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百信集团

PASHUN GROUP

Pa Shun International Holdings Limited

百信國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 574)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board (“**Board**”) of directors (“**Directors**”) of Pa Shun International Holdings Limited (“**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 2017 together with the comparative figures for the corresponding period in 2016. The Group’s annual results are audited, and have been reviewed by the audit committee of the Company (“**Audit Committee**”).

ANNUAL RESULTS HIGHLIGHTS

- Revenue amounted to approximately RMB869,891,000 (2016: approximately RMB860,574,000).
- Profit for the year amounted to approximately RMB10,177,000 (2016: approximately RMB7,675,000).
- Basic and diluted earnings per share were RMB1.01 cent (2016: RMB0.77 cent) and N/A cent (2016: RMB0.76 cent), respectively.
- The Board does not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	Year ended 31 December	
		2017 RMB'000	2016 RMB'000
Revenue	2(a)	869,891	860,574
Cost of sales		<u>(780,475)</u>	<u>(746,626)</u>
Gross profit		89,416	113,948
Other income and gains	3(a)	17,325	24,985
Other net loss	3(b)	(16,815)	(42,460)
Selling and distribution expenses		(14,166)	(14,083)
General and administrative expenses		(40,585)	(51,433)
Finance costs	4	<u>(15,673)</u>	<u>(2,516)</u>
Profit before tax	5	19,502	28,441
Income tax expense	6	<u>(9,325)</u>	<u>(20,766)</u>
Profit for the year		<u>10,177</u>	<u>7,675</u>
Attributable to:			
Equity shareholders of the Company		10,177	7,675
Non-controlling interests		<u>—</u>	<u>—</u>
Profit for the year		<u>10,177</u>	<u>7,675</u>
Earnings per share (in RMB cents)	8		
Basic		<u>1.01</u>	<u>0.77</u>
Diluted		<u>N/A</u>	<u>0.76</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Year ended 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	10,177	7,675
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")	(7,637)	(284)
Total comprehensive income for the year	2,540	7,391
Attributable to:		
Equity shareholders of the Company	2,540	7,391
Non-controlling interests	—	—
Total comprehensive income for the year	2,540	7,391

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

		2017	2016
	NOTES	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		96,102	56,853
Prepaid land lease payments		4,060	2,214
Goodwill		5,942	–
Biological assets		1,196	–
Other intangible assets		3,281	3,103
Prepayments for intangible assets		20,000	20,000
Other non-current assets		177,615	159,683
Deferred tax assets		7,053	3,968
		<u>315,249</u>	<u>245,821</u>
CURRENT ASSETS			
Inventories		60,372	77,497
Trade and other receivables	9	438,994	343,281
Prepayments and deposits paid		245,883	185,192
Derivative financial instruments		2,253	7,567
Amounts due from related parties		97	357
Pledged bank deposits		49,364	92,122
Cash and cash equivalents		35,036	148,650
		<u>831,999</u>	<u>854,666</u>
CURRENT LIABILITIES			
Trade and other payables	10	142,047	193,309
Bank borrowings		26,009	14,009
Amounts due to related parties		295	176
Corporate bonds payable		5,886	135
Convertible bonds		109,187	–
Income tax payable		12,443	10,812
		<u>295,867</u>	<u>218,441</u>
NET CURRENT ASSETS		<u>536,132</u>	<u>636,225</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>851,381</u>	<u>882,046</u>

	2017	2016
<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES		
Deferred income – government grant	25,076	25,588
Corporate bonds payable	68,854	15,484
Convertible bonds	–	116,206
Deferred tax liabilities	8,186	–
	<u>102,116</u>	<u>157,278</u>
NET ASSETS	<u>749,265</u>	<u>724,768</u>
CAPITAL AND RESERVES		
Share capital	856	801
Reserves	748,409	723,967
Total equity attributable to equity shareholders of the Company	749,265	724,768
Non-controlling interests	–	–
TOTAL EQUITY	<u>749,265</u>	<u>724,768</u>

Notes:

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group, comprising the Company and its subsidiaries, have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), and accounting principles generally accepted in Hong Kong. These consolidated financial statements have also been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

New and revised HKFRSs applied in current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

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 ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ³
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation 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 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvement to HKFRSs 2015-2017 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective date to be determined

2. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Pharmaceutical distribution	794,130	774,230
Self-operated retail pharmacies	542	934
Pharmaceutical manufacturing	<u>75,219</u>	<u>85,410</u>
	<u><u>869,891</u></u>	<u><u>860,574</u></u>

(b) Segment reporting

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

Pharmaceutical distribution:	this segment generates revenue primarily from sales of pharmaceutical products to (i) wholesalers, (ii) franchise retail pharmacy chain stores and (iii) hospitals and other medical institutions in rural areas.
Self-operated retail pharmacies:	this segment generates revenue primarily from sales of pharmaceutical and healthcare products, cosmetic products and daily necessities in self-operated retail pharmacies.
Pharmaceutical manufacturing:	this segment generates revenue primarily from sales of pharmaceutical products manufactured by the Group.

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 2017 and 2016 and the principal assets employed by the Group were located in the PRC as at 31 December 2017 and 2016. Accordingly, no analysis by geographical information is provided for the years ended 31 December 2017 and 2016.

No analysis of the Group's assets and liabilities by operating segments was regularly provided to the chief operating decision makers for review during the years ended 31 December 2017 and 2016 for the purposes of resource allocation and assessment of segment performance.

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

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue generated from pharmaceutical distribution		
Customer A	120,129	N/A
Customer B	93,405	N/A

No customer individually contributed over 10% of the total revenue of the Group for the year ended 31 December 2016.

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 2017 and 2016 is set out below.

Year ended 31 December 2017								
Pharmaceutical distribution								
	Sales to wholesalers <i>RMB'000</i>	Sales to franchise retail pharmacy chain stores <i>RMB'000</i>	Sales to hospitals and other medical institutions in rural areas <i>RMB'000</i>	Others <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Self-operated retail pharmacies <i>RMB'000</i>	Pharmaceutical manufacturing <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	477,874	209,438	64,033	42,785	794,130	542	75,219	869,891
Inter-segment revenue	41	1,519	-	-	1,560	-	3,926	5,486
Reportable segment revenue	<u>477,915</u>	<u>210,957</u>	<u>64,033</u>	<u>42,785</u>	<u>795,690</u>	<u>542</u>	<u>79,145</u>	<u>875,377</u>
Reportable segment profit	<u>18,538</u>	<u>14,535</u>	<u>10,837</u>	<u>3,060</u>	<u>46,970</u>	<u>134</u>	<u>42,197</u>	<u>89,301</u>
Other segment information								
Depreciation and amortisation	-	-	-	-	-	-	671	671

Year ended 31 December 2016								
Pharmaceutical distribution								
	Sales to wholesalers <i>RMB'000</i>	Sales to franchise retail pharmacy chain stores <i>RMB'000</i>	Sales to hospitals and other medical institutions in rural areas <i>RMB'000</i>	Others <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Self-operated retail pharmacies <i>RMB'000</i>	Pharmaceutical manufacturing <i>RMB'000</i>	Total <i>RMB'000</i>
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	<u>592,960</u>	<u>110,773</u>	<u>71,681</u>	<u>-</u>	<u>775,414</u>	<u>934</u>	<u>86,644</u>	<u>862,992</u>
Reportable segment profit/(loss)	<u>25,220</u>	<u>24,255</u>	<u>17,842</u>	<u>-</u>	<u>67,317</u>	<u>(326)</u>	<u>46,891</u>	<u>113,882</u>
Other segment information								
Depreciation and amortisation	-	-	-	-	-	-	585	585

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue		
Reportable segment revenue	875,377	862,992
Elimination of inter-segment revenue	<u>(5,486)</u>	<u>(2,418)</u>
Consolidated revenue	<u>869,891</u>	<u>860,574</u>
Profit		
Reportable segment profit	89,301	113,882
Elimination of inter-segment loss	<u>115</u>	<u>66</u>
Gross profit derived from external customers	89,416	113,948
Other income and gains	17,325	24,985
Other net loss	(16,815)	(42,460)
Selling and distribution expenses	(14,166)	(14,083)
General and administrative expenses	(40,585)	(51,433)
Finance costs	<u>(15,673)</u>	<u>(2,516)</u>
Consolidated profit before tax	<u>19,502</u>	<u>28,441</u>
Other items		
Depreciation and amortisation		
Reportable segment total	671	585
Unallocated total	<u>5,137</u>	<u>7,145</u>
Consolidated total	<u>5,808</u>	<u>7,730</u>

3. OTHER INCOME AND GAINS AND OTHER NET LOSS

(a) Other income and gains

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Franchise fee	9,934	10,464
Bank interest income	1,103	187
Interest income from loan receivables	895	–
Net foreign exchange gains	2,276	2,210
Gain on change in fair value of biological assets	131	–
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
Deferred income – government grant	512	883
Others	2,474	1,419
	<u>17,325</u>	<u>24,985</u>

(b) Other net loss

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Impairment loss on:		
Deposits paid for acquisition of property, plant and equipment	10,000	–
Inventories	–	2,380
Trade receivables	–	4,680
Other receivables	2,306	6,941
Amount due from a 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	1,023	590
Loss on issue of convertible bonds	–	8,171
Loss on change in fair value of derivative financial instruments	4,943	–
Reversal of impairment loss on:		
Inventories	(720)	–
Trade receivables	(1,326)	–
Written off of other receivables	589	–
	<u>16,815</u>	<u>42,460</u>

4. FINANCE COSTS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interest on:		
Bank borrowings	1,384	1,349
Bank overdrafts	1,019	6
Corporate bonds payable	5,786	135
Convertible bonds	6,725	36
Other borrowings	45	240
Bills charges and other bank charges	714	750
	<u>15,673</u>	<u>2,516</u>

5. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Cost of inventories (<i>note i</i>)	780,475	746,626
Salaries, wages and other benefits	15,331	31,163
Contributions to defined contribution retirement plans	2,381	1,837
Total staff costs (<i>note ii</i>)	17,712	33,000
Amortisation of intangible assets	218	779
Amortisation of prepaid land lease payments	100	72
Depreciation of property, plant and equipment	5,490	6,879
Auditors' remuneration		
Audit services	1,289	1,000
Non-audit services	173	204
Operating lease charges in respect of property rentals	1,625	3,459
Research and development expenses	8,000	1,299
Equity-settled share-based payments (<i>note iii</i>)	–	10,683
	<u>–</u>	<u>10,683</u>

- (i) Cost of inventories includes staff costs and depreciation expenses totalled RMB1,446,000 (2016: RMB1,476,000) which are also included in the respective total amounts disclosed separately above.
- (ii) The total staff costs include directors' emoluments.
- (iii) No equity-settled share-based payments are recognised for the year ended 31 December 2017. The equity-settled share-based payments for the year ended 31 December 2016 totalled RMB10,683,000 are also included in staff costs of the Group for that year.

6. INCOME TAX EXPENSE

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Current tax		
PRC Enterprise Income Tax	12,480	18,561
Deferred tax		
Origination and reversal of temporary differences	<u>(3,155)</u>	<u>2,205</u>
	<u>9,325</u>	<u>20,766</u>

- (i) The Group is subject to income tax on an entity based on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.
- (ii) Pursuant to rules and regulations of the Cayman Islands and the British Virgin Islands (“**BVI**”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (iii) No provision for Hong Kong Profits Tax has been made in the consolidated statement of profit or loss as the Group has no assessable profits arising in Hong Kong for both of the years presented.
- (iv) Except for Chengdu Toyot Pa Shun Pharmacy Co., Ltd. (“**Chengdu Pashun**”), the Group’s PRC subsidiaries are subject to PRC Enterprise Income Tax at the statutory rate of 25% (2016: 25%).

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

7. DIVIDEND

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends recognised as distributions during the year:		
Nil (2016: 2015 final dividend of HK3 cents per share paid)	—	26,995
	<u>—</u>	<u>26,995</u>
	<u>—</u>	<u>26,995</u>

No interim dividend was declared by the Company during the year under review (2016: Nil). The Board does not recommend the payment of any final dividend in respect of the year ended 31 December 2017 (2016: Nil).

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB10,177,000 (2016: RMB7,675,000) and the weighted average of approximately 1,007,429,000 ordinary shares (2016: 1,000,000,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company is as follows:

(i) Earnings

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purpose of basic earnings per share	10,177	7,675
Effect of diluted potential ordinary shares:		
Interest on convertible bonds	6,725	22
Loss/(gain) on change in fair value of derivative financial instruments	4,943	(54)
	<u>4,943</u>	<u>(54)</u>
Earnings for the purpose of diluted earnings per share	<u>N/A</u>	<u>7,643</u>

(ii) *Number of shares*

	2017	2016
	Number of	Number of
	shares	shares
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,007,429	1,000,000
Effect of conversion of convertible bonds	<u>176,658</u>	<u>1,311</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>N/A</u>	<u>1,001,311</u>

Diluted earnings per share for the year ended 31 December 2017 is not presented as the effects for such year arising from the exercise of the outstanding convertible bonds are anti-dilutive.

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

9. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Trade and commercial bills receivables	337,366	287,698
Bank bills receivables	32,052	6
Other receivables	<u>69,576</u>	<u>55,577</u>
	<u>438,994</u>	<u>343,281</u>

Ageing analysis of trade and commercial bills receivables

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 1 month	96,001	82,524
1 to 3 months	113,334	101,697
4 to 6 months	76,854	58,500
Over 6 months	51,177	44,977
	<u>337,366</u>	<u>287,698</u>

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

10. TRADE AND OTHER PAYABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade payables	60,652	61,447
Bills payables	37,395	99,725
Other payables, deposits received and accrued expenses	44,000	32,137
	<u>142,047</u>	<u>193,309</u>

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 1 month	18,945	15,850
1 to 3 months	14,111	8,575
Over 3 months	27,596	37,022
	<u>60,652</u>	<u>61,447</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to focus on the pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing businesses in the PRC during the year ended 31 December 2017.

Revenue

For the year ended 31 December 2017, the Group recorded a total revenue of approximately RMB869.9 million, representing an increase of approximately 1.1% from approximately RMB860.6 million for the year ended 31 December 2016. This increase was primarily due to the growth in revenue from the Group's pharmaceutical distribution segment, though partially 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 4.5% from approximately RMB746.6 million for the year ended 31 December 2016 to approximately RMB780.5 million for the year ended 31 December 2017. 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 21.5% from approximately RMB113.9 million for the year ended 31 December 2016 to approximately RMB89.4 million for the year ended 31 December 2017. The Group's gross margin decreased from approximately 13.2% for the year ended 31 December 2016 to approximately 10.3% for the year ended 31 December 2017. Such decrease is primarily attributable to the higher contribution of revenue from the pharmaceutical distribution segment which had a lower gross margin than those of other segments.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by approximately 0.7% from approximately RMB14.1 million for the year ended 31 December 2016 to approximately RMB14.2 million for the year ended 31 December 2017. This increase was primarily due to the increase in motor vehicles expense as a result of coverage of broader sales area by the Group, though partially offset by a decrease in depreciation expense which was higher in 2016 as a result of 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 21.0% from approximately RMB51.4 million for the year ended 31 December 2016 to approximately RMB40.6 million for the year ended 31 December 2017. This decrease was primarily due to absence of share-based payment expense of RMB12 million recognized in 2016 in relation to the share options granted in 2016, along with a decrease in salary and bonus and in rent and management fees for the year ended 31 December 2017.

Other Income and Gains

Other income and gains decreased by approximately 30.8% from approximately RMB25.0 million for the year ended 31 December 2016 to approximately RMB17.3 million for the year ended 31 December 2017. This decrease was primarily due to absence of a gain recognized in 2016 from the disposal of Hebei Chun Sheng Tong Chain Store Co., Ltd., a former subsidiary of the Company.

Other Net Loss

Other net loss decreased from approximately RMB42.5 million for the year ended 31 December 2016 to approximately RMB16.8 million for the year ended 31 December 2017. Notwithstanding the recognition of an impairment loss on deposits paid for property, plant and equipment in 2017, other net loss decreased in 2017 primarily due to higher net loss in 2016 as a result of the impairment losses on amount due from a former subsidiary, as well as loss on issue of convertible bonds.

Finance Costs

Finance costs increased by approximately 528.0% from approximately RMB2.5 million for the year ended 31 December 2016 to approximately RMB15.7 million for the year ended 31 December 2017. This increase was primarily due to the increase in interest expenses from the Group's convertible bonds, corporate bonds and higher average bank overdrafts balance during the year ended 31 December 2017.

Profit before Tax

Profit before tax decreased by approximately 31.3% from approximately RMB28.4 million for the year ended 31 December 2016 to approximately RMB19.5 million for the year ended 31 December 2017. This decrease was primarily due to the decrease in gross profit for the year ended 31 December 2017, though partially offset by the decrease in other losses disclosed above.

Income Tax Expense

Income tax expense decreased by approximately 55.3% from approximately RMB20.8 million for the year ended 31 December 2016 to approximately RMB9.3 million for the year ended 31 December 2017. This decrease was primarily due to the decrease in taxable income from the PRC subsidiaries of the Company in 2017.

Profit for the Year and Net Profit Margin

As a result of the foregoing, the Group's profit for the year increased by approximately 32.5% from approximately RMB7.7 million for the year ended 31 December 2016 to approximately RMB10.2 million for the year ended 31 December 2017. The Group's net profit margin increased from approximately 0.9% for the year ended 31 December 2016 to approximately 1.2% for the year ended 31 December 2017.

BUSINESS REVIEW

In 2017, the Group's revenue generated from the pharmaceutical distribution segment amounted to approximately RMB794.1 million, representing an increase of approximately 2.6% as compared with approximately RMB774.2 million in 2016. Such increase was primarily attributable to the increase of the revenue from the sales to franchise retail pharmacy chain stores and other pharmaceutical distribution revenue, though the overall growth of this segment was offset by the reduction in revenue from the sales to other wholesalers and to the hospitals and other medical institutions in rural areas as affected by the implementation of Two-Invoice System in 2017.

The Group's revenue generated by the self-operated retail pharmacies segment was RMB0.5 million in 2017, representing a decrease of approximately 44.4% as compared with RMB0.9 million in 2016. Such decrease was mainly attributable to the continual restructuring of the Group's self-operated retail pharmacies segment that led to closure of the Group's self-operated retail pharmacies in Chengdu.

In 2017, the Group's revenue from the pharmaceutical manufacturing segment amounted to RMB75.2 million, representing a decrease of approximately 11.9% from RMB85.4 million in 2016. Such decrease was mainly attributable to the sluggish market for traditional embrocation products.

OUTLOOK

During the reporting period, China enjoyed overall stable economic growth, with a year-on-year GDP growth of 6.9%. According to the National Bureau of Statistics of China, the total profit of industrial enterprises with a designated size in 2017 was RMB7,518.71 billion, representing a year-on-year growth of 21%. Among them, pharmaceutical enterprises recorded a total profit of RMB331.41 billion and an operating income of RMB2,845.96 billion, representing a year-on-year growth of 17.8% and 12.5% respectively.

The report of the 19th National Congress of the Communist Party of China clearly pointed out that a "Healthy China" strategy will be implemented to improve the national health policy. Driven by the growth of per capita disposable income, aging population and the two-child policy, China's pharmaceutical industry is full of development opportunities. Meanwhile, reform of the industry continues to deepen as multiple medical reform policies including the Two-invoice System and the new version of National Medical Insurance Catalogue have been successively adopted, leading to a changing market environment. In a business environment where opportunities and challenges coexist, the Group will continue to leverage its solid foundation in Southwest China and make good use of its existing resources and networks to opportunistically expand into other innovative areas. Under the leadership of an experienced and dedicated management team, the Group will continue to implement the following business development strategies to sustain growth and achieve better returns:

- Speeding up the construction of international logistics centers to improve the operational efficiency of the distribution business;
- Optimizing the product structure to cover traditional Chinese medicine, health food and other health sectors;
- Extending presence to the upstream industry chain and participate in the purchase of traditional Chinese medicine; and
- Continuing to search for potential mergers and acquisition targets to improve the profitability of the Group.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group had total cash and cash equivalents of approximately RMB35.0 million as at 31 December 2017 as compared with approximately RMB148.7 million as at 31 December 2016.

The Group recorded net current assets of approximately RMB536.1 million and approximately RMB636.2 million as at 31 December 2017 and 31 December 2016 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 2.81 as at 31 December 2017, as compared with 3.91 as at 31 December 2016.

As at 31 December 2017, the total amount of bank loans was approximately RMB26.0 million, as compared with approximately RMB14.0 million as at 31 December 2016.

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

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

For the year ended 31 December 2017, the Company issued 36 batches of unsecured corporate bonds, with principal amount of approximately RMB73.1 million, to various independent third parties at par value, bearing coupon rates of 6.5% to 7% per annum and with maturity periods from 2 to 7.5 years.

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. As at 31 December 2017, the Group's gearing ratio was 14.4% (31 December 2016: -15.1%).

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE RISKS

The functional currency of the Group is Renminbi while a portion of funds raised by the Group from its initial public offering and issue of corporate and convertible bonds is still in the form of bank deposits denominated in Hong Kong dollars. Therefore, it may be subject to the risks of exchange rate fluctuations of the Renminbi and the Hong Kong dollars. Apart from the above, most of the assets and transactions of the Group are denominated 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

On 9 October 2017, the Group entered into an equity transfer agreement ("**Equity Transfer Agreement**") to purchase 100% equity interest in 鹽池縣醫藥藥材有限公司 (Yanchi County Medical & Pharmaceutical Herbal Co., Ltd.*), at an initial consideration of RMB33,951,760, out of which (i) RMB10,000,000 was paid in cash and RMB2,000,000 remained outstanding and (ii) the remaining balance of RMB21,951,760 was settled by the allotment and issue of 64,564,000 shares of the Company as consideration shares ("**Consideration Shares**") at the issue price of HK\$0.40 per share. The Consideration Shares were issued on 20 November 2017 under the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 8 June 2017. Details of the Equity Transfer Agreement are set out in the announcement of the Company dated 9 October 2017.

* For identification purpose only

During the year ended 31 December 2017, the Group did not make any other significant investments, acquisitions or disposals that would constitute a notifiable transaction under Chapter 14 of the Listing Rules.

HUMAN RESOURCES

As at 31 December 2017, the Group had a total of 298 staff, primarily in the PRC. The total staff cost was approximately RMB17.7 million for the year ended 31 December 2017.

The Group believes its human resources are its valuable assets and maintains its firm commitment to attracting, developing and retaining talented employees, in addition to providing dynamic career opportunities and cultivating a favorable working environment.

The Group constantly invests in training across diverse operational functions and offers competitive remuneration packages and incentives to all employees. The Group regularly reviews its human resources policies for addressing corporate development needs.

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Shares are listed on the Main Board of the Stock Exchange on 19 June 2015 with net proceeds (“**Net Proceeds**”) from the global offering of approximately HK\$249.5 million (after deducting underwriting commissions and related expenses). As at 31 December 2017, the Group had utilised approximately HK\$147.8 million of the Net Proceeds and the unutilised Net Proceeds amounted to approximately HK\$101.7 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 <i>HK\$ million</i>	Utilised (as at 31 December 2017) <i>HK\$ million</i>	Unutilised (as at 31 December 2017) <i>HK\$ million</i>
Logistics center and related expenses	121.3	121.0	0.3
Acquisition or establishment of self-operated retail pharmacy stores	116.2	14.8	101.4
Working capital and other general corporate purposes	12.0	12.0	–
	<u>249.5</u>	<u>147.8</u>	<u>101.7</u>

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

ISSUE OF THE CONVERTIBLE BONDS

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

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

The net proceeds from the issue of the Convertible Bonds, after deducting related transaction costs, was approximately HK\$113.1 million of which HK\$112.2 million was utilised as at 31 December 2017.

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

Assuming the exercise in full of the Conversion Rights at the initial conversion price of HK\$0.6 per Share in respect of the Series 1 CB and the amended initial conversion price of HK\$0.6 per Share in respect of the Series 2 CB, an aggregate of 200,000,000 Shares would be issued. As at the date of the Subscription Agreement and the Supplemental Deed, the closing price of the Share as quoted on the Stock Exchange amounted to HK\$0.51 and HK\$0.415, respectively.

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

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2017.

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 2017, the Company has complied with the code provisions set out in the CG Code, except for the code provision A.2.1 of the CG Code.

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

The Board currently comprises three executive Directors, one non-executive Director and three independent non-executive Directors and has a strong independence element in its composition.

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

AUDIT COMMITTEE

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

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Liu Liangzhong, Mr. 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 2017.

CHANGE OF COMPANY NAME

By a special resolution passed at the annual general meeting of the Company held on 8 June 2017, the English name of the Company has changed from “Pa Shun Pharmaceutical International Holdings Limited” to “Pa Shun International Holdings Limited” and the dual foreign name in Chinese of the Company has changed from “百信藥業國際控股有限公司” to “百信國際控股有限公司”.

CHANGE OF AUDITORS

CCTH CPA Limited was appointed as the external auditor of the Company on 11 January 2017 upon the resignation of Crowe Horwath (HK) CPA Limited with effect from the same date.

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 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

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

Hong Kong, 29 March 2018

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

This 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 2017 will be dispatched to the shareholders of the Company and will be available on the same websites in due course.