



**百信集團**  
PASHUN GROUP

**Pa Shun International Holdings Limited**  
**百信國際控股有限公司**

(Formerly known as 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**  
**2017**



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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. Masahiro Honna  
Mr. Zhang Xiongfeng

### 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

Unit D-F, 15/F Neich Tower  
128 Gloucester Road  
Wanchai, Hong Kong

### PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

**AUDITOR**

CCTH CPA Limited  
*Certified Public Accountants*  
Unit 5-6, 7/F, Greenfield Tower  
Concordia Plaza  
1 Science Museum Road  
Tsim Sha Tsui, Kowloon  
Hong Kong

**COMPLIANCE ADVISER**

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

**STOCK CODE**

00574

**COMPANY'S WEBSITE**

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

**PRINCIPAL BANKS**

Bank of Communications Co., Ltd.  
China Everbright Bank Co., Ltd.  
(Hong Kong Branch)  
China Merchants Bank Co., Ltd.  
Xiamen International Bank Co., Ltd.

**PRINCIPAL SHARE REGISTRAR AND  
TRANSFER OFFICE**

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

**HONG KONG BRANCH SHARE REGISTRAR  
AND TRANSFER OFFICE**

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

The board (the “Board”) of directors (the “Directors”) of Pa Shun 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 2017 together with the comparative figures for the corresponding period in 2016. The Group’s interim results are unaudited, but have been reviewed by the audit committee of the Company (the “Audit Committee”).

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2017</b> <b>RMB'000</b> <b>(unaudited)</b>	2016 RMB'000 (unaudited)
<b>Revenue</b>	<i>3(a)</i>	<b>387,879</b>	364,147
Cost of sales		<b>(343,815)</b>	(302,314)
<b>Gross profit</b>		<b>44,064</b>	61,833
Other income and gains	<i>4(a)</i>	<b>9,652</b>	15,426
Other net loss	<i>4(b)</i>	<b>(5,275)</b>	–
Selling and distribution expenses		<b>(11,128)</b>	(8,770)
General and administrative expenses		<b>(15,147)</b>	(23,556)
Finance costs	<i>5</i>	<b>(6,239)</b>	(1,474)
<b>Profit before tax</b>	<i>6</i>	<b>15,927</b>	43,459
Income tax expense	<i>7</i>	<b>(5,538)</b>	(9,796)
<b>Profit for the period</b>		<b>10,389</b>	33,663
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>10,389</b>	33,688
Non-controlling interests		–	(25)
<b>Profit for the period</b>		<b>10,389</b>	33,663
<b>Earnings per share (in RMB cents)</b>	<i>9</i>		
Basic		<b>1.04</b>	3.37
Diluted		<b>1.00</b>	3.37

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
<b>Profit for the period</b>	<b>10,389</b>	33,663
<b>Other comprehensive income for the period</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the People's Republic of China ("PRC" or "China")	295	1,377
<b>Total comprehensive income for the period</b>	<b>10,684</b>	35,040
<b>Attributable to:</b>		
Equity shareholders of the Company	10,684	35,065
Non-controlling interests	—	(25)
<b>Total comprehensive income for the period</b>	<b>10,684</b>	35,040

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***At 30 June 2017*

	<i>Notes</i>	<b>30 June 2017 RMB'000 (unaudited)</b>	31 December 2016 RMB'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	54,592	56,853
Prepaid land lease payments		12,806	2,214
Other intangible assets		2,856	3,103
Prepayments for intangible assets		20,000	20,000
Other non-current assets	11	192,970	159,683
Deferred tax assets		3,548	3,968
		<b>286,772</b>	<b>245,821</b>
<b>CURRENT ASSETS</b>			
Inventories		76,663	77,497
Trade and other receivables	12	376,833	343,281
Prepayments and deposits paid	13	198,790	185,192
Derivative financial instruments	17	9,413	7,567
Amounts due from related parties		92	357
Pledged bank deposits	14	74,676	92,122
Cash and cash equivalents	14	83,798	148,650
		<b>820,265</b>	<b>854,666</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	140,497	193,309
Bank borrowings		29,009	14,009
Amounts due to related parties		181	176
Corporate bonds payable	16	1,778	135
Income tax payable		10,512	10,812
		<b>181,977</b>	<b>218,441</b>
<b>NET CURRENT ASSETS</b>			
		<b>638,288</b>	<b>636,225</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>925,060</b>	<b>882,046</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)*

At 30 June 2017

	<i>Notes</i>	<b>30 June 2017 RMB'000 (unaudited)</b>	31 December 2016 RMB'000 (audited)
<b>NON-CURRENT LIABILITIES</b>			
Deferred income – government grant		25,147	25,588
Corporate bonds payable	16	52,230	15,484
Convertible bonds	17	<u>112,231</u>	<u>116,206</u>
		<u>189,608</u>	<u>157,278</u>
<b>NET ASSETS</b>		<u>735,452</u>	<u>724,768</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	18	801	801
Reserves		<u>734,651</u>	<u>723,967</u>
<b>Total equity attributable to equity shareholders of the Company</b>		<b>735,452</b>	<b>724,768</b>
<b>Non-controlling interests</b>		<u>–</u>	<u>–</u>
<b>TOTAL EQUITY</b>		<u>735,452</u>	<u>724,768</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	PRC statutory reserve	Convertible bonds reserve	Share option reserve	Exchange reserve	Other reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2016 (audited)</b>	801	447,331	36,994	-	-	11,907	(28,150)	256,097	724,980	(2,310)	722,670
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	-	-	1,377	-	1,377
Total comprehensive income for the period	-	-	-	-	-	1,377	-	33,688	35,065	(25)	35,040
Adjustment to non-controlling interests arising on disposal of subsidiary (note 21)	-	-	-	-	-	-	-	-	-	2,335	2,335
Appropriation to PRC statutory reserve	-	-	3,695	-	-	-	-	(3,695)	-	-	-
<b>At 30 June 2016 (unaudited)</b>	801	447,331	40,689	-	-	13,284	(28,150)	286,090	760,045	-	760,045
<b>At 1 January 2017 (audited)</b>	801	447,331	42,279	7,395	11,997	11,623	(28,150)	231,492	724,768	-	724,768
Profit for the period	-	-	-	-	-	-	-	10,389	10,389	-	10,389
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of financial statements of entities outside the PRC	-	-	-	-	-	295	-	-	295	-	295
Total comprehensive income for the period	-	-	-	-	-	295	-	10,389	10,684	-	10,684
Appropriation to PRC statutory reserve	-	-	1,646	-	-	-	-	(1,646)	-	-	-
<b>At 30 June 2017 (unaudited)</b>	801	447,331	43,925	7,395	11,997	11,918	(28,150)	240,235	735,452	-	735,452

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS***For the six months ended 30 June 2017*

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2017</b>	2016
		<b>RMB'000</b>	RMB'000
		<b>(unaudited)</b>	(unaudited)
<b>Operating activities</b>			
Profit before tax		15,927	43,459
Adjustments for:			
Gain on disposal of a subsidiary	21	–	(9,740)
Income tax paid		(5,418)	(10,758)
Other net cash outflow used in operating activities		<u>(93,868)</u>	<u>(47,066)</u>
<b>Net cash used in operating activities</b>		<b>(83,359)</b>	(24,105)
<b>Net cash used in investing activities</b>		<b>(27,035)</b>	(31,361)
<b>Financing activities</b>			
Proceeds from issue of corporate bonds		46,497	–
Corporate bonds issue expenses		(8,692)	–
Other net cash inflow arising from financing activities		<u>10,771</u>	<u>13,652</u>
<b>Net cash generated from financing activities</b>		<b>48,576</b>	13,652
<b>Net decrease in cash and cash equivalents</b>		<b>(61,818)</b>	(41,814)
Cash and cash equivalents at the beginning of the period		148,650	116,334
Effect of changes in foreign exchange rate		<u>(3,034)</u>	<u>1,377</u>
<b>Cash and cash equivalents at the end of the period</b>		<b>83,798</b>	75,897

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1. BASIS OF PREPARATION

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

The unaudited condensed consolidated interim financial information has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2. The interim financial results are unaudited but have been reviewed by the Audit Committee.

The preparation of the unaudited condensed consolidated interim 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 Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group.

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

The application of 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 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 distribution, self-operated retail pharmacies and manufacture of pharmaceutical products in the PRC.

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

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Pharmaceutical distribution	350,691	324,310
Self-operated retail pharmacies	–	251
Pharmaceutical manufacturing	37,188	39,586
	<u>387,879</u>	<u>364,147</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, being the chief operating decision makers, for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No other operating segments have been aggregated to form the following reportable segments.

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

The Group's revenue and 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 2017 and 2016. Accordingly, no analysis by geographical segments has been provided for the six months ended 30 June 2017 and 2016.

No analysis of the Group's assets and liabilities by operating segments was regularly provided to the chief operating decision makers for review during the six months ended 30 June 2017 and 2016 for the purposes of resource allocation and performance assessment.

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 2017 and 2016 is set out below.

Six months ended 30 June 2017 (unaudited)							
Pharmaceutical distribution							
	Sales to franchise retail chain stores	Sales to hospitals and other medical institutions in rural areas	Sub-total	Self-operated retail pharmacies	Pharmaceutical manufacturing	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Revenue from external customers	211,096	105,647	33,948	350,691	-	37,188	387,879
Inter-segment revenue	-	101	-	101	-	1,039	1,140
Reportable segment revenue	211,096	105,748	33,948	350,792	-	38,227	389,019
Reportable segment profit	6,239	9,616	7,268	23,123	-	20,958	44,081
Other segment information							
Depreciation and amortisation	-	-	-	-	-	283	283

Six months ended 30 June 2016 (unaudited)							
Pharmaceutical distribution							
	Sales to franchise retail chain stores	Sales to hospitals and other medical institutions in rural areas	Sub-total	Self-operated retail pharmacies	Pharmaceutical manufacturing	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
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	-	-	-	-	-	226	226

**3. REVENUE AND SEGMENT REPORTING** (Continued)**(b) Segment reporting** (Continued)

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

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
<b>Revenue</b>		
Reportable segment revenue	<b>389,019</b>	364,960
Elimination of inter-segment revenue	<b>(1,140)</b>	(813)
	<hr/> <b>387,879</b>	<hr/> 364,147
<b>Profit</b>		
Reportable segment profit	<b>44,081</b>	61,943
Elimination of inter-segment profit	<b>(17)</b>	(110)
	<hr/> <b>44,064</b>	<hr/> 61,833
Gross profit derived from external customers	<b>44,064</b>	61,833
Other income and gains	<b>9,652</b>	15,426
Other net loss	<b>(5,275)</b>	–
Selling and distribution expenses	<b>(11,128)</b>	(8,770)
General and administrative expenses	<b>(15,147)</b>	(23,556)
Finance costs	<b>(6,239)</b>	(1,474)
	<hr/> <b>15,927</b>	<hr/> 43,459
<b>Other items</b>		
Depreciation and amortisation		
Reportable segment total	<b>283</b>	226
Unallocated total	<b>3,076</b>	4,494
	<hr/> <b>3,359</b>	<hr/> 4,720
Consolidated total	<b>3,359</b>	4,720

#### 4. OTHER INCOME AND GAINS AND OTHER NET LOSS

##### (a) Other income and gains

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Franchise fee	4,770	4,800
Bank interest income	710	87
Rental income	22	–
Deferred income – government grant	441	441
Gain on change in fair value of derivative financial instruments ( <i>note 17</i> )	2,154	–
Gain on disposal of a subsidiary ( <i>note 21</i> )	–	9,740
Other	1,555	358
	<u>9,652</u>	<u>15,426</u>

##### (b) Other net loss

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Impairment loss on trade receivables	6,038	–
Reversal of impairment loss on:		
– inventories	(719)	–
– other receivables	(44)	–
	<u>5,275</u>	<u>–</u>

## 5. FINANCE COSTS

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Interest on:		
Bank borrowings	673	760
Corporate bonds payable	1,808	–
Convertible bonds ( <i>note 17</i> )	3,378	–
Other borrowings	30	384
Bills charges and other bank charges	350	330
	<u>6,239</u>	<u>1,474</u>

## 6. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Cost of inventories sold ( <i>note i</i> )	343,815	302,314
Salaries, wages and other benefits	7,585	16,347
Contributions to defined contribution retirement plans	1,445	1,844
Total staff costs ( <i>note ii</i> )	9,030	18,191
Amortisation of intangible assets	246	257
Amortisation of prepaid land lease payments	134	56
Depreciation of property, plant and equipment	2,979	4,407
Auditors' remuneration		
Audit services	53	—
Non-audit services	258	—
Operating lease charges in respect of property rentals	593	1,902

### Notes:

- (i) Cost of inventories sold for the six months ended 30 June 2017 includes staff costs, depreciation and amortisation expenses totalled RMB645,000 (six months ended 30 June 2016: RMB732,000) which are also included in the respective total amounts disclosed separately above.
- (ii) The total staff costs include directors' emoluments.

## 7. INCOME TAX EXPENSE

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
<b>Current tax – PRC Enterprise Income Tax</b>		
Provision for the period	<b>5,118</b>	9,796
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>420</b>	–
	<b>5,538</b>	9,796

- (i) The Group is subject to income tax on an entity based on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.
- (ii) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (iii) No provision for Hong Kong Profits Tax for the six months ended 30 June 2017 and 2016 has been made in the condensed consolidated statement of profit or loss as the Group has no assessable profits arising in Hong Kong for both of the periods presented.
- (iv) The Group’s PRC subsidiaries are subject to PRC Enterprise Income Tax at the statutory rate of 25%.

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

## 8. DIVIDENDS

	<b>Six months ended 30 June</b>	
	<b>2017</b> <b>RMB'000</b> <b>(unaudited)</b>	2016 RMB'000 (unaudited)
Dividends recognised as distributions during the period:		
Nil (six months ended 30 June 2016:		
2015 final dividend of HK3 cents per share paid)	—	26,995

No dividends were paid or declared during the interim period. The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2017 (2016: Nil).

## 9. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the profit attributable to ordinary equity shareholders of the Company of RMB10,389,000 (six months ended 30 June 2016: RMB33,688,000) and 1,000,000,000 ordinary shares (2016: 1,000,000,000 ordinary shares) in issue.

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2017 and 2016 is based on the profit attributable to ordinary equity shareholders of the Company of RMB11,613,000 and RMB33,688,000 and 1,160,000,000 and 1,000,000,000 ordinary shares, respectively, in issue and issuable as follows:

#### (i) Earnings

	<b>Six months ended 30 June</b>	
	<b>2017</b> <b>RMB'000</b> <b>(unaudited)</b>	2016 RMB'000 (unaudited)
Earnings for the purpose of basic earnings per share	<b>10,389</b>	33,688
Effect of diluted potential ordinary shares		
Interest on convertible bonds	<b>3,378</b>	—
Gain on change in fair value of derivative financial instruments	<b>(2,154)</b>	—
Earnings for the purpose of diluted earnings per share	<b>11,613</b>	33,688

**9. EARNINGS PER SHARE** *(Continued)*  
**(b) Diluted earnings per share** *(Continued)*  
*(ii) Number of shares*

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>Number of shares '000 (unaudited)</b>	Number of shares '000 (unaudited)
Number of ordinary shares for the purpose of basic earnings per share	<b>1,000,000</b>	1,000,000
Effect of conversion of convertible bonds	<b>160,000</b>	—
Number of ordinary shares for the purpose of diluted earnings per share	<b>1,160,000</b>	1,000,000

**10. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2017, the Group acquired items of property, plant and equipment amounting to RMB718,000 (six months ended 30 June 2016: RMB2,717,000).

As at 31 December 2016, buildings with carrying amount of RMB45,220,000 were situated at a parcel of land that the application of land use right certificate was still under progress. As at the end of the reporting period, the land use right certificate in respect of those buildings was obtained.

**11. OTHER NON-CURRENT ASSETS**

	<b>At 30 June 2017 RMB'000 (unaudited)</b>	<b>At 31 December 2016 RMB'000 (audited)</b>
Deposits paid for the acquisition of:		
– companies ( <i>note a</i> )	<b>52,342</b>	52,342
– property, plant and equipment ( <i>note b</i> )	<b>19,745</b>	19,745
Payments in connection with a property development project ( <i>note c</i> )	<b>115,883</b>	82,596
Guarantee deposit ( <i>note d</i> )	<b>5,000</b>	5,000
	<b>192,970</b>	159,683

*Notes:*

- (a) In 2016, the Group entered into a memorandum of understanding with a PRC individual, who is the equity owner of Chengdu Yiming Investment Management Company Limited (“Chengdu Yiming”) (note (c) below), for the proposed acquisition of equity interest in Chengdu Yiming. In accordance with the memorandum of understanding, the consideration and other terms for the acquisition together with the percentage of the equity interest to be acquired are yet to be finalised pending the conclusion with the PRC local government regarding details of the change of land usage of the land held by the Group and Chengdu Yiming for the property development project as referred to in note (c). As at the end of the reporting period, the Group had made payments of refundable deposits for the acquisition amounted to RMB52,342,000 (31 December 2016: RMB52,342,000), which are secured by the pledge of the 100% equity interest of Chengdu Yiming in favour of the Group.

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

*Notes: (Continued)*

- (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) As at the end of the reporting period, a subsidiary of the Company had made payments to Chengdu Yiming, amounted to approximately RMB115,883,000 (31 December 2016: RMB82,596,000) for the development of a logistic centre in the PRC. The land use right of the land of the property project is currently registered in the name of the Company's subsidiary and Chengdu Yiming. It is the understanding of the management of the Group and Chengdu Yiming that the development costs of the property project, including any land premium of the land for the project arising from change of land usage, are initially financed as to 30% and 70% by the Company's subsidiary and Chengdu Yiming respectively and the Company's subsidiary and Chengdu Yiming are entitled to share initially 30% and 70% of the gross floor area of the properties after the completion of development. Detailed terms of the property development project are yet to be finalised by the Group and Chengdu Yiming.

The property project is in preliminary stage and the negotiation with the PRC local government regarding the land premium and other terms for the change of land usage of the land for the property project are finalised.

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

## 12. TRADE AND OTHER RECEIVABLES

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Trade and commercial bills receivables ( <i>note a</i> )	266,346	287,698
Bank bills receivables ( <i>note b</i> )	436	6
Other receivables ( <i>note c</i> )	110,051	55,577
	<u>376,833</u>	<u>343,281</u>

Notes:

## (a) Trade and commercial bills receivables

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

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Within 1 month	49,020	82,524
1 to 3 months	92,871	101,697
4 to 6 months	56,836	58,500
Over 6 months	67,619	44,977
	<u>266,346</u>	<u>287,698</u>
Trade and commercial bills receivables, net of allowance for doubtful debts	<u>266,346</u>	<u>287,698</u>

An average credit period of 30 to 180 days is granted by the Group to its customers (31 December 2016: 30 to 180 days).

**12. TRADE AND OTHER RECEIVABLES** *(Continued)**Notes: (Continued)***(b) Bank bills receivables**

The bank bills receivables are aged within 180 days (31 December 2016: 180 days).

**(c) Other receivables**

An analysis of other receivables is as follows:

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Amount due from a former subsidiary	6,148	6,148
Government grant receivable	3,000	7,000
Other taxes recoverable	19,860	20,149
Others	<u>81,043</u>	<u>22,280</u>
	<u>110,051</u>	<u>55,577</u>

**13. PREPAYMENTS AND DEPOSITS PAID**

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Advance payments to suppliers <i>(note a)</i>	179,400	170,765
Other deposits and prepayments <i>(note b)</i>	<u>19,390</u>	<u>14,427</u>
	<u>198,790</u>	<u>185,192</u>

### 13. PREPAYMENTS AND DEPOSITS PAID (Continued)

Notes:

- (a) The amount represents deposits paid to suppliers for purchases of goods in relation to the business undertaken by the Group. Management of the Company expects that these purchases will be completed within one year after the end of the reporting period.
- (b) Included in other deposits and prepayments are prepaid development costs amounted to RMB8,000,000 (31 December 2016: RMB8,000,000).

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

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Pledged bank deposits ( <i>notes a, b, c, d and f</i> )	74,676	92,122
Cash and cash equivalents ( <i>notes e and f</i> )		
– Cash at banks and on hand	<u>83,798</u>	<u>148,650</u>
	<u>158,474</u>	<u>240,772</u>

Notes:

- (a) At 30 June 2017, bank deposits of the Group amounted to RMB45,687,000 (31 December 2016: RMB40,823,000) have been pledged to banks for bills facilities of RMB41,053,000 (31 December 2016: RMB99,725,000). The pledged bank deposits will be released upon settlement of the relevant bills payables. Bills facilities to the extent of RMB41,053,000 were utilised as at the end of the reporting period (31 December 2016: RMB99,725,000).
- (b) At 30 June 2017, bank deposit of the Group of RMB10,000 (31 December 2016: RMB10,000) has been pledged to a bank for bank borrowings. Such pledged bank deposit will be released upon repayment of the bank borrowings.

**14. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS** *(Continued)**Notes: (Continued)*

- (c) At 30 June 2017, bank deposits of the Group of RMB28,921,000 (31 December 2016: RMB50,494,000) have been pledged to bank for general banking facilities to an extent of RMB28,921,000 (31 December 2016: RMB50,494,000).
- (d) At 30 June 2017, bank deposits of the Group of RMB58,000 (31 December 2016: RMB795,000) have been pledged to Tianfu Mercantile Exchange Company Limited (“Mercantile Exchange”) to allow the Group to sell and promote its licorice products on the internet platform operated by Mercantile Exchange.
- (e) Cash at bank earned interest at floating rates based on daily bank deposit rates.
- (f) Cash and cash equivalents and pledged bank deposits placed with banks in the PRC amounted to RMB83,886,000 (31 December 2016: RMB53,422,000). 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.

**15. TRADE AND OTHER PAYABLES**

	<b>At 30 June 2017 RMB'000 (unaudited)</b>	At 31 December 2016 RMB'000 (audited)
Trade creditors <i>(note)</i>	<b>55,007</b>	61,447
Bills payables	<b>41,053</b>	99,725
Salaries, wages and welfare payables	<b>13,615</b>	9,426
Other payables and accrued expenses	<b>19,107</b>	11,623
Deposits received from customers	<b>9,059</b>	7,450
Other tax payables	<b>2,656</b>	3,638
	<b>140,497</b>	193,309

**15. TRADE AND OTHER PAYABLES** *(Continued)*

*Note:*

An ageing analysis of trade creditors, based on the dates of goods delivery, is as follows:

	<b>At 30 June 2017 RMB'000 (unaudited)</b>	<b>At 31 December 2016 RMB'000 (audited)</b>
Within 1 month	<b>11,463</b>	15,850
1 to 3 months	<b>11,936</b>	8,575
Over 3 months	<b>31,608</b>	37,022
	<b>55,007</b>	61,447

The credit term granted to the Group by its suppliers is 30 days (31 December 2016: 30 days).

## 16. CORPORATE BONDS PAYABLE

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Carrying amount of corporate bonds due in:		
– 2019	3,113	3,018
– 2020	15,656	–
– 2021	7,244	–
– 2024	27,995	12,601
	<u>54,008</u>	<u>15,619</u>
Payable		
– Within one year	1,778	135
– In the second to fifth years	25,461	3,006
– More than five years	26,769	12,478
	<u>54,008</u>	<u>15,619</u>
Analysed for reporting purpose as:		
Current liabilities	1,778	135
Non-current liabilities	52,230	15,484
	<u>54,008</u>	<u>15,619</u>
Movements in corporate bonds payable are as follows:		
At the beginning of the period	15,619	–
Proceeds received on issue of corporate bonds	46,497	19,797
Bonds issue expenses	(8,692)	(4,319)
Interest on bonds accrued	1,808	135
Exchange realignment	(1,224)	6
	<u>54,008</u>	<u>15,619</u>

## 16. CORPORATE BONDS PAYABLE (Continued)

During the six months ended 30 June 2017, the Company issued unsecured corporate bonds with the aggregate principal amount of HK\$52,700,000, giving rise to a total gross proceeds of HK\$52,700,000 (equivalent to RMB46,497,000) before expenses.

At 30 June 2017, corporate bonds with principal amount of HK\$74,700,000 (31 December 2016: HK\$22,000,000) remained outstanding.

## 17. CONVERTIBLE BONDS

	Liability component		Derivative component	
	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Carrying amount of convertible bonds at the end of the period	<b>112,231</b>	116,206	<b>(9,413)</b>	(7,567)
Analysed for reporting purpose as:				
Current asset	-	-	<b>(9,413)</b>	(7,567)
Non-current liability	<b>112,231</b>	116,206	-	-
	<b>112,231</b>	116,206	<b>(9,413)</b>	(7,567)

**17. CONVERTIBLE BONDS** *(Continued)*

On 29 December 2016, the Company issued convertible bonds with aggregate principal amount of HK\$120,000,000 to a third party (the “Bondholder”) for an aggregate consideration of HK\$120,000,000 (before expenses). The convertible bonds comprise (i) bonds in the principal amount of HK\$72,000,000 which carry interest at 4% per annum with maturity period of two years from the date of issue (the “Series 1 CB”) and (ii) bonds in the principal amount of HK\$48,000,000 which carry interest at 4% per annum with maturity period of two years from the date of issue (the “Series 2 CB”). The Series 1 CB and the Series 2 CB entitle the holder thereof to convert the bonds into shares of the Company from date of issue to one day before the maturity date at the initial conversion prices of HK\$0.6 and HK\$1.2 per share respectively. In addition, the Company is required to pay to the Bondholder annual fees which are calculated at 1% of the outstanding principal amounts of the Series 1 CB and the Series 2 CB. Under the terms of the convertible bonds, the Company is entitled to redeem the outstanding Series 1 CB and Series 2 CB in full, but not in part, at any time after one year from the date of issue of the bonds at an amount which comprises the principal amount of the bonds redeemed together with any accrued and unpaid interests and annual fees and an internal rate of return of the bonds. The internal rate of return is calculated at 10% for redemption at maturity and 12% for early redemption of the principal amount of the bonds redeemed for the period from the date of issue of the bonds to the date on which the redemption amount of the bonds are settled.

The Series 1 CB and the Series 2 CB are secured by (i) the pledge of 474,040,000 shares of the Company held by Praise Treasure Limited, an entity which is wholly-owned by Mr. Chen Yenfei, the Chairman, an executive Director and a controlling shareholder of the Company; and (ii) the personal guarantee given by Mr. Chen Yenfei.

On 20 July 2017, the parties to the Series 1 CB and Series 2 CB executed a supplemental deed to amend the terms of the Series 1 CB and Series 2 CB, under which, among other amendments, the initial conversion price of Series 2 CB has been adjusted from HK\$1.2 per share to HK\$0.6 per share. The relevant supplemental bond instruments were executed on 2 August 2017.

**17. CONVERTIBLE BONDS** *(Continued)*

The fair value of the convertible bonds at the date of issue was estimated to be HK\$129,533,000 as valued by Peak Vision Appraisals Limited, an independent firm of business and financial services valuers. The convertible bonds contain three components: liability, equity (conversion right) and derivatives (early redemption right) elements. The fair value of the liability component at the date of issue was calculated using the discount rate of 4.53% to 5.62% per annum, being the estimated market rates for a similar non-convertible bonds at that date. The fair value of the derivative component and equity component at the date of issue and the fair value of the derivative component at 31 December 2016 were valued using the Crank-Nicolson finite-difference method. The inputs into the model were as follows:

	<b>At date of issue</b>	<b>At 31 December 2016</b>
Risk free rate	1.921%	1.828%
Expected volatility	41.952%	42.014%
Expected life	1.998 years	1.995 years
Dividend yield	Nil	Nil

The risk-free rate was estimated by using interpolation with reference to the yield rate of Hong Kong government bonds and treasury bills.

The expected volatility was determined based on the historical volatility of the share prices of comparable companies with similar business scopes and operations to the Company.

The variables and assumptions used in calculating the fair value of the convertible bonds are based on the Directors' best estimate.

**17. CONVERTIBLE BONDS** *(Continued)*

The fair value of the derivative component at 30 June 2017 was valued by International Valuation Limited, an independent firm of business and financial services valuers, using the Binomial option pricing model. The inputs into the model were as follows:

	<b>At 30 June 2017</b>
Risk free rate	0.61%
Expected volatility	42%
Expected life	1.5 years
Dividend yield	Nil

The risk-free rate was estimated by using interpolation with reference to the yield rate of Hong Kong government bonds.

The expected volatility was determined based on the historical volatility of the share prices of the Company.

The variables and assumptions used in calculating the fair value of the convertible bonds are based on the Directors' best estimate.

**17. CONVERTIBLE BONDS** *(Continued)*

Movements of the liability component, derivative component and equity component of the convertible bonds are set out below:

	<b>Liability component</b>	<b>Derivative component</b>	<b>Equity component</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000
Fair value of convertible bonds at date of issue				
Series 1 CB	69,988	(5,617)	6,961	71,332
Series 2 CB	46,658	(1,893)	463	45,228
	<u>116,646</u>	<u>(7,510)</u>	<u>7,424</u>	<u>116,560</u>
Transaction costs incurred for issue of convertible bonds	(479)	–	(29)	(508)
Carrying amount at date of issue	116,167	(7,510)	7,395	116,052
Change in fair value of derivative financial instruments	–	(54)	–	(54)
Interest expense accrued	36	–	–	36
Exchange realignment	3	(3)	–	–
Carrying amount at 31 December 2016 (audited)	116,206	(7,567)	7,395	116,034
Change in fair value of derivative financial instruments <i>(note 4(a))</i>	–	(2,154)	–	(2,154)
Interest expense accrued <i>(note 5)</i>	3,378	–	–	3,378
Interest paid	(3,176)	–	–	(3,176)
Exchange realignment	(4,177)	308	–	(3,869)
Carrying amount at 30 June 2017 (unaudited)	<u>112,231</u>	<u>(9,413)</u>	<u>7,395</u>	<u>110,213</u>

**17. CONVERTIBLE BONDS** (Continued)

The effective interest rates in respect of the liability component of the convertible bonds at 30 June 2017 are 6.03% to 6.04% (31 December 2016: 6.03% to 6.04%) per annum.

No convertible bonds were converted into new shares of the Company during the period under review and the convertible bonds with an aggregate principal amount of HK\$120,000,000 (31 December 2016: HK\$120,000,000) remained outstanding as at 30 June 2017.

**18. SHARE CAPITAL****Authorised:****Ordinary shares of HK\$0.001 each**

At the beginning and the end of the period

Six months ended 30 June 2017 (unaudited)		Year ended 31 December 2016 (audited)	
Number of shares		Number of shares	
'000	HK\$'000	'000	HK\$'000
2,000,000	2,000	2,000,000	2,000

**Issued and fully paid:****Ordinary shares of HK\$0.001 each**

At the beginning and the end of the period

Six months ended 30 June 2017 (unaudited)			Year ended 31 December 2016 (audited)		
Number of shares	Nominal value of shares	Carrying amount	Number of shares	Nominal value of shares	Carrying amount
'000	HK\$'000	RMB'000	'000	HK\$'000	RMB'000
1,000,000	1,000	801	1,000,000	1,000	801

## 19. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company adopted the share option scheme (the “Scheme”) on 26 May 2015 for the purpose of rewarding certain eligible participants for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such eligible participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to early termination of the Scheme in accordance with the rules thereof, the Scheme shall remain in force for a period of ten years commencing from 26 May 2015.

Eligible participants of the Scheme include (i) any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any director or proposed director (including an independent non-executive director) of the Company or any of its subsidiaries; (iii) any direct or indirect shareholder of the Company or any of its subsidiaries; (iv) any supplier, customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of the Company or any of its subsidiaries; (v) any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to the Company or any of its subsidiaries and (vi) any associate of any of the persons referred to in paragraphs (i) to (v) above.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue.

Participants of the Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant within 28 days after the offer date. The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Company’s shares as quoted on the Stock Exchange’s daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company’s shares as quoted on the Stock Exchange’s daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share. The exercise of any option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.

Shares are issued and allotted upon the exercise of options. The Company has no legal or constructive obligations to repurchase or settle the options in cash.

**19. EQUITY SETTLED SHARE-BASED TRANSACTIONS** (Continued)

No share options were granted under the Scheme during the six months ended 30 June 2017. Movements in the number of share options outstanding during the six months ended 30 June 2017 and the year ended 31 December 2016 and their exercise prices are as follows:

	Six months ended 30 June 2017 (unaudited)					Year ended 31 December 2016 (audited)				
	Weighted average exercise price HK\$	Number of share options			Total '000	Weighted average exercise price HK\$	Number of share options			Total '000
		Directors '000	Employees '000	Others '000			Directors '000	Employees '000	Others '000	
At the beginning of the period	0.6	8,000	54,700	37,300	100,000	-	-	-	-	-
Granted during the period	-	-	-	-	-	0.6	8,000	54,700	37,300	100,000
At the end of the period	0.6	8,000	54,700	37,300	100,000	0.6	8,000	54,700	37,300	100,000
Exercisable at the end of the period	0.6	8,000	54,700	37,300	100,000	0.6	8,000	54,700	37,300	100,000

The options are exercisable during the period from 8 July 2016 to 31 December 2019.

The fair value of the share options at the date of grant is determined by using the trinomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

**19. EQUITY SETTLED SHARE-BASED TRANSACTIONS** *(Continued)****Inputs into the model***

Risk free rate	0.574%
Expected volatility	42.328%
Dividend yield	5.172%

The expected volatility may not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

Equity-settled share-based payments amounted to RMBNil has been recognised in profit or loss in respect of the current period (year ended 31 December 2016: RMB11,597,000) relating to share options granted by the Company.

The weighted average exercise price of the share options granted and outstanding at the end of the reporting period is HK\$0.6 (31 December 2016: HK\$0.6) per share. The weighted average remaining contractual life of outstanding share options granted and outstanding at the end of the reporting period is 2.5 years (31 December 2016: 3 years).

**20. 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 valuation: 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 valuation: 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 valuation: Fair value measured using significant unobservable inputs.

**Fair value measurements  
categorised into Level 2**

	<b>At 30 June 2017 RMB'000 (unaudited)</b>	<b>At 31 December 2016 RMB'000 (audited)</b>
<b>Recurring fair value measurements</b>		
Asset:		
Derivative financial instruments	<b>9,413</b>	7,567

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

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

During the six months ended 30 June 2017 and 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.

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

The Directors consider that the carrying amounts of the Group's financial instruments carried at amortised cost at 30 June 2017 and 31 December 2016 are not materially different from their fair values as at those respective dates. The fair values, which are included in Level 3 category, have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rates that reflect the credit risk of counterparties.

**21. DISPOSAL OF A SUBSIDIARY****During the six months ended 30 June 2016**

In January 2016, the Group disposed of its entire equity interest in a subsidiary, 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:

	<b>RMB'000</b> <b>(unaudited)</b>
Analysis of assets and liabilities over which control was lost:	
Plant and equipment	9,116
Intangible assets	4,633
Inventories	777
Cash and cash equivalents	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:	
Consideration receivable	400
Net liabilities disposed of	11,675
Non-controlling interests	(2,335)
	<hr/>
Gain on disposal ( <i>note 4(a)</i> )	9,740
	<hr/>
Net cash outflow arising on disposal:	
Cash and cash equivalents disposed of	(123)
	<hr/>

## 22. OPERATING LEASE COMMITMENTS

At 30 June 2017 and 31 December 2016, the total future minimum lease payments under non-cancellable operating leases payable are as follows:

	<b>At 30 June 2017 RMB'000 (unaudited)</b>	<b>At 31 December 2016 RMB'000 (audited)</b>
Within one year	1,693	975
In the second to fifth years	<u>1,561</u>	<u>–</u>
	<u><b>3,254</b></u>	<u><b>975</b></u>

## 23. COMMITMENTS

	<b>At 30 June 2017 RMB'000 (unaudited)</b>	<b>At 31 December 2016 RMB'000 (audited)</b>
Commitments contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment	6,866	6,866
– Payments in connection with a property development project	<u>–</u>	<u>11,652</u>
	<u><b>6,866</b></u>	<u><b>18,518</b></u>

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

Remuneration for key management personnel of the Group, including amounts paid to the Directors, is as follows:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Salaries, wages and other benefits	<b>1,650</b>	834
Contributions to defined contribution retirement plans	<b>16</b>	21
	<b><u>1,666</u></b>	<u>855</u>

**25. EVENTS AFTER THE REPORTING PERIOD**

The following events took place subsequent to the end of the reporting period:

In July and August 2017, the Company entered into subscription agreements with certain independent third parties, pursuant to which the Company issued to such third parties corporate bonds with aggregate principal amount of HK\$20,000,000 for cash consideration of HK\$20,000,000. These corporate bonds bear coupon rate of 6.5% per annum with maturity periods ranging from 2 to 7.5 years.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group continued to focus on the pharmaceutical distribution and pharmaceutical manufacturing businesses in the PRC during the six months ended 30 June 2017. For the self-operated retail pharmacies business, the Group continued to seek mergers and acquisitions opportunities in respect of established retail pharmacy chains in order to revitalise the business segment.

#### Revenue

For the six months ended 30 June 2017, the Group recorded a total revenue of RMB387.9 million, representing an increase of approximately 6.5% from RMB364.1 million for the six months ended 30 June 2016. This increase was primarily due to the growth in revenue from the Group's pharmaceutical distribution, offset by the decrease in revenue from the Group's self-operated retail pharmacies segment and pharmaceutical manufacturing segment.

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

The Group's cost of sales increased by approximately 13.7% from RMB302.3 million for the six months ended 30 June 2016 to RMB343.8 million for the six months ended 30 June 2017. This increase was primarily due to increase in cost of sales for the Group's pharmaceutical distribution segment.

The Group's gross profit decreased by approximately 28.7% from RMB61.8 million for the six months ended 30 June 2016 to RMB44.1 million for the six months ended 30 June 2017. The Group's gross margin decreased from 17.0% for the six months ended 30 June 2016 to 11.4% for the six months ended 30 June 2017. Such decrease is primarily attributable to the higher contribution from the pharmaceutical distribution segment which had a lower margin than those of other segments.

**Selling and Distribution Expenses**

The Group's selling and distribution expenses increased by approximately 26.9% from RMB8.8 million for the six months ended 30 June 2016 to RMB11.1 million for the six months ended 30 June 2017. This increase was primarily due to an increase in salary and commission expenses and transportation expenses due to the increased coverage of the Group's distribution area, offset by a decrease in rent and management fees due to the closure of the Group's retail pharmacy stores.

**General and Administrative Expenses**

The Group's general and administrative expenses decreased by approximately 35.7% from RMB23.6 million for the six months ended 30 June 2016 to RMB15.1 million for the six months ended 30 June 2017. This decrease was primarily due to a decrease in salary and welfare, in particular bonus expenses, along with a decrease in rent and management fees for the Group's operation in Chengdu.

**Other Income and Gains**

Other income and gains decreased by approximately 37.4% from RMB15.4 million for the six months ended 30 June 2016 to RMB9.7 million for the six months ended 30 June 2017. This decrease was primarily due to the absence of the gain on disposal of a subsidiary of the Company which existed in the first half of 2016.

**Other Net Loss**

The Group recorded other net loss of RMB5.3 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMBNil). Such net loss was primarily due to impairment loss on trade receivables, offset by reversal of impairment losses on inventories and other receivables.

**Finance Costs**

Finance costs increased by approximately 323.3% from RMB1.5 million for the six months ended 30 June 2016 to RMB6.2 million for the six months ended 30 June 2017. This increase was primarily due to the increase in interest and related expenses from the Company's convertible and corporate bonds that were issued during the second half of 2016 and the first half of 2017.

**Profit before Tax**

Profit before tax decreased by approximately 63.4% from RMB43.5 million for the six months ended 30 June 2016 to RMB15.9 million for the six months ended 30 June 2017. This decrease was primarily due to (i) the decrease in gross profit for the six months ended 30 June 2017, (ii) the absence of the gain from disposal of a subsidiary which existed in the first half of 2016 and (iii) the increase in finance costs as disclosed above.

**Income Tax Expense**

Income tax expense decreased by approximately 43.5% from RMB9.8 million for the six months ended 30 June 2016 to RMB5.5 million for the six months ended 30 June 2017. This decrease was primarily due to the decrease in taxable income from the PRC subsidiaries of the Company.

**Profit for the Period and Net Profit Margin**

As a result of the foregoing, the Group's profit for the period decreased by approximately 69.1% from RMB33.7 million for the six months ended 30 June 2016 to RMB10.4 million for the six months ended 30 June 2017. The Group's net profit margin decreased from 9.2% for the six months ended 30 June 2016 to 2.7% for the six months ended 30 June 2017.

**BUSINESS REVIEW**

For the six months ended 30 June 2017, the Group's revenue generated by the pharmaceutical distribution segment amounted to RMB350.8 million, representing an increase of approximately 8.1% as compared with RMB324.4 million for the comparative period in 2016. Such increase was primarily attributable to the increase of the revenue from the sales to franchise retail chain pharmacies though the overall growth of this segment was offset by the reduction in revenue from the sales to other wholesalers and to the hospitals and other medical institutions in rural areas. The "Two-Invoice System" implemented in April 2017 in Sichuan, which only allows a single level of distributors for the sale of pharmaceutical products from drug manufacturers to medical institutions, has caused a drop in the Group's sales to other wholesalers and to the hospitals and other medical institutions in rural areas, and deteriorated the gross margin of the entire segment.

The Group did not have any revenue generated from the self-operated retail pharmacies segment for the six months ended 30 June 2017, as compared to a revenue of RMB0.3 million for the six months ended 30 June 2016. Such decrease was mainly attributable to the closure of the Group's remaining self-operated retail pharmacies in Chengdu which had failed to meet the earnings targets upon assessment. The Group had been seeking merger and acquisition opportunities in respect of established retail pharmacy chains to revitalise the business segment.

For the six months ended 30 June 2017, the Group's revenue from the pharmaceutical manufacturing segment amounted to RMB38.2 million, representing a decrease of approximately 5.1% from RMB40.3 million for the six months ended 30 June 2016. Such decrease was mainly attributable to the sluggish market for traditional embrocation products.

During the period under review, the Group acquired the state-owned land use right certificate for its manufacturing site located in Wenjiang District, Chengdu.

#### **Future Prospects**

During the reporting period, various revolutionary policies for the Chinese pharmaceutical industry continued to be implemented, bringing in challenges and also new opportunities to the industry. The "Two-Invoice System" was formally implemented in Sichuan regions, leading to continuous integration of the pharmaceutical distribution industry and promoting industry participants to accelerate transformation. In addition, the comprehensive reform of public hospitals in the PRC is expected to be fully initiated in the second half of this year. Relevant government departments will coordinate and promote in-depth reforms in the management system, medical pricing, personnel compensation, drug distribution, health insurance payment method, etc., which would bring a new round of changes to the industry.

The pharmaceutical industry is highly competitive. The Group is making adequate preparation in talent, capital and business model expansion, so that it can continuously enhance its risk resistance ability and adapt to policy changes, and stand in a favorable position to seize new development opportunities. The Group can make use of its solid foundation, resources and network in southwestern China to seize the opportunity of extending to areas of innovative business for development. Under the leadership of an experienced and dedicated management team, the Group will continue to implement the following business development strategies so as to maintain growth and to achieve better returns:

- Accelerating the construction of an international logistics centre to improve the operational efficiency of the pharmaceutical distribution business;
- Leveraging on its network advantage to strengthen interaction with franchisers, so as to enhance business quality and volume;
- Continuously optimising the product structure to expand the range of available products; and
- Increasing efforts on investments, mergers and acquisitions to expand the Group's business scale and enhance its profitability.

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group actively and regularly reviews and manages its capital structure to enhance its financial strength for the Group's long-term development. There were no changes in the Group's approach to capital management during the reporting period.

The Group funds its operations principally from cash generated from its operations, bank borrowings and other debt instruments and equity financing from investors. Its cash requirements relate primarily to operating activities, business expansion, repayment of liabilities as they become due, capital expenditures, interest and dividend payments.

The Group had total cash and cash equivalents of RMB83.8 million as at 30 June 2017 as compared with RMB148.7 million as at 31 December 2016, approximately 66.2% of which are denominated in Renminbi and approximately 33.8% of which are denominated in Hong Kong dollars.

The Group recorded net current assets of RMB638.3 million and RMB636.2 million as at 30 June 2017 and 31 December 2016 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 4.51 as at 30 June 2017, as compared with 3.91 as at 31 December 2016.

As at 30 June 2017, the total amount of bank loans was RMB29.0 million, as compared with RMB14.0 million as at 31 December 2016, all of which are denominated in Renminbi, bearing interest rates ranging from 4.75% to 5.87% per annum and with maturity periods from 1 to 1.92 years. As at 30 June 2017, bills facilities to the extent of RMB41.1 million were utilised (31 December 2016: RMB99.7 million) and general banking facilities to an extent of RMB29.0 million were utilised (31 December 2016: RMB50.5 million).

As at 30 June 2017, the total number of issued ordinary shares of the Company was 1,000,000,000 shares (31 December 2016: 1,000,000,000 shares) (the "Shares"). In 2016, the Company has granted to certain eligible persons share options ("Options") to subscribe for an aggregate of 100,000,000 Shares under the Scheme. Please refer to the announcement of the Company dated 8 July 2016 for details of the grant of the Options. No Options were exercised during the six months ended 30 June 2017.

On 15 December 2016, the Company entered into a convertible bonds subscription agreement (“Subscription Agreement”) with, among others, Chance Talent Management Limited (“Purchaser”), pursuant to which, on 29 December 2016, the Company has issued to the Purchaser the Series 1 CB and the Series 2 CB (collectively referred to as the “Convertible Bonds”). On 20 July 2017, the Company executed the supplemental deed (“Supplemental Deed”) with, among others, the Purchaser, pursuant to which the parties have conditionally agreed to enter into the supplemental bond instruments of each of the Convertible Bonds (“Supplemental Bond Instruments”) to amend certain terms and conditions of the Convertible Bonds. Please refer to the paragraph headed “Issue of the Convertible Bonds” under the section headed “Other Information” in this report for further details.

For the six months ended 30 June 2017, the Company issued 18 batches of unsecured corporate bonds, with principal amount of HK\$52.7 million, to various independent third parties at par value, bearing coupon rates of 6.5% to 7% per annum and with maturity periods from 3 to 7.5 years.

The Group’s gearing ratio is represented by net debts divided by total equity plus net debts. The Group’s net debts include bank and other borrowings, corporate and convertible bonds, less cash and cash equivalents and pledged bank deposits. As at 30 June 2017, the Group’s gearing ratio was 4.76% (31 December 2016: -15.1%).

### **CONTINGENT LIABILITIES**

As at 30 June 2017, the Group did not have any significant contingent liabilities.

### **CHARGES OF ASSETS**

Details of charges of the Group’s assets during the reporting period are set out in note 14 to the condensed consolidated interim financial information in this report.

## OTHER INFORMATION

### FOREIGN EXCHANGE RISKS

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

### SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2017, the Group did not make any significant investments, acquisitions or disposals that would constitute a discloseable transaction under Chapter 14 of the Listing Rules.

### HUMAN RESOURCES

As at 30 June 2017, the Group had a total of 274 staff, primarily in the PRC. The total staff cost was RMB9.0 million for the six months ended 30 June 2017.

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

The Group's development and training programs ensure it has the required skills and talent to grow its people and business. These programs help the employees in improving and gaining knowledge on the trends in the pharmaceutical industry and the latest standard and regulations. The following are the Group's policies in providing development and training programs to its employees:

- Annual analysis of the Group's training needs across the business
- Organised in-house and external training courses and seminars for staff
- Emphasised health and safety
- Encouraged work-life balance
- Stress management and wellness-related training and counseling services
- Internship programs providing job training and career coaching opportunities

**USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING**

The Shares are listed on the Main Board of the Stock Exchange on 19 June 2015 (“Listing Date”) with net proceeds (“Net Proceeds”) from the global offering of approximately HK\$249.5 million (after deducting underwriting commissions and related expenses). As at 30 June 2017, the Group had utilised HK\$133.7 million of the Net Proceeds and the unutilised Net Proceeds amounted to HK\$115.8 million.

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

<b>Use of the Net Proceeds</b>	<b>Available to use</b>	<b>Utilised (as at 30 June 2017)</b>	<b>Unutilised (as at 30 June 2017)</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Logistics center and related expenses	121.3	121.0	0.3
Acquisition or establishment of self-operated retail pharmacy stores	116.2	0.7	115.5
Working capital and other general corporate purposes	12.0	12.0	–
	<u>249.5</u>	<u>133.7</u>	<u>115.8</u>

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

## ISSUE OF THE CONVERTIBLE BONDS

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

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

The net proceeds from the issue of the Convertible Bonds, after deducting related transaction costs, were approximately HK\$113.1 million. Such net proceeds were intended to be applied to general working capital, business development and any future merger and acquisition transactions of the Group. As at 30 June 2017, HK\$75.0 million of the net proceeds was utilised for working capital and business development.

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

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

Based on the cash and cash equivalent as at 30 June 2017, the Company has the ability to meet its redemption obligations under Series 1 CB or Series 2 CB but not both. The maturity date of Series 1 CB and Series 2 CB is 29 December 2018, with possible extension of another year subject to the Bondholder's approval. Based on the implied internal rate of returns and other relevant parameters of Series 1 CB and Series 2 CB, the Share price at 31 December 2017 at which it would be equally financially advantageous for the Bondholder to convert or redeem was HK\$0.69.

Assuming that there is no change in the share capital of the Company since 30 June 2017 and the Conversion Rights are exercised in full at the initial Series 1 CB conversion price and the amended initial Series 2 CB conversion price, the number of issued shares of the Company will be increased by 200,000,000, representing 20.00% of the issued share capital of the Company as at 30 June 2017 (i.e. 1,000,000,000 Shares) and approximately 13.79% of the issued share capital of the Company as enlarged by the allotment and issue of the conversion shares. Such allotment and issue of the conversion shares will result in the respective shareholdings of the shareholders being diluted by approximately 16.67%.

Assuming there is no change in the shareholding of the substantial shareholder (within the meaning of the Listing Rules) of the Company since 30 June 2017, the shareholding of the substantial shareholder of the Company as at 30 June 2017 immediately before and after the exercise of the Conversion Rights is set out below for illustration purposes:

Name of Shareholder	Shareholding immediately before the exercise of the Conversion Rights		Shareholding immediately after the exercise of the Conversion Rights	
	Number of Shares held	Approximate percentage of shareholding	Number of Shares held	Approximate percentage of shareholding
Praise Treasure Limited ( <i>Note</i> )	<u>484,040,000</u>	<u>48.40%</u>	<u>484,040,000</u>	<u>40.34%</u>

*Note:*

Praise Treasure Limited is wholly owned by Mr. Chen Yenfei, an executive Director, the chairman and chief executive officer of the Company.

## Security

The Convertible Bonds are secured by (i) the share charge (“Share Charge”) in respect of 474,040,000 Shares (“Relevant Shares”) held by Praise Treasure Limited (“Chargor”, together with the Company and Mr. Chen Yenfei as “Obligor”) in favour of the Purchaser; and (ii) the personal guarantee executed by Mr. Chen Yenfei in favour of the Purchaser (“Guarantee”, together with the Share Charge, the “Security”).

Pursuant to the Share Charge, the Chargor, as beneficial owner of the Relevant Shares and the additional Shares as may be transferred to the CCBI Account (as defined below) by the Chargor as a result of the granting of additional security over additional Shares (collectively as “Charged Shares”), shall charge to the Purchaser, by way of first fixed charge all of the rights which it then has and all of the rights which it obtains at any time in the future in (a) the Charged Shares; (b) the securities account of the Chargor established with CCB International Securities Limited (including any renewal or redesignation thereof) (“CCBI Account”); and (c) any rights accruing to, derived from or otherwise connected with the Charged Shares (including dividends and proceeds of disposal).

Pursuant to the Guarantee, Mr. Chen Yenfei has undertaken to the Purchaser that for so long as any Convertible Bonds remain outstanding, among others:

- (a) he will at all times remain as the sole shareholder of the entire issued share capital of the Chargor and the sole director of the Chargor;
- (b) he will ensure that the Chargor at all times remains as the Shareholder with the single largest direct shareholding in the Company; and
- (c) he will at all times remain as the chairman of the Board.

The Share Charge, which subsisted in the period under review and as at 30 June 2017, is discloseable pursuant to Rule 13.17 of the Listing Rules. The Guarantee subsisted in the period under review and as at 30 June 2017.

**Specific performance obligations on Mr. Chen Yenfei and the Chargor**

In addition to those disclosed above, the conditions of the Convertible Bonds (“Bond Conditions”), which subsisted in the period under review and as at 30 June 2017, also contain certain specific performance obligations on Mr. Chen and the Chargor, which require disclosure pursuant to Rule 13.18 of the Listing Rules.

It is an event of default (“Event of Default”) under the Bond Conditions, if, amongst others:

- (1) Change of control: (i) any person or persons, acting together, acquires control of the Company; (ii) Mr. Chen Yenfei ceases to be the single largest beneficial owner of the issued Shares; (iii) Mr. Chen Yenfei ceases to be the chairman of the Board; (iv) the Chargor ceases to be the single largest Shareholder; or (v) unless with the written approval of Bondholders, the Company consolidates with or merges into or sells or transfers all or a substantial part exceeding 30% of the Company’s total assets or 50% of the Company’s net assets, whichever is higher, to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over the Company or the successor entity;
- (2) Breach of terms or obligations: any Obligor defaults in the performance or observance of any term of any Transaction Document which is binding on it, or of its other obligations under or in respect of the Convertible Bonds or any Transaction Document, including but not limited to any obligations of the Chargor or Mr. Chen in relation to the grant of additional security over additional Shares in the event of the Collateral Coverage Ratio for any Trading Day falling below 1.6; or
- (3) Cross-default of any of the Obligor: (i) an event of default under the conditions of the Series 1 CB or the conditions of Series 2 CB, as the case may be; (ii) any indebtedness of the Company or any other Obligor is not paid when due or (as the case may be) within any originally applicable grace period; (iii) indebtedness becoming (or becoming capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the relevant Obligor; or (iv) failure to pay when due any amount payable by it under any guarantee of any indebtedness by the Company or any other Obligor.

If an event of default has occurred, the Bondholder shall have the right by notice to the Company to, among others, require the Company to, in addition to and without prejudice to any of its other payment obligations under the Bond Conditions, pay the default interest to such Bondholder in accordance with the Bond Conditions.

For the purpose of this section, the defined terms have the following meaning:

“Transaction Documents” means (a) the Subscription Agreement, (b) the deeds executed by the Company which constitute the Convertible Bonds and contain the terms and conditions of the Convertible Bonds (“CB Instruments”), (c) the certificate(s) in respect of the Convertible Bonds issued to the Purchaser pursuant to the terms of the applicable CB Instrument, (d) the Guarantee, (e) the document constituting the security granted in favour of the Purchaser from time to time under or in connection with the Transaction Documents, (f) the custodian supplemental deed entered into between CCB International Securities Limited as the safekeeping agent, the Purchaser and the Chargor in connection with the CCBI Account, and (g) any other document designated as a “Transaction Document” by the Purchaser and the Obligors.

“Collateral Coverage Ratio” means, for any Trading Day falling on or after the date of closing of the issue of the Convertible Bonds (“Closing Date”), the amount equal to  $A \times B/C$ , where:

A = the number of Shares being part of the Security after trading of the Shares closes on the Stock Exchange on such Trading Day;

B = the Closing Price on such Trading Day; and

C = the aggregate outstanding principal amount of the Convertible Bonds after trading of the Shares closes on the Stock Exchange on such Trading Day.

“Trading Day” means a day when the Stock Exchange is open for dealing business, provided that if no Closing Price is reported for one or more consecutive dealing days, such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days.

“Closing Price” means for the Shares for any Trading Day, the last traded price per Share as published in the daily quotation sheet of the Stock Exchange for such day.

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

**DIVIDEND**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2017.

**CORPORATE GOVERNANCE**

The Group has committed to achieving high corporate governance standards in order to safeguard the interests of shareholders and enhance corporate value and accountability of the Company. The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) in Appendix 14 to the Listing Rules as its own code of corporate governance. During the six months ended 30 June 2017, the Company has complied with the code provisions set out in the CG Code, except for the code provision A.2.1 of the CG Code.

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

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

## **AUDIT COMMITTEE**

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

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Liu Liangzhong, Mr. Min Feng and Mr. Wong Tak Shing. The chairman of the Audit Committee is Mr. Liu Liangzhong who has appropriate professional qualifications. The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed the internal controls and financial reporting matters, including a review of the interim financial results for the six months ended 30 June 2017.

## **CHANGE OF COMPANY NAME**

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

## **CHANGE OF AUDITORS**

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

## **CHANGE IN DIRECTOR'S INFORMATION**

Mr. Zhang Xiongfeng, a non-executive Director, has been re-designated from an independent non-executive director to a non-executive director of Fire Rock Holdings Limited, shares of which are listed on the Growth Enterprise Market of the Stock Exchange (Stock code: 8345), with effect from 30 June 2017.

Save as disclosed above, as at the date of this report, there were no substantial changes to the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Listing Rules as the Company’s code of conduct regarding Directors’ securities transactions. Having made specific enquiry of all Directors, all the Directors have complied with the required standard as set out in the Model Code during the six months ended 30 June 2017.

## **DIRECTORS’ INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE**

Other than those transactions disclosed in note 24 to the condensed consolidated interim financial information in this report and those disclosed under the paragraph headed “Issue of the Convertible Bonds” above, no Director has any material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the Group’s business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent companies were a party subsisted at the end of the period or at any time during the six months ended 30 June 2017.

## **SHARE OPTION SCHEME**

The Company adopted the Scheme on 26 May 2015 for the purpose of rewarding certain Eligible Persons (as defined below) for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Scheme in accordance with the rules thereof, the Scheme shall remain in force for a period of ten years commencing from 26 May 2015.

Eligible participants of the Scheme include, (i) any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any director or proposed director (including an independent non-executive director) of the Company or any of its subsidiaries; (iii) any direct or indirect shareholder of the Company or any of its subsidiaries; (iv) any supplier, customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of the Company or any of its subsidiaries; (v) any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to the Company or any of its subsidiaries and (vi) any associate of any of the persons referred to in paragraphs (i) to (v) above (the persons referred above are the “Eligible Persons”).

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, i.e. 100,000,000 Shares. As at 30 June 2017, the total number of securities available for issue under the Scheme pursuant to its terms was 100,000,000 Shares, representing in aggregate 10% of the Company's issued share capital as at the date of this interim report. Subject to the issue of a circular by the Company and the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to the Eligible Persons specifically identified by the Board.

Notwithstanding the foregoing, the maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

The maximum number of Shares issued and to be issued upon the exercise of options granted under the Scheme (including exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the Shares in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company; and (ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder (within the meaning of the Listing Rules) or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the Shares in issue at any time and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The Board shall not offer the grant of any option to any Eligible Person after inside information has come to its knowledge until it has announced the information pursuant to the requirements of the Listing Rules. In particular, no option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for the Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements provided that no option may be granted during any period of delay in publishing a results announcement.

The exercise period of the share options granted is determinable by the Directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant within 28 days after the offer date.

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a Share.

Name	Date of grant	Vesting date	Number of share options					Outstanding as at 30 June 2017
			Outstanding as at 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	
Mr. Zhang Xiongfeng (a non-executive Director)	8 July 2016	8 July 2016	8,000,000 <i>(Note)</i>	-	-	-	-	8,000,000
Employees in aggregate	8 July 2016	8 July 2016	54,700,000 <i>(Note)</i>	-	-	-	-	54,700,000
Other eligible participates in aggregate	8 July 2016	8 July 2016	37,300,000 <i>(Note)</i>	-	-	-	-	37,300,000
Total			100,000,000	-	-	-	-	100,000,000

*Note:* The exercise price of these options is HK\$0.60 and the exercise period is from 8 July 2016 to 31 December 2019, both dates inclusive. The closing price of the Shares immediately preceding the date of grant of these options was HK\$0.59. The Company received HK\$1 from each of the grantees of these options upon acceptance of the options granted.

## 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 2017, 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"), Chapter 571 of the Laws of Hong Kong), 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 Shares

Name of Director	Capacity/ nature of interest	Number of Shares held	Approximate percentage of shareholding (Note 1)
Mr. Chen Yenfei (Note 2)	Interest of a controlled corporation	484,040,000	48.40%
Mr. Shen Shun	Beneficial owner	2,500,000	0.25%
Mr. Zhou Jian	Beneficial owner	2,000,000	0.20%
Mr. Zhang Xiongfeng	Beneficial owner	14,000,000	1.40%

#### Notes:

- The total number of Shares in issue as at 30 June 2017 (i.e. 1,000,000,000 Shares) has been used for the calculation of the approximate percentage of interest.
- Mr. Chen Yenfei holds 100% of the issued share capital of Praise Treasure Limited and is therefore deemed to be interested in the 484,040,000 Shares held by Praise Treasure Limited in the Company.

### Long positions in the underlying Shares

Name of Director	Capacity/ nature of interest	Number of underlying Shares held <i>(Note 1)</i>	Approximate percentage of shareholding <i>(Note 2)</i>
Mr. Zhang Xiongfeng	Beneficial owner	8,000,000	0.80%

*Notes:*

1. These are 8,000,000 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Zhang Xiongfeng on 8 July 2016 pursuant to the Scheme and can be exercised by Mr. Zhang Xiongfeng between 8 July 2016 to 31 December 2019 at the subscription price of HK\$0.60 per Share.
2. The total number of Shares in issue as at 30 June 2017 (i.e. 1,000,000,000 Shares) has been used for the calculation of the approximate percentage of interest.

Save as disclosed above, as at 30 June 2017, 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.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, during the period under review, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

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

As at 30 June 2017, 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 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 as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

### Long positions in the Shares

Name of Shareholder	Capacity/ nature of interest	Number of Shares held	Approximate percentage of shareholding (Note 1)
Praise Treasure Limited (Note 2)	Beneficial owner	484,040,000	48.40%
Central Huijin Investment Ltd. (Note 3)	Person having a security interest in shares	474,040,000	47.40%
China Construction Bank Corporation (Note 3)	Person having a security interest in shares	474,040,000	47.40%

#### Notes:

- The total number of Shares in issue as at 30 June 2017 (i.e. 1,000,000,000 Shares) has been used for the calculation of the approximate percentage of interest.
- Praise Treasure Limited directly holds 484,040,000 Shares representing approximately 48.40% of the issued share capital of the Company.
- According to the corporate substantial shareholder notices dated 30 December 2016 filed by each of Central Huijin Investment Ltd. and China Construction Bank Corporation, Chance Talent Management Limited ("Chance Talent") is interested in 474,040,000 Shares. Chance Talent is a wholly-owned subsidiary of CCBI Investments Limited ("CCBII"). CCBII is a wholly-owned subsidiary of CCB International (Holdings) Limited ("CCBIH"). CCBIH is a wholly-owned subsidiary of CCB Financial Holdings Limited ("CCBFH"). CCBFH is a wholly-owned subsidiary of CCB International Group Holdings Limited ("CCBIGH"). CCBIGH is a wholly-owned subsidiary of China Construction Bank Corporation, which is owned as to 57.31% by Central Huijin Investment Ltd.

**Long positions in the underlying Shares**

<b>Name of Shareholder</b>	<b>Capacity/ nature of interest</b>	<b>Number of underlying Shares held</b>	<b>Approximate percentage of shareholding (Note 1)</b>
Central Huijin Investment Ltd. (Note 2)	Interest of controlled corporations	160,000,000	16.00%
China Construction Bank Corporation (Note 2)	Interest of controlled corporations	160,000,000	16.00%

*Notes:*

1. The total number of Shares in issue as at 30 June 2017 (i.e. 1,000,000,000 Shares) has been used for the calculation of the approximate percentage of interest.
2. According to the corporate substantial shareholder notices dated 30 December 2016 filed by each of Central Huijin Investment Ltd. and China Construction Bank Corporation, these underlying Shares are unlisted physically settled derivatives which are held by Chance Talent. Chance Talent is a wholly-owned subsidiary of CCBII. CCBII is a wholly-owned subsidiary of CCBIH. CCBIH is a wholly-owned subsidiary of CCBFH. CCBFH is a wholly-owned subsidiary of CCBIH. CCBIH is a wholly-owned subsidiary of China Construction Bank Corporation, which is owned as to 57.31% by Central Huijin Investment Ltd.

Save as disclosed above, as at 30 June 2017, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in any of the Shares or underlying Shares 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.

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By order of the Board

**Pa Shun International Holdings Limited**

**Mr. Chen Yenfei**

*Chairman and Chief Executive Officer*

Hong Kong, 31 August 2017