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百信集团
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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The board (the "**Board**") of directors (the "**Directors**") of Pa Shun Pharmaceutical International Holdings Limited (the "**Company**") is pleased to announce the annual results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016 together with the comparative figures for the corresponding period in 2015. The Group's annual results are audited, and have been reviewed by the audit committee of the Company (the "**Audit Committee**").

ANNUAL RESULTS HIGHLIGHTS

- Revenue amounted to approximately RMB860,574,000 (2015: approximately RMB867,963,000).
- Profit for the year amounted to approximately RMB7,675,000 (2015: approximately RMB84,886,000).
- Basic and diluted earnings per share were RMB0.77 cent and RMB0.76 cent, respectively (2015: RMB11.31 cents and RMB5.74 cents).
- The Board does not recommend the payment of any final dividend for the year ended 31 December 2016 (2015: HK3 cents).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016

		Year ended 31 December	
		2016	2015
	NOTES	***RMB'000***	*RMB'000*
Revenue	*2*	**860,574**	867,963
Cost of sales		**(746,626)**	(702,698)
Gross profit		**113,948**	165,265
Other income and gains	*3(a)*	**24,985**	22,534
Other net loss	*3(b)*	**(42,460)**	(28,539)
Selling and distribution expenses		**(14,083)**	(25,569)
General and administrative expenses		**(51,433)**	(53,118)
Gain on change in fair value of convertible redeemable preferred shares		**–**	37,471
Impairment of goodwill		**–**	(1,295)
Finance costs	*4*	**(2,516)**	(3,743)
Profit before tax	*5*	**28,441**	113,006
Income tax expense	*6*	**(20,766)**	(28,120)
Profit for the year		**7,675**	84,886
Attributable to:			
Equity shareholders of the Company		**7,675**	88,257
Non-controlling interests		**–**	(3,371)
Profit for the year		**7,675**	84,886
Earnings per share *(in RMB cents)*	*8*		
Basic		**0.77**	11.31
Diluted		**0.76**	5.74

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**7,675**	84,886
Other comprehensive income for the year		
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**")	**(284)**	8,373
Total comprehensive income for the year	**7,391**	93,259
Attributable to:		
Equity shareholders of the Company	**7,391**	96,630
Non-controlling interests	**–**	(3,371)
Total comprehensive income for the year	**7,391**	93,259

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**56,853**	59,451
Prepaid land lease payments		**2,214**	2,249
Other intangible assets		**3,103**	814
Prepayments for intangible assets		**20,000**	29,000
Other non-current assets		**159,683**	94,895
Deferred tax assets		**3,968**	6,173
		245,821	192,582
CURRENT ASSETS			
Inventories		**77,497**	67,894
Financial assets at fair value through profit or loss		**–**	2,619
Trade and other receivables	*9*	**343,281**	329,620
Prepayments and deposits paid		**185,192**	82,174
Derivative financial instruments		**7,567**	–
Amounts due from related parties		**357**	–
Pledged bank deposits		**92,122**	95,479
Cash and cash equivalents		**148,650**	116,334
		854,666	694,120
Assets of a disposal group classified as held-for-sale		**–**	14,594
		854,666	708,714
CURRENT LIABILITIES			
Trade and other payables	*10*	**193,309**	121,824
Bank borrowings		**14,009**	15,000
Amount due to a director		**–**	222
Amounts due to related parties		**176**	35
Corporate bonds payable		**135**	–
Income tax payable		**10,812**	13,346
		218,441	150,427
Liabilities of a disposal group classified as held-for-sale		**–**	1,728
		218,441	152,155
NET CURRENT ASSETS		**636,225**	556,559
TOTAL ASSETS LESS CURRENT LIABILITIES		**882,046**	749,141

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Deferred income – government grant		**25,588**	26,471
Corporate bonds payable		**15,484**	–
Convertible bonds		**116,206**	–
		157,278	26,471
NET ASSETS		**724,768**	722,670
CAPITAL AND RESERVES			
Share capital		**801**	801
Reserves		**723,967**	724,179
Total equity attributable to equity shareholders of the Company		**724,768**	724,980
Non-controlling interests		**–**	(2,310)
TOTAL EQUITY		**724,768**	722,670

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**"), accounting principles generally accepted in Hong Kong and are in compliance with the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have 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 "**Stock Exchange**").

New and revised HKFRSs

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"):

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations

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 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

[1] *Effective for annual periods beginning on or after 1 January 2017*

[2] *Effective for annual periods beginning on or after 1 January 2018*

[3] *Effective for annual periods beginning on or after 1 January 2019*

[4] *Effective for annual periods beginning on or after a date to be determined*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued on 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("**FVTOCI**") measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset and give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designed as at fair value through profit or loss, HKFRS 9 requires that amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types or transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the application of HKFRS 9 in the future may have significant impacts on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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 amount of each significant segment of revenue is as follows:

	2016	2015
	RMB'000	*RMB'000*
Pharmaceutical distribution	**774,230**	740,092
Self-operated retail pharmacies	**934**	8,321
Pharmaceutical manufacturing	**85,410**	119,550
	860,574	867,963

(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 maker, 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.

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 2016 and 2015 and the principal assets employed by the Group were located in the PRC as at 31 December 2016 and 2015. Accordingly, no analysis by geographical information is provided for the years ended 31 December 2016 and 2015.

No analysis of the Group's assets and liabilities by operating segments was regularly provided to the chief operating decision maker for review during the years ended 31 December 2016 and 2015 for the purposes of resource allocation and assessment of segment performance.

The Group's customer base is diversified, thus no single customer of the Group contributed 10% or more of the Group's revenue for the years ended 31 December 2016 and 2015.

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

(i) Segment revenue and results

Segment information regarding the Group's revenue and results as provided to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

	Year ended 31 December 2016						
	Pharmaceutical distribution						
	Sales to wholesalers *RMB'000*	**Sales to franchise retail pharmacy chain stores** *RMB'000*	**Sales to hospitals and other medical institutions in rural areas** *RMB'000*	**Sub-total** *RMB'000*	**Self-operated retail pharmacies** *RMB'000*	**Pharmaceutical manufacturing** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	**592,960**	**109,589**	**71,681**	**774,230**	**934**	**85,410**	**860,574**
Inter-segment revenue	**–**	**1,184**	**–**	**1,184**	**–**	**1,234**	**2,418**
Reportable segment revenue	**592,960**	**110,773**	**71,681**	**775,414**	**934**	**86,644**	**862,992**
Reportable segment profit/(loss)	**25,220**	**24,255**	**17,842**	**67,317**	**(326)**	**46,891**	**113,882**
Other segment information							
Depreciation and amortisation	**–**	**–**	**–**	**–**	**–**	**585**	**585**

	Year ended 31 December 2015						
	Pharmaceutical distribution						
	Sales to wholesalers *RMB'000*	Sales to franchise retail pharmacy chain stores *RMB'000*	Sales to hospitals and other medical institutions in rural areas *RMB'000*	Sub-total *RMB'000*	Self-operated retail pharmacies *RMB'000*	Pharmaceutical manufacturing *RMB'000*	Total *RMB'000*
Revenue from external customers	493,893	149,763	96,436	740,092	8,321	119,550	867,963
Inter-segment revenue	–	1,308	–	1,308	–	4,311	5,619
Reportable segment revenue	493,893	151,071	96,436	741,400	8,321	123,861	873,582
Reportable segment profit	20,155	47,237	20,056	87,448	2,191	75,847	165,486
Other segment information							
Depreciation and amortisation	–	–	–	–	–	493	493

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

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**862,992**	873,582
Elimination of inter-segment revenue	**(2,418)**	(5,619)
Consolidated revenue	**860,574**	867,963
Profit		
Reportable segment profit	**113,882**	165,486
Elimination of inter-segment loss/(profit)	**66**	(221)
Gross profit derived from external customers	**113,948**	165,265
Other income and gains	**24,985**	22,534
Other net loss	**(42,460)**	(28,539)
Selling and distribution expenses	**(14,083)**	(25,569)
General and administrative expenses	**(51,433)**	(53,118)
Gain on change in fair value of convertible redeemable preferred shares	**–**	37,471
Impairment of goodwill	**–**	(1,295)
Finance costs	**(2,516)**	(3,743)
Consolidated profit before tax	**28,441**	113,006
Other items		
Depreciation and amortisation		
Reportable segment total	**585**	493
Unallocated total	**7,145**	9,210
Consolidated total	**7,730**	9,703

3. OTHER INCOME AND GAINS AND OTHER NET LOSS

(a) Other income and gains

	2016	2015
	RMB'000	*RMB'000*
Franchise fee	**10,464**	17,414
Bank interest income	**187**	2,182
Net foreign exchange gains	**2,210**	–
Gain on disposal of property, plant and equipment	**3**	–
Gain on disposal of a subsidiary	**9,765**	–
Gain on change in fair value of derivative financial instruments	**54**	–
Rental income	**–**	465
Deferred income – government grant	**883**	883
Others	**1,419**	1,590
	24,985	22,534

(b) Other net loss

	2016	2015
	RMB'000	*RMB'000*
Impairment loss on:		
Inventories	**2,380**	–
Trade receivables	**4,680**	8,953
Other receivables *(note i)*	**6,941**	16,047
Amount due from former subsidiary	**17,079**	–
Loss on change in fair value of financial assets at fair value through profit or loss	**2,619**	–
Loss on disposal of property, plant and equipment	**590**	1,852
Loss on issue of convertible bonds	**8,171**	–
Recovery of other receivables written off in prior years	**–**	(66)
Net foreign exchange loss	**–**	1,753
	42,460	28,539

(i) The Directors considered it appropriate to recognise impairment losses on other receivables of RMB6,941,000 (2015: RMB16,047,000) in light of that these receivables remained long outstanding for over one year without any settlement during the year and that some other receivables were due from debtors with financial difficulties.

4. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings	**1,349**	2,721
Bank overdrafts	**6**	–
Corporate bonds payable	**36**	–
Convertible bonds	**135**	–
Other borrowings	**240**	–
Bills charges and other bank charges	**750**	1,022
	2,516	3,743

5. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

	2016	2015
	RMB'000	RMB'000
Cost of inventories *(note i)*	**746,625**	702,698
Salaries, wages and other benefits	**31,163**	21,906
Contributions to defined contribution retirement plans	**1,837**	3,919
Total staff costs *(note ii)*	**33,000**	25,825
Amortisation of intangible assets	**779**	576
Amortisation of prepaid land lease payments	**72**	110
Depreciation of property, plant and equipment	**6,879**	9,017
Auditors' remuneration		
Audit services	**1,000**	1,500
Non-audit services	**204**	42
Operating lease charges in respect of property rentals	**3,459**	8,243
Research and development expenses	**1,299**	–
Equity-settled share-based payments *(note iii)*	**10,683**	–

(i) Cost of inventories include staff costs, depreciation and amortisation expenses totalled RMB1,476,000 (2015: RMB1,513,000) which are also included in the respective total amounts disclosed separately above.

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

(iii) Equity-settled share-based payments exclude such payments included in directors' emoluments which amounted to RMB914,000 (2015: Nil).

6. INCOME TAX EXPENSE

	2016	2015
	RMB'000	*RMB'000*
Current tax – PRC Enterprise Income Tax		
Provision for the year	**18,562**	28,242
Deferred tax		
Origination and reversal of temporary differences	**2,204**	(122)
	20,766	28,120

(i) The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and 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) The Group's PRC subsidiaries are subject to PRC Enterprise Income Tax at the statutory rate of 25% (2015: 25%).

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

7. DIVIDEND

	2016	2015
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year:		
2015 final dividend of HK3 cents per share paid (2015: Nil)	**30,000**	–
	30,000	–

No interim dividend was declared by the Company during the year (2015: Nil). The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2016 (2015: HK3 cents per share in respect of the year ended 31 December 2015).

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB7,675,000 (2015: RMB88,257,000) and the weighted average of approximately 1,000,000,000 ordinary shares (2015: approximately 780,319,000 ordinary shares in issue).

The weighted average number of ordinary shares in issue for the year ended 31 December 2015 is based on the assumption that 525,542,000 ordinary shares of the Company were in issue, comprising 703,000 ordinary shares in issue and 524,839,000 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, and 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**").

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB7,643,000 (2015: RMB50,786,000) and the weighted average of approximately 1,001,311,000 ordinary shares (2015: 884,246,000 ordinary shares), in issue and issuable, as follows:

(i) Earnings

	2016	2015
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share	**7,675**	88,257
Effect of diluted potential ordinary shares:		
Interest on convertible bonds	**22**	–
Gain on change in fair value of derivative financial instruments	**(54)**	–
Gain on change in fair value on convertible redeemable preferred shares	**–**	(37,471)
Earnings for the purpose of diluted earnings per share	**7,643**	50,786

(ii) Number of shares

	2016	2015
	Number of shares	Number of shares
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,000,000**	780,319
Effect of conversion of convertible bonds	**1,311**	–
Effect of conversion of Series A convertible redeemable preferred shares	**–**	89,343
Effect of conversion of Series B convertible redeemable preferred shares	**–**	14,584
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,001,311**	884,246

9. TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**287,698**	273,861
Bills receivables	**6**	1,444
Other receivables	**55,577**	54,315
	343,281	329,620

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, based on dates of delivery and net of allowance for doubtful debts, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	**82,524**	88,896
1 to 3 months	**101,697**	108,512
4 to 6 months	**58,500**	62,231
Over 6 months	**44,977**	14,222
	287,698	273,861

An average credit period of 30 to 180 days is granted to customers.

10. TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**61,447**	37,023
Bills payables	**99,725**	53,901
Other payables, deposits received and accrued expenses	**32,137**	30,900
	193,309	121,824

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

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	**15,850**	13,915
1 to 3 months	**8,575**	4,812
Over 3 months	**37,022**	18,296
	61,447	37,023

The credit terms granted by suppliers is 30 days.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to focus on the pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing businesses in the PRC during the year ended 31 December 2016.

Revenue

For the year ended 31 December 2016, the Group recorded a total revenue of RMB860.6 million, representing a decrease of approximately 0.9% from RMB868.0 million for the year ended 31 December 2015. This decrease was primarily due to the growth in revenue from the Group's pharmaceutical distribution segment, offset by the decrease in revenue from the Group's self-operated retail pharmacies and pharmaceutical manufacturing segments.

Cost of Sales, Gross Profit and Gross Margin

The Group's cost of sales increased by approximately 6.2% from RMB702.7 million for the year ended 31 December 2015 to RMB746.6 million for the year ended 31 December 2016. This increase was primarily due to increases in cost of sales for the Group's pharmaceutical distribution segment.

The Group's gross profit decreased by approximately 31.1% from RMB165.3 million for the year ended 31 December 2015 to RMB113.9 million for the year ended 31 December 2016. The Group's gross margin decreased from 19.0% for the year ended 31 December 2015 to 13.2% for the year ended 31 December 2016. Such decrease is primarily attributable to the higher contribution from the pharmaceutical distribution segment which had a lower margin than those of other segments.

Selling and Distribution Expenses

The Group's selling and distribution expenses decreased by 44.9% from RMB25.6 million for the year ended 31 December 2015 to RMB14.1 million for the year ended 31 December 2016. This decrease was primarily due to a decrease in salary and welfare, rent and management fees and business promotion expenses due to the closure of some of the Group's retail pharmacy stores.

General and Administrative Expenses

The Group's general and administrative expenses decreased by approximately 3.2% from RMB53.1 million for the year ended 31 December 2015 to RMB51.4 million for the year ended 31 December 2016. This decrease was primarily due to absence of the professional fees in connection with the listing of the shares of the Company on the Stock Exchange in 2016, offset by an increase in expenses in relation to the grant of share options.

Other Income and Gains

Other income and gains increased by 11.1% from RMB22.5 million for the year ended 31 December 2015 to RMB25.0 million for the year ended 31 December 2016. This increase was primarily due to the gain on disposal of Hebei Chun Sheng Tong Chain Store Co., Ltd., a former subsidiary of the Company, which was offset by the decrease in franchise fee income, in 2016.

Other Net Loss

Other net loss increased from RMB28.5 million for the year ended 31 December 2015 to RMB42.5 million for the year ended 31 December 2016. This increase was primarily due to impairment losses on amount due from former subsidiary, as well as loss on issue of convertible bonds, in 2016.

Change in Fair Value on Convertible Redeemable Preferred Shares

Upon the completion of the initial public offering ("**IPO**") of the Company in June 2015, the Company's convertible redeemable preferred shares had been automatically converted into the ordinary shares of the Company on a one-to-one basis, resulting in a fair value gain of RMB37.5 million recognised for the year ended 31 December 2015. There was no fair value gain or loss associated with the Company's convertible redeemable preferred shares for any financial period after the date of the listing of the ordinary shares of the Company on the Stock Exchange.

Finance Costs

Finance costs decreased by approximately 32.4% from RMB3.7 million for the year ended 31 December 2015 to RMB2.5 million for the year ended 31 December 2016. This decrease was primarily due to the decrease in interest expense as a result of smaller average bank borrowing balance during the year ended 31 December 2016 and the decrease in bills charges and other bank charges resulting from the bills receivables of the Group.

Profit before Tax

Profit before tax decreased by approximately 74.9% from RMB113.0 million for the year ended 31 December 2015 to RMB28.4 million for the year ended 31 December 2016. This decrease was primarily due to (i) the significant gain from the change in fair value on convertible redeemable preferred shares in the amount of RMB37.5 million for the year ended 31 December 2015, (ii) the decrease in gross profit for the year ended 31 December 2016 and (iii) the increase in other losses disclosed above.

Income Tax Expense

Income tax expense decreased by 26.0% from RMB28.1 million for the year ended 31 December 2015 to RMB20.8 million for the year ended 31 December 2016. This decrease was primarily due to the decrease in taxable income from the PRC subsidiaries of the Company.

Profit for the Year and Net Profit Margin

As a result of the foregoing, the Group's profit for the year decreased by approximately 90.9% from RMB84.9 million for the year ended 31 December 2015 to RMB7.7 million for the year ended 31 December 2016. The Group's net profit margin decreased from 9.8% for the year ended 31 December 2015 to 0.9% for the year ended 31 December 2016.

BUSINESS REVIEW

In 2016, the Group's revenue generated by the pharmaceutical distribution segment amounted to RMB774.2 million, representing an increase of approximately 4.6% as compared with RMB740.0 million in 2015. Such increase was primarily attributable to the increase of the revenue from the sales to other wholesalers, though the overall growth of this segment was offset by the reduction in revenue from the sales to franchise retail chain pharmacies and to the hospitals and other medical institutions in rural areas.

The Group's revenue generated by the self-operated retail pharmacies segment was RMB0.9 million in 2016, representing a decrease of approximately 89.2% as compared with RMB8.3 million in 2015. Such decrease was mainly attributable to (i) the sale of Hebei Chun Sheng Tang Chain Store Co., Ltd., a former subsidiary of the Company; and (ii) the closure of the Group's self-operated retail pharmacies in Chengdu and Wuhan which failed to meet the earnings targets upon assessment.

In 2016, the Group's revenue from the pharmaceutical manufacturing segment amounted to RMB85.4 million, representing a decrease of approximately 28.6% from RMB119.6 million in 2015. Such decrease was mainly attributable to the sluggish market for traditional embrocation products.

PROSPECTS

During the reporting period, China's economy continued to enter into the new normal（新常態）. On the back of the full-scale advance of pharmaceutical and health system reforms by the Chinese government, the pharmaceutical industry ushered in new opportunities and challenges. The Ministry of Commerce of China issued in 2016 the National Development Plan for the Pharmaceutical Distribution Industry (2016-2020), aiming at guiding the reform and development of the pharmaceutical distribution industry and pushing the pharmaceutical distribution industry to accelerate transformation. In addition, the implementation of the "Two-Invoice System" in the PRC, which aims to reducing the number of layers between drug manufacturers and medical institutions, is expected to force the pharmaceutical distribution industry to integrate, resulting in concentration of the pharmaceutical distribution industry.

The pharmaceutical industry is highly competitive but it also gives rise to new opportunities for development. Leveraging a solid foundation in the southwest region of China, the Group will further seek appropriate opportunities to consolidate its market position. China's business environment is constantly changing with rapid development of science and technology and the Group should make good use of its existing resources and networks to seize the opportunity of extending to other areas of innovation for development. Under the leadership of an experienced and dedicated management team, the Group will continue to implement the following business development strategies so as to maintaining growth and achieving better returns:

– accelerating the construction of an international logistics centre to improve the operational efficiency of the pharmaceutical distribution business;

– optimizing the product structure to expand the range of products, including Chinese herbal medicines;

– strengthening online and offline publicity and marketing activities to enhance brand awareness; and

– continuing to identify potential mergers and acquisitions opportunities to improve the Group's profitability.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group had total cash and cash equivalents of RMB148.7 million as at 31 December 2016 as compared with RMB116.3 million as at 31 December 2015.

The Group recorded net current assets of RMB636.2 million and RMB556.6 million as at 31 December 2016 and 31 December 2015 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 3.91 as at 31 December 2016, as compared with 4.66 as at 31 December 2015.

As at 31 December 2016, the total amount of bank loans was RMB14.0 million, as compared with RMB15.0 million as at 31 December 2015.

As at 31 December 2016, the total number of issued ordinary shares of the Company was 1,000,000,000 shares (31 December 2015: 1,000,000,000 shares) (the "**Shares**"). During the year under review, 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. No share options of the Company were exercised during the year under review. Please refer to the announcement of the Company dated 8 July 2016 for details of the grant of the Options.

On 15 December 2016, the Company entered into a convertible bonds subscription agreement ("**Subscription Agreement**") with, among others, Chance Talent Management Limited ("**Purchaser**"), pursuant to which, on 29 December 2016, the Company has issued to the Purchaser (a) the 4% secured guaranteed convertible bonds in the principal amount of HK$72,000,000 which entitle the holders thereof to convert the outstanding principal amount of such bonds into Shares at the initial conversion price of HK$0.6 per Share ("**Series 1 CB**"); and (b) the 4% secured guaranteed convertible bonds in the principal amount of HK$48,000,000 which entitle the holders thereof to convert the outstanding principal amount of such bonds into Shares at the initial conversion price of HK$1.2 per Share ("**Series 2 CB**", collectively with Series 1 CB as the "**Convertible Bonds**"). Details of the Convertible Bonds are set out in the Company's announcements dated 15 December 2016 and 29 December 2016.

For the year ended 31 December 2016, the Company issued 8 batches of unsecured corporate bonds, with principal amount of RMB22.0 million, to various independent third parties at par value, bearing coupon rate of 7% per annum and with maturity periods from 3 to 7.5 years.

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 under review.

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 and convertible bonds, less cash and cash equivalents and pledged bank deposits. At at 31 December 2016, the Group's gearing ratio was -15.8% (2015: -37.4%).

CONTINGENT LIABILITIES

As at 31 December 2016, 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 the IPO 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 2016, the Group did not make any significant investments, acquisitions or disposals that would constitute a discloseable transaction under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

HUMAN RESOURCES

As at 31 December 2016, the Group had a total of 274 staff, primarily in the PRC. The total staff cost was RMB33.0 million for the year ended 31 December 2016.

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 IPO

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). Part of the Net Proceeds were applied during the year under review in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 9 June 2015 (the "**Prospectus**"). As at 31 December 2016, the Group had utilised HK$133.7 million of the Net Proceeds and the unutilised Net Proceeds amounted to HK$115.8 million.

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

Use of net proceeds	**Available to use**	**Utilised (as at 31 December 2016)**	**Unutilised (as at 31 December 2016)**
	HK$ million	*HK$ million*	*HK$ million*
Logistics center and related expenses	121.3	121.0	0.3
Acquisition or establishment of self-operated retail pharmacy stores	116.2	0.7	115.5
Working capital and other general corporate purposes	12.0	12.0	–
	249.5	133.7	115.8

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.

ISSUE OF THE CONVERTIABLE 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.

Assuming the exercise in full of the conversion rights attached to the Convertible Bonds ("**Conversion Rights**") at the initial conversion price of HK$0.6 per Share in respect of the Series 1 CB and the initial conversion price of HK$1.2 per Share in respect of the Series 2 CB, an aggregate of 160,000,000 Shares would be issued. As at the date of the Subscription Agreement, the closing price of the Share as quoted on the Stock Exchange amounted to HK$0.51.

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 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, which was unutilised as at 31 December 2016.

Details of the Convertible Bonds are set out in the Company's announcements dated 15 December 2016 and 29 December 2016.

DIVIDEND

No interim dividend was declared by the Company for the year ended 31 December 2016. The Board does not recommend the payment of any final dividend for the year ended 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

Set out below is the arrangement in relation to ascertaining shareholders' right to attend and vote at the forthcoming annual general meeting ("**AGM**"):

Latest time to lodge transfers	4:30 p.m. on 17 May 2017 (Wednesday)
Closure dates of register of members (both days inclusive)	18 May 2017 (Thursday) to 23 May 2017 (Tuesday)
Record date for the entitlement to attend and vote at the AGM	23 May 2017 (Tuesday)
AGM	2:30 p.m. on 23 May 2017 (Tuesday)

During the period of the closure of register of members of the Company, no share transfers will be registered. For registration, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by the latest time to lodge transfers as mentioned above.

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 2016, the Company has complied with the code provisions set out in the CG Code, expect 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, three 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.

SCOPE OF WORK OF EXTERNAL AUDITOR

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto in respect of the year ended 31 December 2016 as set out in this preliminary announcement have been agreed by the Group's external auditor, CCTH CPA Limited ("**CCTH CPA**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by CCTH CPA in this respect did not constitute an assurance engagement in accordance with HKASs, Hong Kong Standards on Review Engagement or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by CCTH CPA on this preliminary announcement.

AUDIT COMMITTEE

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

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Liu Liangzhong, Mr. Min Feng and Mr. Wong Tak Shing. The chairman of the Audit Committee is Mr. Liu Liangzhong who has appropriate professional qualifications. The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed the internal controls and financial reporting matters, including a review of the annual financial results for the year ended 31 December 2016.

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 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
Pa Shun Pharmaceutical International Holdings Limited
Mr. Chen Yenfei
陳燕飛
Chairman and chief executive officer

Hong Kong, 31 March 2017

As at the date of this announcement, the executive Directors are Mr. Chen Yenfei, Mr. Shen Shun and Mr. Zhou Jian; the non-executive Directors are Mr. Li Ho Tan, Mr. Masahiro Honna and Mr. Zhang Xiongfeng; and the independent non-executive Directors are Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Min Feng.

This annual results announcement is published on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at www.pashun.cn under the section of "Investor Relations/HKEx Filings" respectively. The annual report of the Company for the year ended 31 December 2016 will be dispatched to the shareholders of the Company and will be available on the same websites in due course.