



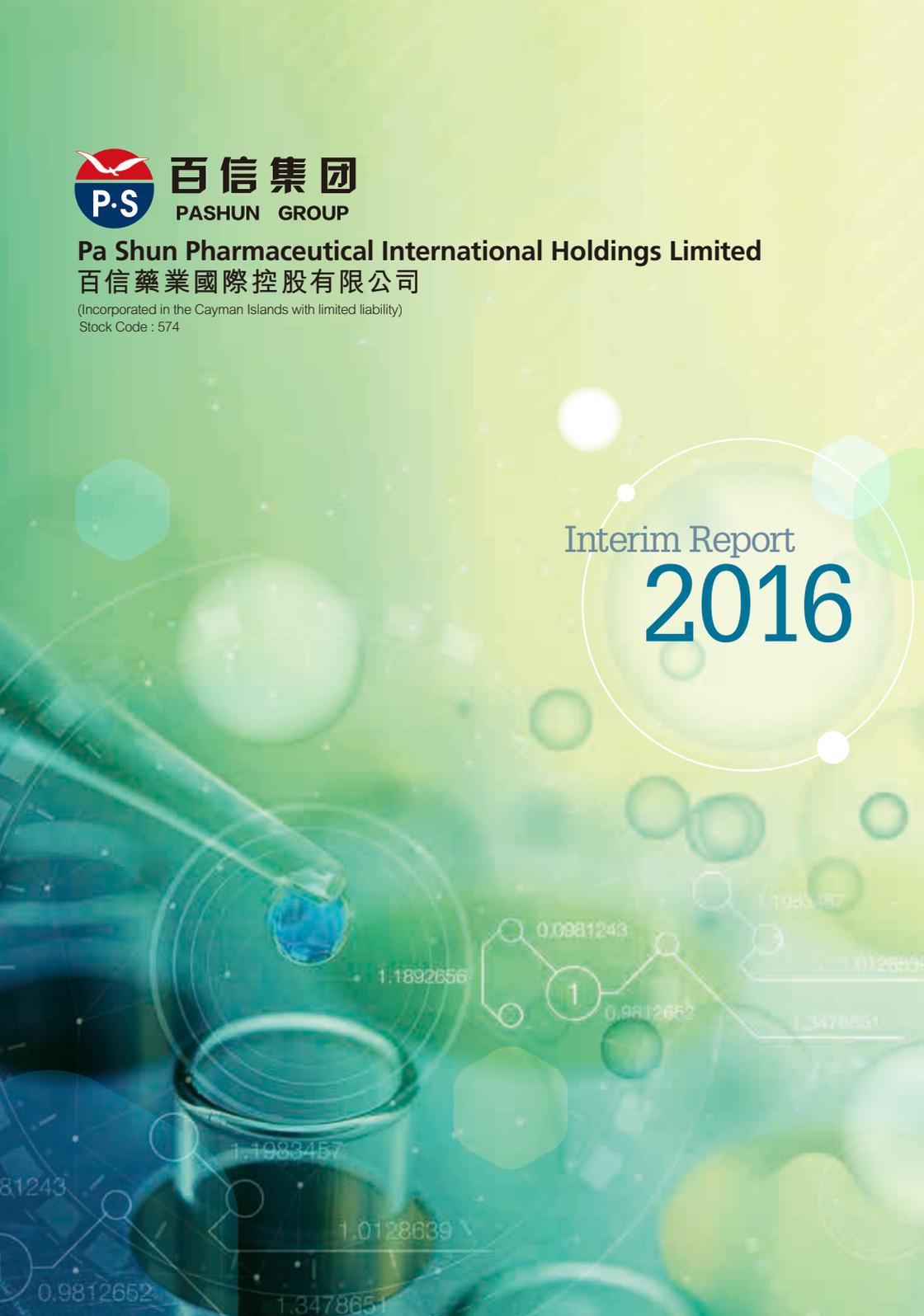
百信集团
PASHUN GROUP

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 Report

2016



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. Li Ho Tan
Mr. Zhang Xiongfeng
Mr. Masahiro Honna

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUTHORISED REPRESENTATIVES

Mr. Chen Yenfei
Mr. Pang, Peter Chun Ming

JOINT COMPANY SECRETARIES

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 608-616, Building 28,
Longfor North Paradise Walk 2
229 Wufuqiao Dong Road
Jinniu District
Chengdu, Sichuan Province
PRC

AUDITORS

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

COMPLIANCE ADVISER

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

STOCK CODE

00574

COMPANY'S WEBSITE

www.pashun.com.cn

PRINCIPAL BANKERS

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

**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

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

**HONG KONG SHARE REGISTRAR AND
TRANSFER OFFICE**

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

The board of directors (the “Board”) of Pa Shun Pharmaceutical International Holdings Limited (the “Company”) is pleased to announce the interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 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.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

For the six months ended 30 June 2016 – Unaudited

		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
	Note		
Revenue	3	364,147	451,624
Cost of sales		(302,314)	(353,269)
Gross profit		61,833	98,355
Other revenue	4	15,426	11,393
Selling and distribution expenses		(8,770)	(16,742)
General and administrative expenses		(23,556)	(31,022)
Profit from operations		44,933	61,984
Finance costs	5(a)	(1,474)	(2,162)
Change in fair value on convertible redeemable preferred shares	14	–	37,471
Profit before taxation	5	43,459	97,293
Income tax	6	(9,796)	(14,540)
Profit for the period		33,663	82,753
Attributable to:			
Equity shareholders of the Company		33,688	82,915
Non-controlling interests		(25)	(162)
Profit for the period		33,633	82,753
Earnings per share (in RMB cents)	7		
Basic		3.37	14.89
Diluted		3.37	5.93

The notes on pages 10 to 38 form part of this interim financial report.

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 RMB'000	2015 RMB'000
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	<u>1,377</u>	<u>184</u>
Total comprehensive income for the period	<u>35,040</u>	<u>82,937</u>
Attributable to:		
Equity shareholders of the Company	35,065	83,099
Non-controlling interests	<u>(25)</u>	<u>(162)</u>
Total comprehensive income for the period	<u>35,040</u>	<u>82,937</u>

The accompanying notes form part of this interim financial report.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At 30 June 2016 – Unaudited

	Note	30 June 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	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	9	172,539	94,895
Deferred tax assets		6,173	6,173
		<u>270,102</u>	<u>192,582</u>
CURRENT ASSETS			
Inventories		100,287	67,894
Financial assets at fair value through profit or loss		2,619	2,619
Trade and other receivables	10	480,250	411,794
Pledged bank deposits	11	44,567	95,479
Cash and cash equivalents	11	75,897	116,334
		<u>703,620</u>	<u>694,120</u>
Assets of a disposal group classified as held-for-sale		–	14,594
		<u>703,620</u>	<u>708,714</u>
CURRENT LIABILITIES			
Trade and other payables	12	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
		<u>187,648</u>	<u>150,427</u>
Liabilities of a disposal group classified as held-for-sale		–	1,728
		<u>187,648</u>	<u>152,155</u>
NET CURRENT ASSETS		<u>515,972</u>	<u>556,559</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>786,074</u>	<u>749,141</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
*(Continued)**At 30 June 2016 – Unaudited*

	<i>Note</i>	30 June 2016 RMB'000	31 December 2015 RMB'000
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	<i>13</i>	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>

The accompanying notes form part of this interim financial report.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – Unaudited

Note	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity		
	Share capital	Share premium	PRC			Retained profits	Total			RMB'000	RMB'000
			Statutory reserve	Exchange reserve	Other reserve						
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
Balance at 1 January 2016	801	447,331	36,994	11,907	(28,150)	256,097	724,980	(2,310)	722,670		
Changes in equity for six months ended 30 June 2016:											
Profit for the period	-	-	-	-	-	33,688	33,688	(25)	33,663		
Other comprehensive income for the period											
- Exchange differences on translation of financial statements of entities outside the PRC	-	-	-	1,377	-	33,688	35,065	-	35,065		
Total comprehensive income for the period	-	-	-	1,377	-	33,688	35,065	(25)	35,040		
Gain on disposal of subsidiary	15	-	-	-	-	-	-	2,335	2,335		
Appropriation to PRC statutory reserve	-	-	3,695	-	-	(3,695)	-	-	-		
Balance at 30 June 2016	801	447,331	40,689	13,284	(28,150)	286,090	760,045	-	760,045		
Balance at 1 January 2015	1	-	31,905	3,534	(28,150)	172,929	180,219	1,061	181,280		
Changes in equity for six months ended 30 June 2015:											
Profit for the period	-	-	-	-	-	82,915	82,915	(162)	82,753		
Other comprehensive income for the period											
- Exchange differences on translation of financial statements of entities outside the PRC	-	-	-	184	-	-	184	-	184		
Total comprehensive income for the period	-	-	-	184	-	82,915	83,099	(162)	82,937		
Conversion of convertible redeemable preferred shares	13(b)	219,317	-	-	-	-	219,317	-	219,317		
Capitalization issue	13(b)	600	(600)	-	-	-	-	-	-		
Issuance of shares under IPO, net of share issuance expenses	13(b)	200	228,614	-	-	-	228,814	-	228,814		
Appropriation to PRC statutory reserve	-	-	2,638	-	-	(2,638)	-	-	-		
Balance at 30 June 2015	801	447,331	34,543	3,718	(28,150)	253,206	711,449	899	712,348		

The accompanying notes form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended 30 June 2016 – Unaudited

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Operating activities		
Profit before taxation	43,459	97,293
Adjustments for:		
(Gain)/loss of disposal of subsidiary	(9,739)	–
Income tax paid	(10,758)	(10,188)
Others cash flows used in operating activities	(47,067)	(157,768)
Net cash used in operating activities	(24,105)	(70,663)
Net cash (used in)/generated from investing activities	(31,361)	42,750
Financing activities		
Issuance of ordinary shares through global offering	–	244,273
Listing expenses directly attributable to issue of new shares	–	(15,459)
Other cash flows arising from/(used in) financing activities	13,652	(23,337)
Net cash inflow from financing activities	13,652	205,477
Net (decrease)/increase in cash and cash equivalents	(41,814)	177,564
Cash and cash equivalents at the beginning of the period	116,334	67,059
Effect of changes in foreign exchange rate	1,377	(73)
Cash and cash equivalents at the end of the period	75,897	244,550

The accompanying notes form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). It was authorised for issue on 31 August 2016.

The interim financial report has have 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 these changes in accounting policies are set out in note 2. The interim financial report is unaudited but have been reviewed by the Company’s audit committee.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.



2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to 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 RMB'000	2015 RMB'000
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>



3. REVENUE AND SEGMENT REPORTING *(Continued)*

b) Segment reporting

The Group manages its business by business lines and distribution channels. In a manner consistent with the way in which information is reported internally to the executive directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and performance assessment, the Group has presented the following 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 months 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.

3. REVENUE AND SEGMENT REPORTING (Continued)

b) Segment reporting (Continued)

(i) Segment revenue and results

Segment information regarding the Group's revenue and results as provided to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2016 and 2015 is set out below.

	Six months ended 30 June 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	215,704	69,600	39,006	324,310	251	39,586	364,147
Inter-segment revenue	-	120	-	120	-	693	813
Reportable segment revenue	215,704	69,720	39,006	324,430	251	40,279	364,960
Reportable segment profit	10,686	19,348	9,955	39,989	51	21,903	61,943
Other segment information							
Depreciation and amortisation	-	-	-	-	-	4,720	4,720

	Six months ended 30 June 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	230,032	73,065	62,845	365,942	8,104	77,578	451,624
Inter-segment revenue	-	1,122	-	1,122	-	3,218	4,340
Reportable segment revenue	230,032	74,187	62,845	367,064	8,104	80,796	455,964
Reportable segment profit	7,671	22,975	13,274	43,920	2,268	52,358	98,546
Other segment information							
Depreciation and amortisation	-	-	-	-	-	4,667	4,667

3. REVENUE AND SEGMENT REPORTING *(Continued)*
b) Segment reporting *(Continued)*
(ii) Reconciliations of reportable segment revenues and profit or loss

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	364,960	455,964
Elimination of inter-segment revenue	(813)	(4,340)
	<hr/>	<hr/>
Consolidated revenue <i>(note 3(a))</i>	364,147	451,624
	<hr/>	<hr/>
Profit		
Reportable segment profit	61,943	98,546
Elimination of inter-segment profits	(110)	(191)
	<hr/>	<hr/>
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	–	37,471
	<hr/>	<hr/>
Consolidated profit before taxation	43,459	97,293
	<hr/>	<hr/>
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/>

4. OTHER INCOME

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
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
	15,426	11,393

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

a) Finance costs

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank borrowings wholly repayable within 5 years	760	1,797
Bills charges	330	250
Other borrowing costs	384	115
	1,474	2,162

5. PROFIT BEFORE TAXATION (Continued)

b) Staff costs (including directors' remuneration)

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

7. EARNINGS PER SHARE (Continued)

a) Basic earnings per share (Continued)

	Six months ended 30 June	
	2016 '000	2015 '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
	<u>1,000,000</u>	<u>556,998</u>
Weighted average number of ordinary shares at 30 June		



7. EARNINGS PER SHARE (Continued)

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
	RMB'000	RMB'000
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	—	(37,471)
	<hr/>	<hr/>
Profit attributable to equity shareholders of the Company (diluted)	33,688	45,444
	<hr/>	<hr/>

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

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

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired items of property, plant and equipment amounting to RMB2,717,000 (six months ended 30 June 2015: RMB6,494,000).

As at 30 June 2016, the buildings with carrying amount of RMB46,700,000 (as at 31 December 2015: RMB47,173,000) were situated at a parcel of land that the application of land use right certificate is still under progress. Based on a response from the Bureau of Land Resources Wenjiang, Chengdu Municipal, on 6 April 2016, it is expected that the land use right certificate will be obtained by the end of 2016.

9. OTHER NON-CURRENT ASSETS

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Deposits		
– Deposits for acquisition of companies (<i>note a</i>)	52,342	42,000
– Deposits for property plant and equipment (<i>note b</i>)	20,228	20,228
– Guarantee deposit (<i>note c</i>)	5,000	5,000
– Deposit for acquisition of land use right (<i>note d</i>)	94,969	27,667
	<u>172,539</u>	<u>94,895</u>

9. OTHER NON-CURRENT ASSETS *(Continued)*

- a) During the year ended 31 December 2015, the Group entered into two agreements with two groups of independent third parties to acquire two companies which are holding retail pharmacy chain stores in the PRC.

In accordance with the agreements, the Group paid RMB20,000,000 and RMB22,000,000 as deposits which could be refunded if the Group did not acquire these two companies finally.

During six month end 30 June 2016, the directors considered that such potential acquisitions may not give benefits to the Group. Accordingly, on 29 March 2016, the Group and those independent third parties entered into agreements to cancel such potential acquisitions and deposits of RMB42,000,000 were refunded to the Group.

In addition, during the six month ended 30 June 2016, the Group entered into a memorandum of understanding (“MOU”) with an independent third party to acquire a company which is domiciled and operates in PRC. In accordance with the MOU, the Group paid RMB52,342,000 as deposit which could be refunded if the Group does not acquire the company.

- b) Deposits for property, plant and equipment were paid by the Group for acquiring and installing plant and machinery in the Group’s production plant.
- c) Guarantee deposit represented the deposit paid for a ten-year period Chinese herbal planting project which will be refunded upon the completion of the project.
- d) Deposits for acquisition of land use right represented for the application of new land use right due to the change of land usage for own business operation.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Trade receivables (<i>see note (a) below</i>)	278,283	256,068
Commercial bills receivables (<i>see note (a) below</i>)	–	36,000
Less: allowance for doubtful debts (<i>see note (a) below</i>)	<u>(18,206)</u>	<u>(18,207)</u>
	260,077	273,861
Bank bills receivables (<i>see note (b) below</i>)	886	1,444
Advance payments to suppliers	136,891	79,094
Advance to staff	1,989	4,046
Amount due from a former subsidiary	24,413	–
Deferred consideration	400	–
Prepaid land lease payment	109	109
Government grant receivable	7,000	7,000
Other taxes recoverable	26,117	20,213
Others	<u>22,368</u>	<u>26,027</u>
	<u>480,250</u>	<u>411,794</u>

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



10. TRADE AND OTHER RECEIVABLES *(Continued)***a) Ageing analysis of trade receivables and commercial bills receivables**

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
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>260,077</u>	<u>273,861</u>

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

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

11. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Pledged bank deposits	44,567	95,479
Cash and cash equivalents		
– Cash at banks and on hand	<u>75,897</u>	<u>116,334</u>
	<u>120,464</u>	<u>211,813</u>
Reconciliation of the cash and cash equivalents at the end of the year in the consolidated statement of cash flows is set out as below:		
Cash and cash equivalents included in the consolidated statement of financial position	75,897	116,334
Cash and cash equivalents included in the assets of a disposal group	<u>–</u>	<u>67</u>
	<u>75,897</u>	<u>116,401</u>

Note:

- a) At 30 June 2016, bank deposits amounted to RMB4,567,000 (31 December 2015: RMB15,479,000), have been pledged to banks for bills facilities of RMB48,556,000 (2015: RMB53,901,000). The pledged bank deposits will be released upon the settlement of relevant bills payables. The bills facilities to the extent of RMB48,556,000 were utilized as at the end of this reporting period (2015: RMB53,901,000).
- b) At 30 June 2016, bank deposit of RMB10,000,000 (31 December 2015: RMB10,000,000) of the Group has been pledged to a bank for bank borrowings. This pledged bank deposit will be released upon the repayment of the bank borrowings.
- c) At 30 June 2016, bank deposit of the Group of RMB30,000,000 (31 December 2015: RMB70,000,000) has been pledged to bank for general banking facilities to an extent of RMB30,000,000 (31 December 2015: RMB70,000,000).

11. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS *(Continued)*

- d) Cash at bank earned interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents and the pledged bank deposits approximate their fair values.
- e) At 30 June 2016, cash and cash equivalents and pledged bank deposits placed with banks in the PRC amounted to RMB51,066,000 (31 December 2015: RMB203,828,000). Remittance of these funds out of the PRC is subject to relevant rules and regulations of foreign exchange control promulgated by the government of the PRC.

12. TRADE AND OTHER PAYABLES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Trade creditors	54,983	37,023
Bills payables	48,556	53,901
Salaries, wages and welfare payables	12,030	9,170
Other payables and accrued expenses	12,947	12,314
Deposits received from customers	14,365	5,382
Other tax payables	2,703	4,034
	145,584	121,824

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 RMB'000	At 31 December 2015 RMB'000
Within 1 month	17,148	13,915
1 to 3 months	21,282	4,812
Over 3 months	16,553	18,296
	54,983	37,023

13. CAPITAL, RESERVES AND DIVIDENDS**(a) Dividends**

- i) The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2016.
- ii) Dividends payable to equity shareholders attributable to the previous financial year, approved:

	For the six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, and approved of HK3.0 cents per share (six months ended 30 June 2015: nil)	30,000	–

(b) Share capital

	Six months ended 30 June 2016		Year ended 31 December 2015	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.001 each				
At 1 January	2,000,000	2,000,000	230,000	230
Addition (<i>note (i)</i>)	–	–	1,620,000	1,620
Shares reclassified from Series A convertible redeemable preferred shares (<i>note (ii)</i>)	–	–	100,000	100
Shares reclassified from Series B convertible redeemable preferred shares (<i>note (ii)</i>)	–	–	50,000	50
At 30 June/31 December	2,000,000	2,000,000	2,000,000	2,000

13. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital (Continued)

	Six months ended 30 June 2016		Year ended 31 December 2015	
	Number of shares		Number of shares	
	'000	HK\$'000	'000	HK\$'000
Authorised:				
Series A convertible redeemable preferred shares of HK\$0.001 each				
At 1 January	-	-	100,000	100
Shares reclassified from Series A convertible redeemable preferred shares to ordinary shares (note (iii))	-	-	(100,000)	(100)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June/31 December	-	-	-	-

	Six months ended 30 June 2016		Year ended 31 December 2015	
	Number of shares		Number of shares	
	'000	HK\$'000	'000	HK\$'000
Authorised:				
Series B convertible redeemable preferred shares of HK\$0.001 each				
At 1 January	-	-	50,000	50
Shares reclassified from Series B convertible redeemable preferred shares to ordinary shares (note (iii))	-	-	(50,000)	(50)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June/31 December	-	-	-	-

13. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital (Continued)

	Six months ended 30 June 2016			Year ended 31 December 2015		
	Number of shares '000	Nominal value of shares HK\$'000	Amount RMB'000	Number of Shares '000	Nominal value of shares HK\$'000	Amount RMB'000
<i>Ordinary shares, issued and fully paid:</i>						
At 1 January	1,000,000	1,000	801	703	1	1
Conversion of Series A convertible redeemable preferred shares to ordinary shares (note (iii))	-	-	-	257	-	-
Conversion of Series B convertible redeemable preferred shares to ordinary shares (note (iv))	-	-	-	40	-	-
	-	-	-	297	-	-
	-	-	-	1,000	1	1
Capitalization issue (note (v))	-	-	-	749,000	749	600
Issuance of shares under IPO, net of share issuance expenses (note (vi))	-	-	-	250,000	250	200
At 30 June/31 December	1,000,000	1,000	801	1,000,000	1,000	801

13. CAPITAL, RESERVES AND DIVIDENDS (Continued)**(b) Share capital** (Continued)

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

	Six months ended 30 June 2016		Year ended 31 December 2015	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
Series A convertible redeemable preferred shares, issued and fully paid:				
At 1 January	-	-	257	-
Conversion of Series A convertible redeemable preferred shares to ordinary shares	-	-	(257)	-
At 30 June/31 December	-	-	-	-

	Six months ended 30 June 2016		Year ended 31 December 2015	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
Series B convertible redeemable preferred shares, issued and fully paid:				
At 1 January	-	-	40	-
Conversion of Series B convertible redeemable preferred shares to ordinary shares	-	-	(40)	-
At 30 June/31 December	-	-	-	-

13. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Share capital *(Continued)*

Notes:

The convertible redeemable preferred shares have the same voting rights as the ordinary shares.

Any dividend payable by the Company shall be paid on a pro rata basis to all ordinary shares and all convertible redeemable preferred shares (on an “as converted” basis). The holders of convertible redeemable preferred shares shall also be entitled to receive any non-cash dividends declared by the Company’s board on an “as converted” basis.

- (i) As at 31 December 2014, the authorised share capital of the Company amounted to HK\$380,000 which divided into 230,000,000 ordinary Shares of a par value of HK\$0.001 each, 100,000,000 Series A convertible redeemable preferred shares of a par value of HK\$0.001 each and 50,000,000 Series B convertible redeemable preferred shares of a par value of HK\$0.001 each. Pursuant to the written resolutions of all shareholders dated 26 May 2015, the authorised share capital of the Company was increased from HK\$380,000 to HK\$2,000,000 by the creation of an additional 1,620,000,000 ordinary shares of par value of HK\$0.001 each (ranking pari passu in all respects with the then existing issued ordinary shares) such that the authorised share capital of the Company became HK\$2,000,000 divided into 1,850,000,000 Shares, 100,000,000 Series A convertible redeemable preferred shares and 50,000,000 Series B convertible redeemable preferred shares.
- (ii) Pursuant to a written resolution of the shareholders of the Company dated 26 May 2015, following the conversion of Series A convertible redeemable preferred shares and Series B convertible redeemable preferred shares, that part of the authorised share capital of the Company comprising 100,000,000 Series A convertible redeemable preferred shares be re-designated and re-classified into 100,000,000 ordinary shares and the share class of Series A convertible redeemable preferred shares shall cease to exist thereafter and that part of the authorised share capital of the Company comprising 50,000,000 Series B convertible redeemable preferred shares be re-designated and re-classified into 50,000,000 ordinary shares and the share class of Series B convertible redeemable preferred shares shall cease to exist thereafter (the “Re-designation”), such that following the Re-designation, the authorised share capital of the Company became HK\$2,000,000 divided into 2,000,000,000 ordinary shares, all ranking pari passu in all respects with the then existing issued ordinary shares;

13. CAPITAL, RESERVES AND DIVIDENDS *(Continued)***(b) Share capital** *(Continued)**Notes: (Continued)*

- (iii) On 19 June 2015, 257,280 Series A convertible redeemable preferred shares were converted into 257,280 ordinary shares (which shall rank pari passu in all respects with the then existing issued ordinary shares) at a conversion rate of 1:1 share immediately prior to the Capitalization Issue as defined in note (v) below.
- (iv) On 19 June 2015, 40,000 Series B convertible redeemable preferred shares were converted into 40,000 ordinary Shares (which shall rank pari passu in all respects with the then existing issued ordinary shares) at a conversion rate of 1:1 share immediately prior to the Capitalization Issue as defined in note (v) below.
- (v) Pursuant to a written resolution of the shareholders of the Company dated 26 May 2015, the directors of the Company were authorised to allot and issue a total of 749,000,000 ordinary shares, by way of capitalisation of the sum of HK\$749,000 standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholders as appearing on the register of members of the Company immediately before the listing of the Company's shares on the Stock Exchange. The capitalization shares were allotted on 19 June 2015 and distributed, credited as fully paid at par.
- (vi) On 19 June 2015, the Company issued 250,000,000 shares of HK\$0.001 each at a price of HK\$1.22 per share (approximate to RMB0.98 per share) by way of an initial public offering. Proceeds of HK\$250,000 (approximate to RMB200,000), representing the par value of shares issued, were credited to the Company's share capital. The remaining proceeds of approximately HK\$285,448,000 (approximate to RMB228,614,000), after deducting share issuance expenses of approximately HK\$19,302,000 (approximate to RMB15,459,000), were credited to the share premium account.

14. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**i) Financial instruments measured at fair value**

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

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

	Fair value measurements categorised into Level 1	
	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Recurring fair value measurements		
Asset		
Trading securities	2,619	2,619



14. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

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

During the six months ended 30 June 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur.

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

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
At 1 January	–	257,112
Change in fair value	–	(37,471)
Exchange realignment	–	(324)
Conversion of Series A Shares and Series B Shares into ordinary shares	–	(219,317)
	<hr/>	<hr/>
At 30 June	–	–
	<hr/>	<hr/>
Total gain/(loss) for the periods included in profit or loss for liability held at the end of the reporting period:		
Gain/(loss) on change in fair value of convertible redeemable preferred shares	–	37,471
	<hr/>	<hr/>
Total gains/(losses) for the periods included in other comprehensive income for liability held at the end of the reporting period:		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of functional currency to presentation currency	–	324
	<hr/>	<hr/>

14. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)***ii) Fair value of financial instruments carried at other than fair value**

The directors of the Company consider that the carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as of 30 June 2016 and 31 December 2015.

15. 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 PRC, to an independent third party for a cash consideration of RMB400,000. The net liabilities at the date of disposal were as follows:

	RMB'000
Consideration received:	
Deferred consideration	400
	<hr/>
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	(24,413)
	<hr/>
Net liabilities disposed of	(11,675)
	<hr/>
Gain on disposal of a subsidiary:	
Deferred consideration	400
Net liabilities disposed of	11,675
Non-controlling interests	(2,335)
	<hr/>
Gain on disposal	9,740
	<hr/>
Net cash outflow arising on disposal:	
Cash and cash equivalents disposed of	(123)
	<hr/>

16. OPERATING LEASE COMMITMENTS

As of 30 June 2016 and 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 year	537	1,247
After 1 year but within 5 years	—	—
	<u>537</u>	<u>1,247</u>

17. CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2016 and 31 December 2015 not provided for in the consolidated financial statements were as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Commitments for the acquisition of property, plant and equipment:		
– Contracted but not provided for	—	7,521
	<u>—</u>	<u>7,521</u>

18. MATERIAL RELATED PARTY TRANSACTIONS**Key management personnel remuneration**

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Salaries, wages and other benefits	834	945
Contributions to defined contribution retirement plans	21	49
	855	994

19. SUBSEQUENT EVENT

On 8 July 2016, the Company granted 100,000,000 options to certain eligible persons to subscribe for an aggregate of 100,000,000 ordinary shares of HK\$0.001 each of the share capital of the Company under the share option scheme adopted by the Company on 26 May 2015. Among the options granted, options entitling the holders thereof to subscribe for an aggregate of 8,000,000 shares were granted to Mr. Zhang Xiongfeng, a non-executive director of the Company.



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 government 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 Period and Net Profit Margin

As a result of the foregoing, the Group's profit for the Period 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 earning 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, had 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.

OTHER INFORMATION

FOREIGN EXCHANGE RISKS

The functional currency of the Group is Renminbi while a portion of funds raised by the Group from the IPO is still in the form of bank deposits denominated in Hong Kong dollars. Therefore, it may be subject to the risks of exchange rate fluctuations of the Renminbi and the Hong Kong dollar. Apart from the above, most of the assets and transactions of the Group are 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 had been applied 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 as at 30 June 2016:

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.

Corporate Governance Committee

The corporate governance committee comprises three directors of the Company, namely, Mr. Chen Yenfei (chairman), Mr. Min Feng and Mr. Zhou Jian.

The primary responsibilities of the corporate governance committee include (but without limitation) (i) developing and reviewing the Group's policies, approach and practices on corporate governance; (ii) reviewing the size, composition and structure of the Board and its committees; (iii) reviewing and monitoring the training and overall continuous professional development of the Company's directors and senior management; and (iv) any additional matters in relation to corporate governance.

The corporate governance committee also performs annual assessment of the anti-fraud, anti-corruption and anti-bribery measures and the channels for handling complaints and investigations, and submits the assessment results to the audit committee and the Board for review. For the period from the Date of Listing till 30 June 2016, no incident of non-compliance with the Company's Anti-fraud, Anti-corruption, and Anti-bribery Policies that has significant impact to our operations was reported.

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

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

CONTROLLING SHAREHOLDERS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the "Material Related Party Transactions" in note 18 to the Condensed Consolidated Interim Financial Information set out in this report, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a director or a controlling shareholder had a material interest in, whether directly or indirectly, subsisted at the end of the six months ended 30 June 2016 or at any time during the period.



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

As at 30 June 2016, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

Long positions in the Company

Name of Director	Capacity/ nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Chen Yenfei (<i>Note 1</i>)	Interest of a controlled corporation	488,040,000	48.80%
Mr. Li Ho Tan (<i>Note 2</i>)	Interest of a controlled corporation	192,762,000	19.28%

Notes:

1. Mr. Chen Yenfei holds 100% of the issued share capital of Praise Treasure Limited and is therefore deemed to be interested in the 488,040,000 shares held by Praise Treasure Limited in the Company.
2. Mr. Li Ho Tan is interested in 47% of the issued share capital of Advance Apex Limited and the entire issued share capital of Jumbo Success Holdings Limited, both incorporated in the British Virgin Islands, and therefore is deemed to be interested in the 188,362,000 shares and 4,400,000 shares which Advance Apex Limited and Jumbo Success Holdings Limited hold respectively.

Save as disclosed above, as at 30 June 2016, none of the Directors and chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they had taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 30 June 2016, so far as the directors and chief executive of the Company were aware, the following persons and corporations (excluding the directors and chief executive of the Company) had interests or short positions in any of the shares or underlying shares of the Company which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who, directly or indirectly, is interested in 10% or more of the nominal value of any class of share capital to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Capacity/ nature of interest	Number of shares held <i>(Note 3)</i>	Approximate percentage of issued share capital
Praise Treasure Limited <i>(Note 1)</i>	Beneficial owner	488,040,000 (L)	48.80%
Advance Apex Limited <i>(Note 2)</i>	Beneficial owner	188,362,000 (L)	18.84%
Mr. Cheung Chi Mang <i>(Note 2)</i>	Interest of a controlled corporation	188,362,000 (L)	18.84%

Notes:

1. Praise Treasure Limited directly holds 488,040,000 shares representing 48.80% of the issued share capital of the Company.
2. Advance Apex Limited directly holds 188,362,000 shares representing 18.84% of the issued share capital of the Company. Mr. Cheung Chi Mang is interested in 50% of the issued share capital of Advance Apex Limited and is deemed to be interested in the 188,362,000 shares.
3. The letter "L" denotes the director's long position in the shares of the Company.

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

Hong Kong, 31 August 2016