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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

The board of directors (the “**Board**”) of Pa Shun Pharmaceutical International Holdings Limited (the “**Company**”) is pleased to announce the interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2016 together with the comparative figures for the corresponding period in 2015. The Group’s interim results are unaudited, but have been reviewed by the audit committee of the Company.

INTERIM RESULTS HIGHLIGHTS

	Unaudited		Change (%)
	Six months ended 30 June		
	2016	2015	
	RMB’000	RMB’000	
Revenue	364,147	451,624	(19.4)
Gross profit	61,833	98,355	(37.1)
Profit from operations	44,933	61,984	(27.5)
Profit for the period	33,663	82,753	(59.3)
Profit attributable to equity shareholders of the Company	33,688	82,915	(59.4)
Basic earnings per share – RMB cents	3.37	14.89	(77.4)

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

For the six months ended 30 June 2016 – Unaudited

		Six months ended 30 June	
	<i>Note</i>	2016	2015
		RMB'000	RMB'000
Revenue	3	364,147	451,624
Cost of sales		<u>(302,314)</u>	<u>(353,269)</u>
Gross profit		61,833	98,355
Other income	4	15,426	11,393
Selling and distribution expenses		(8,770)	(16,742)
General and administrative expenses		<u>(23,556)</u>	<u>(31,022)</u>
Profit from operations		44,933	61,984
Finance costs	5(a)	(1,474)	(2,162)
Change in fair value on convertible redeemable preferred shares		<u>–</u>	<u>37,471</u>
Profit before taxation	5	43,459	97,293
Income tax	6	<u>(9,796)</u>	<u>(14,540)</u>
Profit for the period		<u>33,663</u>	<u>82,753</u>
Attributable to:			
Equity shareholders of the Company		33,688	82,915
Non-controlling interests		<u>(25)</u>	<u>(162)</u>
Profit for the period		<u>33,663</u>	<u>82,753</u>
Earnings per share (in RMB cents)	7		
Basic		<u>3.37</u>	<u>14.89</u>
Diluted		<u>3.37</u>	<u>5.93</u>

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016 – Unaudited

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	33,663	82,753
Other comprehensive income for the period, net of nil income tax		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	1,377	184
Total comprehensive income for the period	35,040	82,937
Attributable to:		
Equity shareholders of the Company	35,065	83,099
Non-controlling interests	(25)	(162)
Total comprehensive income for the period	35,040	82,937

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At 30 June 2016 – Unaudited

		30 June 2016	31 December 2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		57,761	59,451
Prepaid land lease payments		2,193	2,249
Intangible assets		3,436	814
Prepayments for intangible assets		28,000	29,000
Other non-current assets		172,539	94,895
Deferred tax assets		6,173	6,173
		270,102	192,582
CURRENT ASSETS			
Inventories		100,287	67,894
Financial assets at fair value through profit or loss		2,619	2,619
Trade and other receivables	9	480,250	411,794
Pledged bank deposits		44,567	95,479
Cash and cash equivalents		75,897	116,334
		703,620	694,120
Assets of a disposal group classified as held-for-sale		–	14,594
		703,620	708,714
CURRENT LIABILITIES			
Trade and other payables	10	145,584	121,824
Bank overdraft		14,634	–
Bank borrowings		15,000	15,000
Amount due to a director		–	222
Amounts due to other related parties		35	35
Current taxation		12,395	13,346
		187,648	150,427
Liabilities of a disposal group classified as held-for-sale		–	1,728
		187,648	152,155
NET CURRENT ASSETS		515,972	556,559
TOTAL ASSETS LESS CURRENT LIABILITIES		786,074	749,141

	30 June	31 December
	2016	2015
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES		
Deferred income – government grant	<u>26,029</u>	<u>26,471</u>
	<u>26,029</u>	<u>26,471</u>
NET ASSETS	<u>760,045</u>	<u>722,670</u>
CAPITAL AND RESERVES		
Share capital	801	801
Reserves	<u>759,244</u>	<u>724,179</u>
Total equity attributable to equity shareholders of the Company	760,045	724,980
Non-controlling interests	<u>–</u>	<u>(2,310)</u>
TOTAL EQUITY	<u>760,045</u>	<u>722,670</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

This condensed consolidated financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The condensed consolidated financial information has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2. The interim financial report is unaudited but has been reviewed by the Company’s audit committee.

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

2. CHANGES IN ACCOUNTING POLICIES

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

Amendments to HKFRS	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKAS 1	Presentation of financial statement: Disclosure initiative

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the Group’s results and financial position for the current or prior periods.

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

3. REVENUE AND SEGMENT REPORTING

a) Revenue

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

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

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Pharmaceutical distribution	324,310	365,942
Self-operated retail pharmacies	251	8,104
Pharmaceutical manufacturing	39,586	77,578
	<u>364,147</u>	<u>451,624</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 of the Company, being the chief operating decision makers, for the purposes of resource allocation and performance assessment, 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 to (i) wholesalers, (ii) franchise retail pharmacy chain stores and (iii) hospitals and other medical institutions in rural areas.
- Self-operated retail pharmacies: this segment generates revenue primarily from sales of pharmaceutical and healthcare products, cosmetic products and daily necessities in self-operated retail pharmacies.
- Pharmaceutical manufacturing: this segment generates revenue primarily from sales of pharmaceutical products manufactured by the Group.

The Group's revenue and operating profit were entirely derived from activities of pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing in the PRC and the principal assets employed by the Group were located in the PRC for the six months ended 30 June 2016 and 2015. Accordingly, no analysis by geographical segments has been provided for the six months ended 30 June 2016 and 2015.

No analysis of the Group's assets and liabilities by operating segments was regularly provided to the chief operating decision makers for review during the six months ended 30 June 2016 and 2015 for the purposes of resource allocation and performance assessment.

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 six month ended 30 June 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 six months ended 30 June 2016 and 2015 is set out below.

	Six months ended 30 June 2016						
	Pharmaceutical distribution			Sub-total RMB'000	Self-operated retail pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	Total RMB'000
Sales to wholesalers RMB'000	Sales to franchise retail pharmacy chain stores RMB'000	Sales to hospitals and other medical institutions in rural areas RMB'000					
Revenue from external customers	215,704	69,600	39,006	324,310	251	39,586	364,147
Inter-segment revenue	-	120	-	120	-	693	813
Reportable segment revenue	<u>215,704</u>	<u>69,720</u>	<u>39,006</u>	<u>324,430</u>	<u>251</u>	<u>40,279</u>	<u>364,960</u>
Reportable segment profit	<u>10,686</u>	<u>19,348</u>	<u>9,955</u>	<u>39,989</u>	<u>51</u>	<u>21,903</u>	<u>61,943</u>
Other segment information							
Depreciation and amortisation	-	-	-	-	-	4,720	4,720

Six months ended 30 June 2015

	Pharmaceutical distribution						Total RMB'000
	Sales to wholesalers RMB'000	Sales to franchise retail pharmacy chain stores RMB'000	Sales to hospitals and other medical institutions in rural areas RMB'000	Sub-total RMB'000	Self-operated retail pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	
Revenue from external customers	230,032	73,065	62,845	365,942	8,104	77,578	451,624
Inter-segment revenue	–	1,122	–	1,122	–	3,218	4,340
Reportable segment revenue	<u>230,032</u>	<u>74,187</u>	<u>62,845</u>	<u>367,064</u>	<u>8,104</u>	<u>80,796</u>	<u>455,964</u>
Reportable segment profit	<u>7,671</u>	<u>22,975</u>	<u>13,274</u>	<u>43,920</u>	<u>2,268</u>	<u>52,358</u>	<u>98,546</u>
Other segment information							
Depreciation and amortisation	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,667</u>	<u>4,667</u>

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

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Revenue		
Reportable segment revenue	364,960	455,964
Elimination of inter-segment revenue	(813)	(4,340)
Consolidated revenue (note 3(a))	<u>364,147</u>	<u>451,624</u>
Profit		
Reportable segment profit	61,943	98,546
Elimination of inter-segment profits	(110)	(191)
Reportable segment profit derived		
from external customers	61,833	98,355
Other revenue	15,426	11,393
Selling and distribution expenses	(8,770)	(16,742)
General and administrative expenses	(23,556)	(31,022)
Finance costs	(1,474)	(2,162)
Change in fair value on convertible redeemable preferred shares	<u>–</u>	<u>37,471</u>
Consolidated profit before taxation	<u>43,459</u>	<u>97,293</u>

Six months ended 30 June

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Other items		
Depreciation and amortisation		
Reportable segment total	226	255
Unallocated total	4,494	4,412
	<hr/>	<hr/>
Consolidated total	4,720	4,667
	<hr/> <hr/>	<hr/> <hr/>

4. OTHER INCOME**Six months ended 30 June**

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Franchise fee	4,800	8,057
Bank interest income	87	2,049
Rental income	–	409
Deferred income – government grant	441	441
Gain on disposal of subsidiary	9,740	–
Others	358	437
	<hr/>	<hr/>
	15,426	11,393
	<hr/> <hr/>	<hr/> <hr/>

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

a) Finance costs**Six months ended 30 June**

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank borrowings wholly repayable within 5 years	760	1,797
Bills charges	330	250
Other borrowing costs	384	115
	<hr/>	<hr/>
	1,474	2,162
	<hr/> <hr/>	<hr/> <hr/>

b) Staff costs (including directors' remuneration)

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	16,347	11,311
Contributions to defined contribution retirement plans	1,844	2,524
	<u>18,191</u>	<u>13,835</u>

c) Other items

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Amortisation of intangible assets	257	265
Amortisation of prepaid land lease payments	56	55
Depreciation of property, plant and equipment	4,407	4,347
Operating lease charges in respect of property rentals	1,902	4,313
Provision for impairment of trade receivables	–	975
Cost of inventories [#]	<u>302,314</u>	<u>353,269</u>

[#] *Cost of inventories for the six months ended 30 June 2016 include RMB732,000 (six months ended 30 June 2015: RMB1,725,000), relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above.*

6. INCOME TAX

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax – PRC Corporation Income Tax		
Provision for the year	9,796	16,056
Deferred tax		
Origination and reversal of temporary differences	<u>–</u>	<u>(1,516)</u>
	<u>9,796</u>	<u>14,540</u>

- 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 BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- iii) No Hong Kong Profits Tax for the six months ended 30 June 2016 and 2015 have been provided for in the consolidated statements of profit or loss as the Group has no estimated assessable profits arising in Hong Kong during the periods.
- iv) The Group's PRC subsidiaries are subject to PRC Corporate Income Tax at the statutory rate of 25%.

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

7. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2016 is based on the profit attributable to equity shareholders of the Company of RMB33,688,000 (six months ended 30 June 2015: RMB82,915,000) and the weighted average number of approximately 1,000,000,000 ordinary shares (2015: approximately 556,998,000 shares, after adjusting for the capitalization issue in 2015).

The weighted average number of ordinary shares during the six months ended 30 June 2016 is based on the assumption that 1,000,000,000 ordinary shares of the Company were in issue.

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

	Six months ended 30 June	
	2016	2015
	'000	'000
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	1,000,000	703
Effect of capitalization issue	–	524,839
Effect of issuance of new shares under the IPO	–	16,575
Effect of conversion of Series A convertible redeemable preferred shares to ordinary shares (adjusted for the capitalization issue)	–	12,793
Effect of conversion of Series B convertible redeemable preferred shares to ordinary shares (adjusted for the capitalization issue)	–	2,088
	<hr/>	<hr/>
Weighted average number of ordinary shares at 30 June	<u>1,000,000</u>	<u>556,998</u>

b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2016 and 2015 is based on the profit attributable to equity shareholders of the Company of RMB33,688,000 and RMB45,444,000 and the weighted average number of ordinary shares of approximately 1,000,000,000 and 766,575,000 shares, respectively, in issue during each reporting period, calculated as follows:

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

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to equity shareholders of the Company	33,688	82,915
After tax effect of change in fair value on convertible redeemable preferred shares	<u>—</u>	<u>(37,471)</u>
Profit attributable to equity shareholders of the Company (diluted)	<u>33,688</u>	<u>45,444</u>

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

	Six months ended 30 June	
	2016	2015
	<i>Number of shares '000</i>	<i>Number of shares '000</i>
Weighted average number of ordinary shares	1,000,000	556,998
Effect of conversion of Series A convertible redeemable preferred shares (adjusted for the capitalization issue)	<u>—</u>	<u>180,167</u>
Effect of conversion of Series B convertible redeemable preferred shares (adjusted for the capitalization issue)	<u>—</u>	<u>29,410</u>
Weighted average number of shares (diluted)	<u>1,000,000</u>	<u>766,575</u>

8. DIVIDENDS

The directors do not declare any interim dividend for the six months ended 30 June 2016 (2015: nil).

9. TRADE AND OTHER RECEIVABLES

Ageing analysis of trade receivables and commercial bills receivables

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

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Within 1 month	64,967	88,896
1 to 3 months	95,830	108,512
4 to 6 months	51,364	62,231
Over 6 months	<u>47,916</u>	<u>14,222</u>
Trade receivables and commercial bills receivables, net of allowance for doubtful debts	<u><u>260,077</u></u>	<u><u>273,861</u></u>

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

10. TRADE AND OTHER PAYABLES

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

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Within 1 month	17,148	13,915
1 to 3 months	21,282	4,812
Over 3 months	<u>16,553</u>	<u>18,296</u>
	<u><u>54,983</u></u>	<u><u>37,023</u></u>

11. DISPOSAL OF A SUBSIDIARY

In January 2016, the Group disposed of its entire equity interest in a company, principally engaged in self-operated retail pharmacies in Hebei, PRC, to an independent third party for a cash consideration of RMB400,000. The net liabilities at the date of disposal were as follows:

	<i>RMB'000</i>
Consideration received:	
Deferred Consideration	<u><u>400</u></u>
Analysis of assets and liabilities over which control was lost:	
Plant and equipment	9,116
Intangible assets	4,633
Inventories	777
Bank balances and cash	123
Trade and other payables	(1,911)
Shareholder's loan	<u>(24,413)</u>
Net liabilities disposed of	<u><u>(11,675)</u></u>
Gain on disposal of a subsidiary:	
Deferred Consideration	400
Net liabilities disposed of	11,675
Non-controlling interests	<u>(2,335)</u>
Gain on disposal	<u><u>9,740</u></u>
Net cash outflow arising on disposal:	
Cash and cash equivalents disposed of	<u><u>(123)</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2016, the Group recorded a total revenue of RMB364.1 million, representing a decrease of approximately 19.4% from RMB451.6 million for the six months ended 30 June 2015. This decrease was primarily due to the decline in revenue from the Group's pharmaceutical distribution and pharmaceutical manufacturing segments as a result of the changing and more stringent policies leading to uncertainties and challenges in the operating environment of the Group.

Cost of Sales, Gross Profit and Gross Margin

The Group's cost of sales decreased by approximately 14.4% from RMB353.3 million for the six months ended 30 June 2015 to RMB302.3 million for the six months ended 30 June 2016. This decrease was primarily due to decreases in cost of sales for the Group's pharmaceutical distribution segment and pharmaceutical manufacturing segment.

The Group's gross profit decreased by approximately 37.2% from RMB98.4 million for the six months ended 30 June 2015 to RMB61.8 million for the six months ended 30 June 2016. The Group's gross margin decreased from 21.8% for the six months ended 30 June 2015 to 17.0% for the six months ended 30 June 2016. Such decrease was primarily attributable to a decrease in revenue from the pharmaceutical manufacturing segment which has a higher margin than the other segments.

Selling and Distribution Expenses

The Group's selling and distribution expenses decreased approximately by 47.3% from RMB16.7 million for the six months ended 30 June 2015 to RMB8.8 million for the six months ended 30 June 2016. This decrease was primarily due to (i) a decrease in salary and welfare expenses as well as travelling and entertainment expenses due to the internal restructuring of our sales team in response to the sluggish market; and (ii) a decrease in rent and management fees due to the closure of the Group's underperforming retail pharmacy stores in Hubei and in relation to the sale of Hebei Chun Sheng Tang Chain Store Co., Ltd..

General and Administrative Expenses

The Group's general and administrative expenses decreased by approximately 23.9% from RMB31.0 million for the six months ended 30 June 2015 to RMB23.6 million for the six months ended 30 June 2016. This decrease was primarily due to (i) a decrease in the professional and audit fees in connection with the listing of the shares of the Company on the Stock Exchange in the first half of 2015, and (ii) other cost cutting measures on rents and travel and entertainment expenses implemented by the Group in response to the challenging operating environment.

Other Revenue

Other revenue increased by approximately 35.1% from RMB11.4 million for the six months ended 30 June 2015 to RMB15.4 million for the six months ended 30 June 2016. This increase was primarily attributable to a gain of approximately RMB9.7 million on the disposal of Hebei Chun Sheng Tang Chain Store Co., Ltd., offset by a decrease in franchise fees due to the decrease in the number of franchise retail pharmacy stores under the brand of the Group.

Profit from Operations and Operating Margin

As a result of the foregoing, the Group's profit from operations decreased by approximately 27.6% from RMB62.0 million for the six months ended 30 June 2015 to RMB44.9 million for the six months ended 30 June 2016. The Group's operating margin decreased from 13.7% for the six months ended 30 June 2015 to 12.3% for the six months ended 30 June 2016.

Finance Costs

Finance costs decreased by approximately 31.8% from RMB2.2 million for the six months ended 30 June 2015 to RMB1.5 million for the six months ended 30 June 2016. This decrease was primarily due to the decrease in interest expense relating to less bank borrowings.

Change in Fair Value on Convertible Redeemable Preferred Shares

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

Profit before Taxation

Profit before income tax decreased by approximately 55.3% from RMB97.3 million for the six months ended 30 June 2015 to RMB43.5 million for the six months ended 30 June 2016. This decrease was primarily due to (i) the net profit for the six months ended 30 June 2015 including the significant gain in the amount of approximately HKD37.5 million arising from changes of fair value of the convertible redeemable preferred shares, and (ii) a decline in the Group's profit from operations.

Income Tax Expense

Income tax expense decreased by approximately 32.4% from RMB14.5 million for the six months ended 30 June 2015 to RMB9.8 million for the six months ended 30 June 2016.

Profit for the Year and Net Profit Margin

As a result of the foregoing, the Group's profit for the year decreased by approximately 59.3% from RMB82.8 million for the six months ended 30 June 2015 to RMB33.7 million for the six months ended 30 June 2016. The Group's net profit margin decreased from 18.3% for the six months ended 30 June 2015 to 9.2% for the six months ended 30 June 2016.

BUSINESS REVIEW AND OUTLOOK

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

Pharmaceutical Distribution

For the six months ended 30 June 2016, segment revenue from pharmaceutical distribution amounted to RMB324.4 million, representing a decrease of approximately 11.6% from RMB367.1 million in the corresponding period of 2015. This decrease was primarily due to (i) the reduction in revenue from sales to hospitals and other medical institutions in the rural regions as competition in the tender process was encouraged and became more intense; and (ii) a decrease in revenue from sales to pharmaceutical wholesalers under the challenging operating environment as more stringent policies have been implemented as part of the PRC healthcare reform plan.

Self-operated Retail Pharmacies

The Group's revenue generated by the self-operated retail pharmacy segment was RMB0.3 million for the six months ended 30 June 2016, representing a decrease of approximately 96.3% as compared to RMB8.1 million for the six months ended 30 June 2015. The decrease in revenue was attributable to, in response to the sluggish retail market, (i) the sale of Hebei Chun Sheng Tang Chain Store Co., Ltd. in January 2016 to concentrate resources in developing the retail pharmacy business in Sichuan; and (ii) the closure of over 15 self-operated retail pharmacies in Chengdu and Wuhan which failed to meet the earnings targets upon assessment. Sales to the Group's franchise retail pharmacy stores are accounted for in the pharmaceutical distribution segment.

Pharmaceutical Manufacturing

For the six months ended 30 June 2016, the Group's revenue from the pharmaceutical manufacturing segment amounted to RMB40.3 million, representing a decrease of approximately 50.1% from RMB80.8 million for the six months ended 30 June 2015. The decrease in revenue was mainly attributable to the more stringent industry regulations in the PRC, among which, the "Two-Invoice" System to be implemented, which aims to reduce the number of layers between drug manufacturers and medical institutions, has caused distributors to reduce their inventory level, resulting in a drop in the sales of our products.

Future Prospects

China's economic environment was full of challenges and uncertainties in the first half of 2016. For the pharmaceutical industry, a series of new policies were introduced, as part of the ongoing national and local healthcare reform, to improve the registration and approval of pharmaceutical products. Competition among the pharmaceutical industry is keen but it also nurtures new development opportunities. The Group should leverage on its strong foundation in Southwestern China to further seek for such opportunities in order to reinforce its market status.

To support the development of its growing business, the Group will continue to implement the following business development strategies so as to maintain growth and achieve better returns under the leadership of an experienced and dedicated management team:

- expanding the breadth and depth of our distribution networks, particularly targeting on hospitals and medical institutions in rural areas surrounding Chengdu;
- accelerating the construction of international logistics center to enhance operational efficiency;
- exploring acquisitions of retail pharmacy chain stores in the Sichuan Province;
- expanding the scope of products including Chinese medicine materials; and
- strengthening online and offline publicity and promotional activities to increase brand awareness.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group had total cash and cash equivalents of RMB75.9 million as at 30 June 2016 as compared to RMB116.3 million as at 31 December 2015. The Group had pledged bank deposits of RMB44.6 million as at 30 June 2016 as compared to RMB95.5 million as at 31 December 2015. The Group had bank overdraft of RMB14.6 million as at 30 June 2016 as compared to Nil as at 31 December 2015.

The Group recorded net current assets of RMB516.0 million and RMB556.6 million as at 30 June 2016 and 31 December 2015 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 3.75 as at 30 June 2016, as compared to 4.66 as at 31 December 2015.

As at 31 December 2015 and 30 June 2016, the total amount of bank loans remained unchanged at RMB15.0 million.

CONTINGENT LIABILITIES

As at 30 June 2016, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the directors of the Company to be pending or threatened against any member of the Group.

FOREIGN EXCHANGE RISKS

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2016, the Group did not make any significant investments, acquisitions or disposals that would constitute a discloseable transaction under chapter 14 of the Listing Rules.

USE OF PROCEEDS FROM LISTING

The Shares were 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 these proceeds were applied during the financial year 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 30 June 2016, the Group had utilised HK\$131.9 million of the Net Proceeds and unutilised Net Proceeds amounted to HK\$117.6 million.

The following table sets forth a breakdown of the use of net proceeds during the financial year:

Use of net proceeds	Available for use	Utilised (as at 30 June 2016)	Unutilised (as at 30 June 2016)
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Logistics center and related expenses	121.3	119.2	2.1
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	–
	<u>249.5</u>	<u>131.9</u>	<u>117.6</u>

The proceeds not utilised were deposited into interest bearing bank accounts with licensed commercial banks in China and Hong Kong. The directors of the Company intended to continue to apply the unused proceeds in the manner as set out in the Prospectus.

HUMAN RESOURCES

As at 30 June 2016, the Group had a total of 265 staff, primarily in the PRC. The total staff cost was RMB18.2 million for the first half of 2016 as compared to RMB13.8 million for the first half of 2015.

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

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016.

CORPORATE GOVERNANCE

The Group has committed to achieving high corporate governance standards in order to safeguard the interests of shareholders and enhance corporate value and accountability of the Company. The Company has adopted the Code Provisions set out in the Corporate Governance Code (the “**CG Code**”) in Appendix 14 of the Listing Rules as its own code of corporate governance. During the six months ended 30 June 2016, 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 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 our Group. He has extensive experience in medicine industry and is responsible for the overall corporate strategies, planning and business management of our Group. Our 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 our Group. The balance of power and authorities is ensured by the operation of our Board and our senior management, which comprise experienced and high caliber individuals. Our 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.

Audit Committee

The primary responsibilities of the audit committee include (but without limitation) assisting the Board to provide an independent review and supervision of the Group's financial and accounting policies, to oversee the financial control, internal control and risk management systems of the Group, to oversee the audit process, and to perform other duties and responsibilities as delegated by the Board.

The audit committee comprises three independent non-executive directors of the Company, namely, Mr. Liu Liangzhong, Mr. Min Feng and Mr. Wong Tak Shing. The chairman of the audit committee is Mr. Liu Liangzhong who has appropriate professional qualifications. The audit committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed the internal controls and financial reporting matters, including a review of the interim financial information for the six months ended 30 June 2016.

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

All directors have confirmed that they complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules throughout the six months ended 30 June 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 31 August 2016

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

This interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at www.pashun.cn under the section of "Investor Relations/HKEx Filings" respectively. The interim report of the Company for the six months ended 30 June 2016 will be dispatched to the shareholders of the Company and will be available on the same websites in due course.