for six months ended 30 June 2014:</b>									
Profit for the period	-	-	-	-	-	20,083	20,083	70	20,153
Other comprehensive income for the period									
– Exchange differences on translation of financial statements of entities outside the PRC	-	-	-	(5,418)	-	-	(5,418)	-	(5,418)
Total comprehensive income for the period	-	-	-	(5,418)	-	20,083	14,665	70	14,735
Appropriation to PRC statutory reserve	-	-	5,159	-	-	(5,159)	-	-	-
<b>Balance at 30 June 2014</b>	<b>1</b>	<b>-</b>	<b>27,297</b>	<b>4,045</b>	<b>(28,150)</b>	<b>151,676</b>	<b>154,869</b>	<b>946</b>	<b>155,815</b>

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended 30 June 2015 – Unaudited

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
<b>Net cash (used in)/generated from operating activities</b>	<b>(70,663)</b>	25,988
<b>Net cash generated from/(used in) investing activities</b>	<b>42,750</b>	(1,191)
<b>Financing activities</b>		
Gross proceeds from issuance of ordinary shares	244,273	–
Share issuance expenses paid	(15,459)	–
Other cash flows arising from financing activities	(23,337)	(3,090)
	<hr/>	<hr/>
<b>Net cash generated from/(used in) financing activities</b>	<b>205,477</b>	(3,090)
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>177,564</b>	21,707
Cash and cash equivalents at the beginning of the period	67,059	65,375
Effect of changes in foreign exchange rate	(73)	1,067
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period</b>	<b>244,550</b>	88,149
	<hr/>	<hr/>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). It was authorised for issue on 28 August 2015.

The interim financial report has have been prepared in accordance with the same accounting policies adopted in the financial information of the Company for each of the years ended 31 December 2012, 2013 and 2014 which is the Hong Kong Financial Reporting Standards (“HKFRSs”), for inclusion in the prospectus of the Company, dated 9 June 2015 (the “Prospectus”), except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of these changes in accounting policies are set out in note 2. The interim financial report is unaudited but have been reviewed by the Company’s audit committee.

The preparation of an interim financial report 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.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2014 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

## 2. CHANGES IN ACCOUNTING POLICIES

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

Amendments to HKFRS	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRS	Annual Improvements to HKFRSs 2011-2013 Cycle
Amendments to HKAS 19	Defined Benefit Plans – Employee Contributions

The application of the above amendments to 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 of the Company 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 wholesale, self-operated retail pharmacies and pharmaceutical manufacturing 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	
	2015 RMB'000	2014 RMB'000
Pharmaceutical distribution	365,942	324,897
Self-operated retail pharmacies	8,104	14,263
Pharmaceutical manufacturing	77,578	63,280
	<u>451,624</u>	<u>402,440</u>

### 3. REVENUE AND SEGMENT REPORTING *(Continued)*

#### 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 of the Company, being the chief operating decision makers, for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Pharmaceutical distribution: this segment generates revenue primarily from sales 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 in the factories of 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 2015 and 2014. Accordingly, no analysis by geographical segments has been provided for the six months ended 30 June 2015 and 2014.

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 2015 and 2014 for the purposes of resource allocation and performance assessment.

### 3. REVENUE AND SEGMENT REPORTING (Continued)

#### b) Segment reporting (Continued)

##### (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 2015 and 2014 is set out below.

	Six months ended 30 June 2015						
	Pharmaceutical distribution						
	Sales to franchise wholesalers	Sales to retail pharmacy chain stores	Sales to hospitals and other medical institutions in rural areas	Sub-total	Self-operated retail pharmacies	Pharmaceutical manufacturing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	230,032	73,065	62,845	365,942	8,104	77,578	451,624
Inter-segment revenue	-	1,122	-	1,122	-	3,218	4,340
Reportable segment revenue	230,032	74,187	62,845	367,064	8,104	80,796	455,964
Reportable segment profit	7,671	22,975	13,274	43,920	2,268	52,358	98,546

	Six months ended 30 June 2014						
	Pharmaceutical distribution						
	Sales to franchise wholesalers	Sales to retail pharmacy chain stores	Sales to hospitals and other medical institutions in rural areas	Sub-total	Self-operated retail pharmacies	Pharmaceutical manufacturing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	189,044	102,936	32,917	324,897	14,263	63,280	402,440
Inter-segment revenue	-	2,273	-	2,273	-	11,373	13,646
Reportable segment revenue	189,044	105,209	32,917	327,170	14,263	74,653	416,086
Reportable segment profit	9,680	32,213	3,872	45,765	4,557	46,989	97,311

### 3. REVENUE AND SEGMENT REPORTING (Continued)

#### b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenues and profit or loss

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
<b>Revenue</b>		
Reportable segment revenue	455,964	416,086
Elimination of inter-segment revenue	<u>(4,340)</u>	<u>(13,646)</u>
Consolidated revenue (note 3(a))	<u>451,624</u>	<u>402,440</u>
<b>Profit</b>		
Reportable segment profit	98,546	97,311
Elimination of inter-segment profits	<u>(191)</u>	<u>(1,181)</u>
Reportable segment profit derived from external customers	98,355	96,130
Other revenue	11,393	8,563
Other net loss	–	(1,989)
Selling and distribution expenses	(16,742)	(17,456)
General and administrative expenses	(31,022)	(25,813)
Finance costs	(2,162)	(4,561)
Change in fair value on convertible redeemable preferred shares	<u>37,471</u>	<u>(20,204)</u>
Consolidated profit before taxation	<u>97,293</u>	<u>34,670</u>

#### 4. OTHER REVENUE

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Franchise fee	8,057	6,104
Bank interest income	2,049	686
Rental income	409	557
Deferred income – government grant	441	441
Others	437	775
	<u>11,393</u>	<u>8,563</u>

#### 5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

##### a) Finance costs

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank borrowings wholly repayable within 5 years	1,797	2,277
Bills charges	250	1,897
Other bank charges	115	387
	<u>2,162</u>	<u>4,561</u>

## 5. PROFIT BEFORE TAXATION *(Continued)*

### b) Staff costs (including directors' remuneration)

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Salaries, wages and other benefits	11,311	10,429
Contributions to defined contribution retirement plans	2,524	1,526
	<u>13,835</u>	<u>11,955</u>

### c) Other items

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Amortisation of intangible assets	265	307
Amortisation of prepaid land lease payments	55	55
Depreciation of property, plant and equipment	4,347	5,702
Operating lease charges in respect of property rentals	4,313	6,382
Provision for impairment of trade receivables	975	204
Write off of other receivables	–	1,022
Cost of inventories <sup>#</sup>	353,269	306,310
	<u>353,269</u>	<u>306,310</u>

<sup>#</sup> *Cost of inventories for the six months ended 30 June 2015 include RMB1,725,000 (six months ended 30 June 2014: RMB1,044,000), relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above.*

## 6. INCOME TAX

	<b>Six months ended 30 June</b>	
	<b>2015</b>	2014
	<b>RMB'000</b>	RMB'000
<b>Current tax – PRC Corporation Income Tax</b>		
Provision for the year	<b>16,056</b>	15,171
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>(1,516)</b>	(654)
	<b>14,540</b>	14,517

- i) Pursuant to rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- ii) No Hong Kong Profits Tax for the six months ended 30 June 2014 and 2015 have been provided for in the consolidated statements of profit or loss as the Group has no estimated assessable profits arising in Hong Kong during the periods.
- iii) The Group's PRC subsidiaries are subject to PRC Corporate Income Tax at the statutory rate of 25%.

Toyot Pa Shun Medicine Factory Company Limited ("Toyot Pa Shun"), a wholly-owned subsidiary of the Group, applied for preferential income tax treatment under the Notice on the Issues of Tax Policies for Thorough Implementation of Western Development Strategy. Toyot Pa Shun obtained the approval from local tax authority and became entitled to a preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

## 7. EARNINGS PER SHARE

### a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2015 is based on the profit attributable to equity shareholders of the Company of RMB82,915,000 (six months ended 30 June 2014: RMB20,083,000) and the weighted average number of approximately 556,998,000 ordinary shares (2014: approximately 525,542,000 shares, after adjusting for the capitalization issue in 2015).

The weighted average number of ordinary shares during the six months ended 30 June 2015 is based on the assumption that (i) 525,542,000 ordinary shares of the Company were in issue, comprising 702,720 ordinary shares in issue and 524,839,280 ordinary shares issued pursuant to the capitalization issue, as if these shares were outstanding throughout the period from 1 January 2015 to the date of listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 June 2015 ("Date of Listing"), and (ii) 224,458,000 ordinary shares issued upon the conversion of Series A convertible redeemable preferred shares and Series B convertible redeemable preferred shares to ordinary shares (adjusted for the capitalization issue) on the Date of Listing, and 250,000,000 ordinary shares issued by the way of an initial public offering (the "IPO").

The weighted average number of ordinary shares during the six months ended 30 June 2014 is based on the assumption that 525,542,000 ordinary shares of the Company were in issue, comprising 702,720 ordinary shares in issue and 524,839,280 ordinary shares issued pursuant to the capitalization issue, as if these shares were outstanding throughout that period.

7. EARNINGS PER SHARE (Continued)

a) Basic earnings per share (Continued)

	Six months ended 30 June	
	2015 '000	2014 '000
<b>Weighted average number of ordinary shares</b>		
Issued ordinary shares at the date of the prospectus	703	703
Effect of capitalization issue	524,839	524,839
Effect of issuance of new shares under the IPO	16,575	–
Effect of conversion of Series A convertible redeemable preferred shares to ordinary shares (adjusted for the capitalization issue)	12,793	–
Effect of conversion of Series B convertible redeemable preferred shares to ordinary shares (adjusted for the capitalization issue)	<u>2,088</u>	–
Weighted average number of ordinary shares at 30 June	<u>556,998</u>	<u>525,542</u>

## 7. EARNINGS PER SHARE *(Continued)*

### b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2015 and 2014 is based on the profit attributable to equity shareholders of the Company of RMB45,444,000 and RMB20,083,000 and the weighted average number of ordinary shares of approximately 766,575,000 and 525,542,000 shares, respectively, in issue during each reporting period, calculated as follows:

#### (i) Profits attributable to ordinary equity shareholders of the Company (diluted)

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Profit attributable to equity shareholders of the Company	82,915	20,083
After tax effect of change in fair value on convertible redeemable preferred shares	<u>(37,471)</u>	<u>—</u>
Profit attributable to equity shareholders of the Company (diluted)	<u>45,444</u>	<u>20,083</u>

#### (ii) Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2015 Number of shares '000	2014 Number of shares '000
Weighted average number of ordinary shares	556,998	525,542
Effect of conversion of Series A convertible redeemable preferred shares (adjusted for the capitalization issue)	180,167	—
Effect of conversion of Series B convertible redeemable preferred shares (adjusted for the capitalization issue)	<u>29,410</u>	<u>—</u>
Weighted average number of shares (diluted)	<u>766,575</u>	<u>525,542</u>

## **7. EARNINGS PER SHARE** *(Continued)*

### **b) Diluted earnings per share** *(Continued)*

#### *(ii) Weighted average number of ordinary shares (diluted) (Continued)*

For the six months ended 30 June 2014, diluted earnings per share is the same as basic earnings per share because the effect of conversion of the Company's outstanding convertible redeemable preferred shares during the reporting period was anti-dilutive. Accordingly, they were not included in the calculation of diluted earnings per share in the period.

## **8. DIVIDENDS**

The directors do not recommend the payment of any interim dividend for the interim period (2014: nil).

## **9. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2015, the Group acquired items of property, plant and equipment amounting to RMB6,494,000 (six months ended 30 June 2014: RMB13,260,000). Items of property, plant and equipment with a net book value of RMB15,000 were disposed of during the six months ended 30 June 2015 (six months ended 30 June 2014: RMB1,997,000), resulting in no gain or loss on disposal of property, plant and equipment (six months ended 30 June 2014: loss on disposal of RMB1,992,000).

As at 30 June 2015, the buildings with carrying amount of RMB43,190,000 (as at 31 December 2014: RMB44,132,000) were situated at a parcel of land that the application of land use right certificate is still under progress.

As at 31 December 2014, certain buildings of the Group with carrying amount of RMB43,225,000 were pledged to secure certain of the Group's bank borrowings. The pledge was released during the six months ended 30 June 2015 upon the repayment of the bank borrowings.

## 10. PREPAYMENT FOR INTANGIBLE ASSET

The Company entered into a technology cooperation agreement with Beijing Runbofude Biotechnology Co., Ltd (“Beijing Runbofude”), an independent third party, to acquire the patented technology from Beijing Runbofude for a ten-year period from 1 January 2014 to 31 December 2023 at a consideration of RMB20,000,000.

On 28 July 2014, the Company signed a supplementary agreement with Beijing Runbofude in respect of acquisition of the patented technology relating to a revised ten-year period commencing from the installation and testing of production plant and equipments approved by Beijing Runbofude.

## 11. OTHER NON-CURRENT ASSETS

	<b>As of 30 June 2015 (Unaudited) RMB'000</b>	As of 31 December 2014 (Audited) RMB'000
Deposits		
– Deposits for property plant and equipment	<b>25,200</b>	11,657
– Deposits for acquisition of retail pharmacy stores	<b>5,520</b>	5,520
– Guarantee deposit ( <i>see note (i) below</i> )	<b>5,000</b>	5,000
	<b>35,720</b>	22,177

*Notes:*

- (i) Guarantee deposit represented the deposit paid for a ten-year period Chinese herbal planting project which will be refunded upon the completion of the project.

## 12. TRADE AND OTHER RECEIVABLES

	<b>As of 30 June 2015 RMB'000</b>	As of 31 December 2014 RMB'000
Trade receivables <i>(see note (a) below)</i>	<b>232,369</b>	218,563
Commercial bills receivables <i>(see note (a) below)</i>	–	20,500
Less: allowance for doubtful debts <i>(see note (a) below)</i>	<b>(10,229)</b>	<u>(9,254)</u>
	<b>222,140</b>	229,809
Bank bills receivables <i>(see note (b) below)</i>	<b>56,004</b>	5,507
Advance payments to suppliers	<b>73,242</b>	91,123
Other deposits, prepayments and receivables	<b>75,550</b>	<u>37,360</u>
	<b>426,936</b>	<u>363,799</u>

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

## 12. TRADE AND OTHER RECEIVABLES (Continued)

### a) Ageing analysis of trade receivables and commercial bills receivables

As of the end of the reporting period, the ageing analysis of trade receivables and commercial bills receivables (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	<b>As of 30 June 2015 RMB'000</b>	As of 31 December 2014 RMB'000
Within 1 month	<b>88,039</b>	80,229
1 to 3 months	<b>110,998</b>	98,686
4 to 6 months	<b>15,633</b>	41,791
Over 6 months	<b>7,470</b>	9,103
Trade receivables and commercial bills receivables, net of allowance for doubtful debts	<b>222,140</b>	229,809

Trade receivables and commercial bills receivables are due within 180 days from the date of billing.

- b) The ageing of bank bills receivables is within 180 days.

### 13. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	<b>As of 30 June 2015 RMB'000</b>	As of 31 December 2014 RMB'000
Pledged bank deposits	<b>13,257</b>	74,180
Cash and cash equivalents		
– Cash at banks and on hand	<b><u>244,550</u></b>	<u>67,059</u>
	<b><u>257,807</u></b>	<u>141,239</u>

*Note:*

- (i) Deposits at bank at 30 June 2015 and 31 December 2014 of RMB13,257,000 and RMB63,880,000 respectively, were pledged to banks for bills facilities. The pledged bank deposits will be released upon the settlement of relevant bills payables.
- (ii) Bank deposit of the Group as of 31 December 2014 of RMB10,300,000 were pledged to a bank for bank borrowings. This pledged bank deposit was released during the six months ended 30 June 2015 upon the repayment of bank borrowings.
- (iii) As at 30 June 2015 and 31 December 2014, cash and cash equivalents and pledged bank deposits placed with banks in the PRC amounted to RMB32,851,000 and RMB141,194,000, respectively. Remittance of funds out of the PRC is subject to relevant rules and regulations of foreign exchange control promulgated by the government of the PRC.

## 14. TRADE AND OTHER PAYABLES

	<b>As of 30 June 2015 RMB'000</b>	As of 31 December 2014 RMB'000
Trade creditors	39,084	28,617
Bills payable	44,187	107,524
Deposits received from customers	14,638	16,337
Salaries, wages and welfare payables	11,413	9,120
Other tax payables	5,497	8,080
Other payables and accrued expenses	<u>35,636</u>	<u>14,654</u>
	<u><b>150,455</b></u>	<u>184,332</u>

As of the end of each reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	<b>As of 30 June 2015 RMB'000</b>	As of 31 December 2014 RMB'000
Within 1 month	16,516	11,184
1 to 3 months	7,165	4,231
Over 3 months	<u>15,403</u>	<u>13,202</u>
	<u><b>39,084</b></u>	<u>28,617</u>

## 15. SHARE CAPITAL

	Six months ended 30 June 2015		Year ended 31 December 2014	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
<i>Authorised:</i>				
<b>Ordinary shares of HK\$0.001 each</b>				
At 1 January	230,000	230	230,000	230
Addition ( <i>note (i)</i> )	1,620,000	1,620	-	-
Series A convertible redeemable preferred shares reclassified to ordinary shares ( <i>note (iv)</i> )	100,000	100	-	-
Series B convertible redeemable preferred shares reclassified to ordinary shares ( <i>note (iv)</i> )	50,000	50	-	-
At 30 June/31 December	<u>2,000,000</u>	<u>2,000</u>	<u>230,000</u>	<u>230</u>

## 15. SHARE CAPITAL (Continued)

	Six months ended 30 June 2015			Year ended 30 December 2014		
	Number of shares '000	Nominal value of shares HK\$'000	Amount RMB'000	Number of Shares '000	Nominal value of shares HK\$'000	Amount RMB'000
<i>Ordinary shares, issued and fully paid:</i>						
At 1 January	703	1	1	703	1	1
Conversion of Series A convertible redeemable preferred shares to ordinary shares (note (ii))	257	-	-	-	-	-
Conversion of Series B convertible redeemable preferred shares to ordinary shares (note (iii))	40	-	-	-	-	-
	<u>297</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	1,000	1	1	703	1	1
Capitalization issue (note (v))	749,000	749	600	-	-	-
Issuance of shares under IPO, net of share issuance expenses (note (vi))	250,000	250	200	-	-	-
	<u>1,000,000</u>	<u>1,000</u>	<u>801</u>	<u>703</u>	<u>1</u>	<u>1</u>
At 30 June/31 December						

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 15. SHARE CAPITAL *(Continued)*

### *Notes:*

- (i) Pursuant to the written resolutions of all shareholders dated 26 May 2015, the authorised share capital of the Company was increased from HK\$380,000 to HK\$2,000,000 by the creation of an additional 1,620,000,000 shares of par value of HK0.001 each (ranking pari passu in all respects with the then existing issued shares) such that the authorised share capital of the Company became HK\$2,000,000 divided into 1,850,000,000 Shares, 100,000,000 Series A convertible redeemable preferred shares and 50,000,000 Series B convertible redeemable preferred shares.
- (ii) On 19 June 2015, 257,280 Series A convertible redeemable preferred shares were converted into 257,280 ordinary shares (which shall rank pari passu in all respects with the then existing issued ordinary shares) at a conversion rate of 1:1 share immediately prior to the Capitalization Issue as defined in note (v) below.
- (iii) On 19 June 2015, 40,000 Series B convertible redeemable preferred shares were converted into 40,000 ordinary Shares (which shall rank pari passu in all respects with the then existing issued ordinary shares) at a conversion rate of 1:1 share immediately prior to the Capitalization Issue as defined in note (v) below.
- (iv) Pursuant to a written resolution of the shareholders of the Company dated 26 May 2015, following the conversion of Series A convertible redeemable preferred shares and Series B convertible redeemable preferred shares, that part of the authorised share capital of the Company comprising 100,000,000 Series A convertible redeemable preferred shares be re-designated and re-classified into 100,000,000 ordinary shares and the share class of Series A convertible redeemable preferred shares shall cease to exist thereafter and that part of the authorised share capital of the Company comprising 50,000,000 Series B convertible redeemable preferred shares be re-designated and re-classified into 50,000,000 ordinary shares and the share class of Series B convertible redeemable preferred shares shall cease to exist thereafter (the "Re-designation"), such that following the Re-designation, the authorised share capital of the Company became HK\$2,000,000 divided into 2,000,000,000 Shares, all ranking pari passu in all respects with the then existing issued ordinary shares;
- (v) Pursuant to a written resolution of the shareholders of the Company dated 26 May 2015, the directors of the Company were authorised to allot and issue a total of 749,000,000 shares, by way of capitalisation of the sum of HK\$749,000 standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholders as appearing on the register of members of the Company immediately before the listing of the Company's shares on the Stock Exchange. The capitalization shares were allotted on 19 June 2015 and distributed, credited as fully paid at par.

## 15. SHARE CAPITAL (Continued)

Notes: (Continued)

- (vi) On 19 June 2015, the Company issued 250,000,000 shares of HK\$0.001 each at a price of HK\$1.22 per share (approximate to RMB0.98 per share) by way of an initial public offering. Proceeds of HK\$250,000 (approximate to RMB200,000), representing the par value of shares issued, were credited to the Company's share capital. The remaining proceeds of approximately HK\$285,448,000 (approximate to RMB228,614,000), after deducting share issuance expenses of approximately HK\$19,302,000 (approximate to RMB15,459,000), were credited to the share premium account.

## 16. CONVERTIBLE REDEEMABLE PREFERRED SHARES

As of 31 December 2014, the Company had 257,280 Series A convertible redeemable preferred shares of par value of HK\$0.001 each (the "Series A Shares") and 40,000 Series B convertible redeemable preferred shares of par value of HK\$0.001 each (the "Series B Shares") in issue.

The Series A Shares and the Series B Shares contain two components: a liability component and conversion option component.

The Group has elected to designate the Series A Shares and the Series B Shares with embedded derivatives as financial liabilities at fair value through profit or loss on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire Series A Shares and the Series B Shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

The movements of the Series A Shares and the Series B Shares are set out as below:

	RMB'000
<b>As of 1 January 2015</b>	<b>257,112</b>
Change in fair value	(37,471)
Exchange realignment	(324)
Conversion of Series A Shares and Series B Shares into ordinary shares	<u>(219,317)</u>
<b>As of 30 June 2015</b>	<u>—</u>

## 16. CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

	RMB'000
<b>As of 1 January 2014</b>	218,090
Changes in fair value	20,204
Exchange realignment	<u>5,436</u>
<b>As of 30 June 2014</b>	<u>243,730</u>
	As of
	31 December
	2014
	RMB'000
Analysed for reporting purpose as:	
Current liabilities	– 220,355
Non-current liabilities	– <u>36,757</u>
	– <u>257,112</u>

The Series A Shares and the Series B Shares were all converted into ordinary shares upon the Company's IPO on 19 June 2015. The fair values of the Series A Shares and Series B Shares at the date of conversions were estimated by the directors of the Company with reference to the issue price of ordinary share of HK\$1.22 (approximately RMB0.98) per share and the number of ordinary shares being converted (adjusted for the capitalization issue).

As at 31 December 2014, the estimation of fair value of convertible redeemable preferred shares was performed by Savills Valuation and Professional Services Limited, an independent professional valuer not connected with the Group.

The fair value of the Series A Shares and the Series B Shares is equal to the summation of the fair value of the liability component and the embedded derivatives calculated using discounted cash flows and option pricing method. The valuer has adopted an equity value allocation method known as option-pricing method. The valuer has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted an equity allocation method to determine the fair value of the Series A Shares and the Series B Shares as of 31 December 2014. The option-pricing method has commonly used the Black-Scholes model to price the call option, which assumes that conversion would only take place at the liquidity event date.

As at 30 June 2014, the estimation of fair value of convertible redeemable preferred shares was performed by the directors of the Company with the same valuation method adopted for the fair value as of 31 December 2014.

## 17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

### i) Financial instruments measured at fair value

The following table presents the fair value of financial instruments measured at fair value at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 “Fair Value Measurement”. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group engages an independent professional valuer performing valuations for the convertible redeemable preferred shares which are categorised into Level 3 of the fair value hierarchy. The professional valuer reports directly to the chief financial officer and the Company’s directors. Valuation reports with analysis of changes in fair value measurement are prepared by professional valuer at each annual reporting date, and are reviewed and approved by the chief financial officer and the Company’s directors. Discussion of the valuation process and results with the chief financial officer and the Company’s directors is held twice a year, to coincide with the reporting dates.

#### Fair value measurements categorised into Level 3

	As of 30 June 2015 RMB’000	As of 31 December 2014 RMB’000
<b>Recurring fair value measurements</b>		
Liability:		
Financial liability at fair value through profit or loss		
– Convertible redeemable preferred shares	–	257,112
	<hr/>	<hr/>

## 17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

### i) **Financial instruments measured at fair value** *(Continued)*

During the six months ended 30 June 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur. Upon Company's IPO on 19 June 2015, the convertible redeemable preferred shares liabilities in level 3 were converted to equity.

Information about Level 3 fair value measurements

	<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>
Convertible redeemable preferred shares designated as of fair value through profit or loss	Discounted cash flow method, Black-Scholes model	Expected volatility of 43.2%

An external valuer was appointed to prepare valuation of the Group's fair value of convertible redeemable preferred shares at 31 December 2014. The fair value of convertible redeemable preferred shares are determined using Black-Scholes model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement of convertible redeemable preferred shares is positively correlated to the expected volatility.

## 17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

### i) **Financial instruments measured at fair value** *(Continued)*

The movement during the period in the balance of these Level 3 fair value measurements are as follows:

	<b>Six months ended 30 June</b>	
	<b>2015</b>	2014
	<b>RMB'000</b>	RMB'000
At 1 January	<b>257,112</b>	218,090
Change in fair value	<b>(37,471)</b>	20,204
Exchange realignment	<b>(324)</b>	5,436
Conversion of Series A Shares and Series B Shares into ordinary shares	<b>(219,317)</b>	—
At 30 June	<b>—</b>	243,730
Total gain/(loss) for the periods included in profit or loss for liability held at the end of the reporting period:		
Gain/(loss) on change in fair value of convertible redeemable preferred shares	<b>37,471</b>	(20,204)
Total gains/(losses) for the periods included in other comprehensive income for liability held at the end of the reporting period:		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of functional currency to presentation currency	<b>324</b>	(5,436)

## 17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

### ii) Fair value of financial instruments carried at other than fair value

The directors of the Company consider that the carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as of 30 June 2015 and 31 December 2014.

## 18. OPERATING LEASE COMMITMENTS

As of 30 June 2015 and 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>As of 30 June 2015 RMB'000</b>	As of 31 December 2014 RMB'000
Within 1 year	<b>9,178</b>	9,026
After 1 year but within 5 years	<b>11,893</b>	16,875
	<b>21,071</b>	25,901

The Group is the lessee in respect of the Group's offices under operating leases. The leases typically run for an initial period of 1 to 8 years, with an option to renew when all terms are renegotiated. Lease payments are usually increased at the end of the lease term to reflect market rentals.

## 19. CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2015 and 31 December 2014 not provided for in the consolidated financial statements were as follows:

	<b>As of 30 June 2015 RMB'000</b>	As of 31 December 2014 RMB'000
Commitments for the acquisition of property, plant and equipment:		
– Contracted but not provided for	<b>4,999</b>	4,999

## 20. MATERIAL RELATED PARTY TRANSACTIONS

### Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors, is as follows:

	<b>Six months ended 30 June</b>	
	<b>2015 RMB'000</b>	2014 RMB'000
Salaries, wages and other benefits	<b>945</b>	240
Contributions to defined contribution retirement plans	<b>49</b>	24
	<b>994</b>	264

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the six months ended 30 June 2015, the Group recorded a total revenue of RMB451.6 million, representing an increase of approximately 12.2% from RMB402.4 million for the six months ended 30 June 2014. This increase was primarily due to growth in revenue from the Group's pharmaceutical distribution and pharmaceutical manufacturing segments, offset by the decrease in revenue from the Group's self-operated retail pharmacies segment.

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

The Group's cost of sales increased by approximately 15.3% from RMB306.3 million for the six months ended 30 June 2014 to RMB353.3 million for the six months ended 30 June 2015. This increase was primarily due to increases in cost of sales for the Group's pharmaceutical distribution segment and self-operated retail pharmacies segment.

The Group's gross profit increased by approximately 2.3% from RMB96.1 million for the six months ended 30 June 2014 to RMB98.4 million for the six months ended 30 June 2015. The Group's gross margin decreased from 23.9% for the six months ended 30 June 2014 to 21.8% for the six months ended 30 June 2015. Such decrease is primarily attributable to a change in the product mix for the Group's pharmaceutical distribution segment in order to capture more market share with increased sales volume.

### Selling and Distribution Expenses

The Group's selling and distribution expenses decreased by 4.1% from RMB17.5 million for the six months ended 30 June 2014 to RMB16.7 million for the six months ended 30 June 2015. This decrease was primarily due to (i) a decrease in rent and management fees and business promotion expenses due to the preparation of closure for some of the Group's retail pharmacy stores in Chengdu, which were partially offset by an increase in salary and welfare benefits due to the increase in the number of pharmacists employed by the Group and an increase in depreciation and amortization expenses in relation to the implementation of the "Remote Prescription Review" system. Upon installation of this system, one pharmacist is able to oversee 25 stores at the same time and provide prescription review and consulting services to end consumers at those stores, which we believe will enhance the operational efficiency of our retail pharmacy stores.

### **General and Administrative Expenses**

The Group's general and administrative expenses increased by approximately 20.2% from RMB25.8 million for the six months ended 30 June 2014 to RMB31.0 million for the six months ended 30 June 2015. This increase was primarily due to an increase in the professional and audit fees in connection with the listing of the shares of the Company on the Stock Exchange, which were partially offset by a decrease in depreciation and amortization expenses that were higher for the six months ended 30 June 2014 due to disposals of the Group's old office buildings.

### **Other Revenue**

Other revenue increased by 33.0% from RMB8.6 million for the six months ended 30 June 2014 to RMB11.4 million for the six months ended 30 June 2015. This increase was primarily due to (i) the increase in franchise fees as a result of the implementation of the "Remote Prescription Review" system and the increase in the total number of franchise retail pharmacy stores under the brand of the Group; and (ii) the increase in the Group's bank interest income from subscription funds during the IPO of the Group.

### **Profit from Operations and Operating Margin**

As a result of the foregoing, the Group's profit from operations increased by approximately 4.3% from RMB59.4 million for the six months ended 30 June 2014 to RMB62.0 million for the six months ended 30 June 2015. The Group's operating margin decreased from 14.8% for the six months ended 30 June 2014 to 13.7% for the six months ended 30 June 2015.

### **Finance Costs**

Finance costs decreased by approximately 52.6% from RMB4.6 million for the six months ended 30 June 2014 to RMB2.2 million for the six months ended 30 June 2015. This decrease was primarily due to the decrease in bills charges resulting from discount costs relating to the bills receivable of the Group and the decrease in interest expense relating to less bank borrowings.

### **Change in Fair Value on Convertible Redeemable Preferred Shares**

The Company had fair value loss of convertible redeemable preferred shares of RMB20.2 million for the six months ended 30 June 2014 due to the increase in the equity value of the Company. Upon the completion of the IPO in June 2015, the Company's convertible redeemable preferred shares had automatically converted into our ordinary shares on a one-to-one basis, resulting in a fair value gain of RMB37.5 million for the six months ended 30 June 2015. There will be no fair value gain or loss associated with our convertible redeemable preferred shares for any financial period after the Date of Listing.

### **Profit before Taxation**

Profit before income tax increased by approximately 180.6% from RMB34.7 million for the six months ended 30 June 2014 to RMB97.3 million for the six months ended 30 June 2015. This increase was primarily due to the significant gain from the change in fair value on convertible redeemable preferred shares, an increase in the Group's profit from operations, and a decrease in the finance costs of the Group.

### **Income Tax Expense**

Income tax expense remains stable at RMB14.5 million for the six months ended 30 June 2014 and 30 June 2015.

### **Profit for the Year and Net Profit Margin**

As a result of the foregoing, the Group's profit for the year increased by approximately 310.6% from RMB20.2 million for the six months ended 30 June 2014 to RMB82.8 million for the six months ended 30 June 2015. The Group's net profit margin increased from 5.0% for the six months ended 30 June 2014 to 18.3% for the six months ended 30 June 2015.

## **BUSINESS REVIEW AND OUTLOOK**

The Group currently operates three major business segments, namely (1) pharmaceutical distribution, (2) self-operated retail pharmacies, and (3) pharmaceutical manufacturing.

### **Pharmaceutical Distribution**

For the six months ended 30 June 2015, segment revenue from pharmaceutical distribution amounted to RMB367.1 million, representing an increase of approximately 12.2% from RMB327.2 million in the corresponding period of 2014. This increase was primarily due to (i) the expansion in market share attributable to growth in sales volume to wholesalers achieved by product mix adjustment and product promotion campaign; and (ii) increase in the Group's sales to hospitals and other medical institutions in rural areas as a result of our increased market development efforts, as partially offset by the decrease in revenue from sales to franchise retail pharmacy chain stores.

### **Self-operated Retail Pharmacies**

As at 30 June 2015, the Group operated eight, 12 and seven retail pharmacies in Sichuan, Hebei and Hubei regions, respectively. The self-operated retail pharmacies of the Group offered various types of products which included prescription drugs, over-the-counter medicines, healthcare products, medical products and medical devices. For the six months ended 30 June 2015, segment revenue from the self-operated retail pharmacies amounted to RMB8.1 million, representing a decrease of approximately 43.2% from RMB14.3 million in the corresponding period of 2014. Such decrease was mainly attributable to the overall layout replanning for the expansion and long-term development of the self-operated retail pharmacies segment, and the launch of an initiative to relocate or close down those self-operated retail pharmacies of which the profitability, upon assessment, was determined as below standard. Furthermore, some of the self-operated retail pharmacies were required to undergo internal restructure and reform in view of the newly promulgated and more stringent GSP standards.

## Pharmaceutical Manufacturing

The Group established its production base in Chengdu, Sichuan, where it manufactures and offers six products, namely Zhenghonghua embrocation (正紅花油), Honghua embrocation (紅花油), Baihua embrocation (白花油), Compound Dexamethasone Acetate Cream (複方醋酸地塞米松乳膏), Antipruritic Ointment for Cicatrix (疤痕止癢軟化乳膏) and Ampicillin Capsules (氨苄西林膠囊). For the six months ended 30 June 2015, the segment revenue generated from pharmaceutical manufacturing business amounted to RMB80.8 million, representing an increase of approximately 8.2% from RMB74.7 million in the corresponding period of 2014. The growth was mainly attributable to the reshuffle exercise on the sales team of the Group during the first half of 2015, where some staff members in the sales team who had been responsible for out-of-province distribution business were reassigned to specifically handle sale of pharmaceutical products manufactured by the Group in order to strengthen the sale of such products.

## Future Prospects

Notwithstanding the continuing slow down in economic growth of the PRC and that the pharmaceutical sector is under pressure from various aspects in operation, there should be plenty of opportunities in development ahead for the pharmaceutical industry in the PRC in view of the macro-economic conditions include, but not limited to, the accelerated aging population and substantial growth in national household disposable income. As a newly listed corporation on the Stock Exchange in 2015, leveraging on the proceeds from the IPO, the Group will strive to explore and identify new business opportunities with good potential of growth, thereby paving its path for long-term development.

To support the business expansion plans of the Group and meet its warehousing, logistics and distribution needs, the Group is planning to build a modernised pharmaceutical logistics center in Chengdu, Sichuan. It is expected that approvals from local government would be obtained and that construction work of the logistic centre buildings would be commenced in the first half of 2016.

On the self-operated retail pharmacies segment, the Group has been careful in selecting its store sites to maximise consumer traffic, store visibility and convenience for customers. On the other hand, the newly promulgated and effective GSP standards has brought both challenges and opportunities to the industry. The Group will closely monitor the development of the new regulations, and consider making relevant acquisitions or opening new pharmacies in a prudent and progressive manner. The Group will continue to develop its retail pharmacies network and look for appropriate acquisition opportunities for suitable retail pharmacies.

## **LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES**

The Group had total cash and cash equivalents of RMB244.6 million as at 30 June 2015 as compared to RMB67.1 million as at 31 December 2014.

The Group recorded net current assets of RMB583.6 million and RMB106.6 million as at 30 June 2015 and 31 December 2014 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 3.92 as at 30 June 2015, as compared to 1.23 as at 31 December 2014.

As at 30 June 2015, the total amount of bank loans was RMB30.0 million, as compared to RMB50.0 million as at 31 December 2014.

## **CONTINGENT LIABILITIES**

As at 30 June 2015, the Group did not have any significant contingent liabilities.

## OTHER INFORMATION

### FOREIGN EXCHANGE RISKS

The functional currency of the Group is Renminbi while a portion of funds raised by the Group from the IPO 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 dollar. 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 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 2015, the Group did not make any significant investments, acquisitions or disposals.

### USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of the Stock Exchange on 19 June 2015. The total net proceeds from the IPO amounted to approximately HK\$249.5 million (equivalent to approximately RMB199.6 million). As of 30 June 2015, the Company did not use any of the proceeds from the IPO, and all the proceeds were deposited in licensed banks in Hong Kong and the PRC.

### HUMAN RESOURCES

As at 30 June 2015, the Group had a total of 440 staff, primarily in the PRC. The total staff cost was RMB13.8 million for the first half of 2015.

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.

## **DIVIDEND**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2015.

## **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 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code of corporate governance. From the date of listing on the Hong Kong Stock Exchange and up to the date of this report, the Company has complied with the code provisions set out in the CG Code save for disclosed below.

Code provision A.2.1 of the CG Code stipulates that the notes of chairman and chief executive officer 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 Group. 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 our senior management, which comprise experienced and high caliber individuals. The Board currently comprises four executive Directors, two non-executive Directors 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 without limitation) 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 of the Company, 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 information for the six months ended 30 June 2015.

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

All Directors have confirmed that they complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules throughout the reporting period.

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

During the six months ended 30 June 2015, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

### **CONTROLLING SHAREHOLDERS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Save as disclosed under the "Material Related Party Transactions" in note 20 to the Condensed Consolidated Interim Financial Information set out in this report, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director or a controlling shareholder had a material interest in, whether directly or indirectly, subsisted at the end of the six months ended 30 June 2015 or at any time during the period.

## DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 30 June 2015, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

### Long positions in the Company

Name of Director	Capacity/ nature of interest	Number of shares <i>(Note 3)</i>	Approximate percentage of shareholding
Mr. Chen Yenfei <i>(Note 1)</i>	Interest of a controlled corporation	488,040,000	48.80%
Mr. Li Ho Tan <i>(Note 2)</i>	Interest of a controlled corporation	210,560,000	21.06%

#### Notes:

1. Mr. Chen Yenfei holds 100% of the issued share capital of Praise Treasure Limited and is therefore deemed to be interested in the 488,040,000 Shares held by Praise Treasure Limited in the Company.
2. Mr. Li Ho Tan is interested in 47% of the issued share capital of advance Apex Limited and the entire issued share capital of Jumbo Success Holdings Limited, both incorporated in the British Virgin Islands, and therefore is deemed to be interested in the 192,960,000 Shares and 17,600,000 Share which Advance Apex Limited and Jumbo Success Holdings Limited hold respectively.

## Long positions in associated corporations

Name of director	Name of associated corporation	Capacity/ Nature of interest	Amount of registered capital interested	Approximate percentage of shareholding
Mr. Su Si	Hebei Chun Sheng Tang Chain Store Co., Ltd. (河北春生堂 大藥房連鎖有限公司)	Beneficial owner	RMB900,000	18%

Save as disclosed above, as at 30 June 2015, none of the Directors and chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they had taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PARTIES IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 30 June 2015, so far as the directors and chief executive of the Company were aware, the following persons and corporations (excluding the directors and chief executive of the Company) had interests or short positions in any of the shares or underlying shares of the Company which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who, directly or indirectly, is interested in 10% or more of the nominal value of any class of share capital to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Capacity/ nature of interest	Number of shares held <i>(Note 4)</i>	Approximate percentage of issued share capital
Praise Treasure Limited <i>(Note 1)</i>	Beneficial owner	488,040,000 (L)	48.80%
Advance Apex Limited <i>(Note 2)</i>	Beneficial owner	192,960,000 (L)	19.30%
Mr. Cheung Chi Mang <i>(Note 2)</i>	Interest of a controlled corporation	192,960,000 (L)	19.30%

Notes:

1. Praise Treasure Limited directly holds 488,040,000 shares representing 48.80% of the issued share capital of the Company.
2. Advance Apex Limited directly holds 192,960,000 shares representing 19.30% of the issued share capital of the Company. Mr. Cheung Chi Mang is interested in 50% of the issued share capital of Advance Apex Limited and is deemed to be interested in the 192,960,000 shares.
3. The letter "L" denotes the Director's long position in the shares of the Company.

By order of the Board of Directors  
**Pa Shun Pharmaceutical International Holdings Limited**  
**Mr. Chen Yenfei**  
陳燕飛  
Chairman

Hong Kong, 28 August 2015