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Zhongzhi Pharmaceutical Holdings Limited

中智藥業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3737)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

FINANCIAL HIGHLIGHTS

	For the six months ended		Year-on- Year*
	2015	2014	
	<i>RMB'000</i>	<i>RMB'000</i>	
	(Unaudited)	(Unaudited)	Change
Revenue	347,301	288,064	+20.6%
Gross Profit	192,025	154,137	+24.6%
Gross margin of the Group (%)	55.3%	53.5%	
Profit attributable to equity holders of the Company	62,104	47,814	+29.9%
Earnings per share (expressed in RMB per share)			
Basic and diluted	10.35 cents	7.97 cents	+29.9%

* Year-on-Year change represents a comparison between the current reporting period and the corresponding period last year.

INTERIM RESULTS

The board (the “**Board**”) of directors (“**Directors**”) of Zhongzhi Pharmaceutical Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2015 (the “**Review Period**”), together with the comparative figures for the six months ended 30 June 2014. These results have been reviewed by Ernst & Young, the external auditor of the Group, and the Company’s audit committee (the “**Audit Committee**”).

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	347,301	288,064
Cost of sales		<u>(155,276)</u>	<u>(133,927)</u>
Gross profit		192,025	154,137
Other income and gains	4	3,396	2,211
Selling and distribution expenses		(83,906)	(70,096)
Administrative expenses		(25,448)	(19,960)
Other expenses		(5,450)	(4,600)
Finance costs	5	<u>(526)</u>	<u>(522)</u>
PROFIT BEFORE TAX	6	80,091	61,170
Income tax expense	7	<u>(17,987)</u>	<u>(13,356)</u>
PROFIT FOR THE PERIOD		<u>62,104</u>	<u>47,814</u>
Attributable to owners of the parent		<u>62,104</u>	<u>47,814</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
Profit for the period	9	<u>RMB10.35 cents</u>	<u>RMB7.97 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>62,104</u>	<u>47,814</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>11</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>62,115</u>	<u>47,814</u>
Attributable to owners of the parent	<u>62,115</u>	<u>47,814</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

		30 June 2015	31 December 2014
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	88,612	79,366
Prepayment for property, plant and equipment		3,296	2,100
Prepaid land lease payments		14,602	14,836
Goodwill		1,628	1,628
Other intangible assets		1,253	1,366
Available-for-sale investment		1,000	—
Deferred tax assets		4,427	4,976
Rental deposits		3,499	3,275
Total non-current assets		<u>118,317</u>	<u>107,547</u>
CURRENT ASSETS			
Prepaid land lease payment		470	470
Inventories		97,217	88,471
Trade and notes receivables	<i>11</i>	75,105	35,489
Prepayments, deposits and other receivables	<i>12</i>	16,145	7,943
Cash and cash equivalents	<i>13</i>	36,792	58,004
Total current assets		<u>225,729</u>	<u>190,377</u>
CURRENT LIABILITIES			
Trade payables	<i>14</i>	66,387	52,802
Other payables and accruals	<i>15</i>	63,804	60,805
Amounts due to related parties		8,786	8,786
Interest-bearing bank borrowings	<i>16</i>	20,000	15,000
Deferred income		3,967	6,019
Tax payable		14,712	20,219
Total current liabilities		<u>177,656</u>	<u>163,631</u>
NET CURRENT ASSETS		<u>48,073</u>	<u>26,746</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>166,390</u>	<u>134,293</u>

		30 June	31 December
		2015	2014
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Deferred income		9,040	9,047
Deferred tax liabilities		<u>4,330</u>	<u>4,349</u>
Total non-current liabilities		<u>13,370</u>	<u>13,396</u>
Net assets		<u>153,020</u>	<u>120,897</u>
Equity			
Equity attributable to owners of the parent			
Issued capital	<i>17</i>	8	—
Reserves		<u>153,012</u>	<u>120,897</u>
Total equity		<u>153,020</u>	<u>120,897</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2015 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2014.

The interim condensed consolidated financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The Reorganisation involved business combination of entities under common control and the Group is regarded and accounted for as a continuing group using the merger accounting method. Accordingly, the interim condensed consolidated statement of profit and loss, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2015, and the interim condensed consolidated statement of financial position of the Group as at 30 June 2015 (the “**Interim Condensed Consolidated Financial Statements**”) have been prepared as if the current group structure had been in existence beginning on 1 January 2014, or since their respective dates of incorporation/registration, whichever is the shorter period. All significant intra-group transactions and balances have been eliminated on consolidation in full.

2. IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2014, except for the adoption of the new or revised standards, interpretation and amendments as of 1 January 2015, noted below:

Amendments to IAS 19	Defined benefit plans: Employee contributions
Annual Improvements 2010–2012 Cycle	Amendments to a number of IFRSs
Annual Improvements 2011–2013 Cycle	Amendments to a number of IFRSs

The adoption of the above new or revised standards, interpretation and amendments has had no material financial effect on the accounting policies of the Group and the methods of computation in the interim condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. OPERATING SEGMENT INFORMATION

The board of directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the board of directors for the purposes of allocating resources and assessing performance.

For management purposes, the Group is organised into business units based on its sales channels and has two reportable operating segments as follows:

- (a) Operation of chain pharmacies
- (b) Pharmaceutical manufacturing

Separate individual financial information for different types of channels is presented to the board of directors who reviews the internal reports in order to assess performance and allocate resources.

Segment results are evaluated based on gross profit. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the board of directors.

Geographical information

During the reporting period, the Group operates within one geographical segment because 100% of its revenue was generated in the PRC and all of its assets and capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

3. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

During each of the six months ended 30 June 2014 and 2015, the Group had no revenue from transaction with a single customer which amounted to 10% or more of the Group's sales.

	Six months ended 30 June 2015		
	Operation of chain pharmacies <i>RMB'000</i> (unaudited)	Pharmaceutical manufacturing <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Segment revenue:			
Revenue from external customers	171,498	175,803	347,301
Intersegment sales	—	19,125	19,125
Elimination of intersegment sales	—	(19,125)	(19,125)
	<u>171,498</u>	<u>175,803</u>	<u>347,301</u>
Revenue	171,498	175,803	347,301
Cost of sales	(91,317)	(63,959)	(155,276)
	<u>80,181</u>	<u>111,844</u>	<u>192,025</u>
Segment results			
	<u>80,181</u>	<u>111,844</u>	<u>192,025</u>
Reconciliation:			
Other income and gains			3,396
Selling and distribution expenses			(83,906)
Administrative expenses			(25,448)
Other expenses			(5,450)
Finance costs			(526)
			<u>(91,934)</u>
Profit before tax			<u><u>80,091</u></u>

3. OPERATING SEGMENT INFORMATION (Continued)

	Six months ended 30 June 2014		
	Operation of chain pharmacies <i>RMB'000</i> (unaudited)	Pharmaceutical manufacturing <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Segment revenue			
Revenue from external customers	147,942	140,122	288,064
Intersegment sales	—	20,505	20,505
Elimination of intersegment sales	—	(20,505)	(20,505)
	<u>147,942</u>	<u>140,122</u>	<u>288,064</u>
Revenue	147,942	140,122	288,064
Cost of sales	(76,379)	(57,548)	(133,927)
	<u>71,563</u>	<u>82,574</u>	<u>154,137</u>
Segment results			
Reconciliation:			
Other income and gains			2,211
Selling and distribution expenses			(70,096)
Administrative expenses			(19,960)
Other expenses			(4,600)
Finance costs			(522)
			<u>61,170</u>
Profit before tax			<u>61,170</u>

4. REVENUE AND OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after allowances for returns and trade discounts, for the six months ended 30 June 2015.

An analysis of revenue and other income and gains is as follows:

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Sale of pharmaceutical products	<u>347,301</u>	<u>288,064</u>
Other income and gains		
Interest income	145	152
Interest income from available-for-sale investments	—	361
Government grants:		
— Related to assets	6	166
— Related to income	2,776	760
Gain on disposal of items of property, plant and equipment	9	35
Others	<u>460</u>	<u>737</u>
	<u>3,396</u>	<u>2,211</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank loans wholly repayable within five years	<u>526</u>	<u>522</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	<i>Note</i>	Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Cost of inventories sold		155,276	133,927
Depreciation of items of property, plant, and equipment	<i>10</i>	7,106	6,622
Recognition of prepaid land lease payments*		234	234
Recognition of other intangible assets**		113	192
Provision for impairment of trade receivables		63	—
Research and development costs		5,096	3,982
Loss on disposal of items of property, plant and equipment		183	49
Loss on disposal of intangible assets		—	216

* The recognition of prepaid land lease payments for the reporting period is included in "Administrative expenses" on the face of the interim condensed consolidated statements of profit or loss.

** The amortisation of drug formulation for the reporting period is included in "Cost of sales" on the face of the interim condensed consolidated statements of profit or loss.

The amortisation of software for the reporting period is included in "Administrative expenses" on the face of the interim condensed consolidated statements of profit or loss.

7. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the BVI, the Group is not subject to any income tax in the BVI.

Hong Kong profit tax rate is 16.5% of the Group's assembled profit derived from Hong Kong. Since the Group had no such profit during the reporting period, no provision for Hong Kong profits tax has been made.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in Mainland China during the reporting period was determined in accordance with the rules and regulations of the PRC.

7. INCOME TAX EXPENSE (Continued)

Zhongshan Honeson Pharmaceutical Co., Ltd. (“Honeson Pharmaceutical”) is qualified as high and new technology enterprises and is subject to a preferential income tax rate of 15% for the six months ended 30 June 2014 and 2015. The income tax expenses of the Group for the reporting period are analysed as follows:

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Mainland China		
Current income tax	17,457	12,176
Deferred income tax charge	<u>530</u>	<u>1,180</u>
Total income tax expense	<u><u>17,987</u></u>	<u><u>13,356</u></u>

8. DIVIDEND

No dividend has been paid or declared by the Company since the date of its incorporation. The dividends declared by Zhongzhi Pharmaceutical to its then shareholders during the six months ended 30 June 2014 and 30 June 2015 were nil and RMB30,000,000 respectively.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the period is based on the consolidated profit for the period attributable to the ordinary equity holders of the parent, and on the basis that 600,000,000 ordinary shares, being the number of shares immediately prior to the issuance of new shares on 13 July 2015, were in issue during the period, and assuming the Capitalisation Issue had been completed on 1 January 2014, as further detailed in note 18 to the financial statements.

There were no potentially dilutive ordinary shares in issue during the six months ended 30 June 2015 and 2014, and therefore the diluted earnings per share amount is equivalent to the basic earnings per share.

**9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT
(Continued)**

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the parent (RMB'000)	62,104	47,814
Weighted average number of ordinary shares in issue used in the basic and diluted earning per share calculation	<u>600,000,000</u>	<u>600,000,000</u>
Basic and diluted earnings per share	<u>RMB10.35 cents</u>	<u>RMB7.97 cents</u>

10. PROPERTY, PLANT AND EQUIPMENT

	30 June	31 December
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Carrying amount at 1 January	79,366	71,406
Additions	16,565	20,336
Depreciation provided during the period/year	(7,106)	(12,028)
Disposals	<u>(213)</u>	<u>(348)</u>
Carrying amount at 30 June/31 December	<u>88,612</u>	<u>79,366</u>

The Group's buildings are located in Mainland China.

As at 31 December 2014 and 30 June 2015, certain of the Group's buildings with a net carrying amount of RMB25,467,000 and RMB24,325,000 respectively, were pledged as security for the bank borrowings granted to the Group (note 16).

As at 31 December 2014 and 30 June 2015, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB712,000 and RMB676,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

11. TRADE AND NOTES RECEIVABLES

The Group's trading terms with its wholesale customers are mainly on credit. The credit period is generally not exceeding two months for major customers. As to new customers, payment in advance is normally required. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to customers with a good track record, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

11. TRADE AND NOTES RECEIVABLES (Continued)

An aged analysis of the trade receivables as at the end of the reporting periods, based on the invoice date and net of provision, and the balances of notes receivable is as follows:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Within 1 month	50,816	20,889
1 to 3 months	8,482	3,974
3 to 6 months	4,044	274
6 to 12 months	770	60
Over 12 months	<u>22</u>	<u>167</u>
	64,134	25,364
Notes receivable	<u>10,971</u>	<u>10,125</u>
	<u>75,105</u>	<u>35,489</u>

The notes receivable are settled within 180 days. No notes receivable are discounted as at 31 December 2014 and 30 June 2015, respectively. As at 31 December 2014 and 30 June 2015, the Group has endorsed notes receivable of RMB8,112,000 and RMB7,455,000 to settle trade payables, respectively.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Prepayments	11,226	4,020
Tax recoverable	830	861
Deposits and other receivables	<u>4,089</u>	<u>3,062</u>
	<u>16,145</u>	<u>7,943</u>

13. CASH AND CASH EQUIVALENTS

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Cash and bank balances	<u>36,792</u>	<u>58,004</u>
Denominated in:		
— RMB	35,658	57,975
— HKD	<u>1,134</u>	<u>29</u>
	<u>36,792</u>	<u>58,004</u>

14. TRADE PAYABLES

An aged analysis of the trade payables as at 30 June 2015 and 31 December 2014, based on the invoice date, is as follows:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Within 3 months	56,143	43,740
3 to 6 months	5,684	5,539
6 to 12 months	3,294	2,137
over 12 months	<u>1,266</u>	<u>1,386</u>
	<u>66,387</u>	<u>52,802</u>

The trade payables are non-interest-bearing and are normally settled on terms not exceeding 60 days.

15. OTHER PAYABLES AND ACCRUALS

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Accruals and other payables	13,950	8,726
Accrued salary and welfare	13,647	16,686
Advances from customers	6,062	9,572
Endorsed notes	7,455	8,112
Deposits received	10,012	9,810
Payables for purchases of property and equipment	775	1,030
Other tax payables	11,903	6,869
	<u>63,804</u>	<u>60,805</u>

Other payables are non-interest bearing and have an average term of six months.

16. INTEREST-BEARING BANK BORROWINGS

30 June 2015

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	<u>6.00–6.90</u>	2016	<u>20,000</u>

31 December 2014

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	<u>6.00–6.90</u>	2015	<u>15,000</u>

30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
<u>20,000</u>	<u>15,000</u>

Analysed into:

Bank loans and overdrafts repayable:

Within one year or on demand

<u>20,000</u>	<u>15,000</u>
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16. INTEREST-BEARING BANK BORROWINGS (Continued)

All of the Group's bank loans are secured by:

- (i) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB25,467,000 and RMB24,325,000 as at 31 December 2014, and 30 June 2015, respectively; and were pledged as security for the bank borrowings of RMB15,000,000 and RMB20,000,000 as at 31 December 2014, and 30 June 2015, respectively; granted to Honeson Pharmaceutical and Zhongzhi Pharmaceutical; and
- (ii) mortgages over the Group's prepaid land lease payments, which had an aggregate carrying value of approximately RMB15,306,000 and RMB15,071,000 as at 31 December 2014 and 30 June 2015, respectively.

In addition, Zhongzhi Pharmaceutical has guaranteed Honeson Pharmaceutical's bank loan of up to RMB30,000,000 as at 31 December 2014 and 30 June 2015.

17. ISSUED CAPITAL

The following changes in the Company's authorised and issued share capital took place during the period from 12 September 2014 (date of incorporation) to 30 June 2015, and subsequent to the reporting period up to 13 July 2015.

	<i>Notes</i>	Number of ordinary shares of HK\$0.01	Nominal value of ordinary shares HK\$
Unaudited			
Authorised:			
On incorporation	<i>(a)</i>	39,000,000	390,000
Increase in authorised share capital on 8 June 2015	<i>(b)</i>	<u>1,521,000,000</u>	<u>15,210,000</u>
As at 30 June 2015 and 13 July 2015		<u><u>1,560,000,000</u></u>	<u><u>15,600,000</u></u>
Issued and fully paid:			
On incorporation	<i>(a)</i>	10,000	100
As at 30 June 2015			
Capitalisation Issue credited as fully paid conditional on the share premium account of the Company, being credited as a result of the issuance of new shares to the public	<i>18</i>	599,990,000	5,999,900
Issuance of new shares on 13 July 2015	<i>18</i>	<u>200,000,000</u>	<u>2,000,000</u>
As at 13 July 2015		<u><u>800,000,000</u></u>	<u><u>8,000,000</u></u>

17. ISSUED CAPITAL (Continued)

- (a) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 12 September 2014 with an authorised share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each, of which 100,000 share were allotted and issued fully paid to Cheer Lik Development Limited (“Cheer Lik”) at par. On 2 February 2015, Cheer Lik entered into various share transfer agreements, pursuant to which Cheer Lik transferred 8,052 Shares to Crystal Talent Investment Group Limited (“Crystal Talent”) at par, 1,000 Shares to Advance Keypath Global Investments Limited at par, 200 Shares to Metro Joy International Limited at par and 44 Shares to Aces Chess Global Limited at par. Such transfers were legally completed on the same date and as a result of which, Cheer Lik only held 704 Shares.
- (b) On 8 June 2015, pursuant to the written resolutions of the shareholders, the authorised share capital of the Company was increased from HK\$390,000 to HK\$15,600,000 by the creation of an additional of 1,521,000,000 Shares of HK\$0.01 each.

18. EVENTS AFTER REPORTING PERIOD

Pursuant to the written resolutions of the shareholders passed on 8 June 2015, conditional upon the share premium account of the Company being credited as a result of the Global Offering as defined in the Prospectus dated 30 June 2015, the Directors were authorised to capitalise the amount of HK\$5,999,900 from the amount standing to the credit of the share premium account of the Company and to apply such amount to pay up in full at par 483,111,948 Shares, 42,239,296 Shares, 59,999,000 Shares, 11,999,800 Shares and 2,639,956 Shares for allotment and issue to Crystal Talent, Cheer Lik, Advance Keypath Global Investments Limited, Metro Joy International Limited and Aces Chess Global Limited respectively.

In connection with the Company’s initial public offering, 200,000,000 shares of HK\$0.01 each were issued at a price of HK\$2.46 per share for a total cash consideration, before expenses, of approximately HK\$246,000,000. Dealings in these shares on the Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) commenced on 13 July 2015.

The Company’s shares were listed on the Main Board of the Hong Kong Stock Exchange on 13 July 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The Company was incorporated in the Cayman Islands on 12 September 2014, and its subsidiaries is principally engaged in pharmaceutical manufacturing in the People's Republic of China (the "PRC") and the operation of chain pharmacies in Zhongshan in the Guangdong province, the PRC. We develop, manufacture and sell (i) Chinese patent medicines; (ii) decoction pieces including both traditional decoction pieces and modern decoction pieces; and (iii) food products. Our products are sold under our core brands of "Zeus (中智)", "Liumian (六棉牌)" and "Caojinghua (草晶華)".

The continuous growth in the PRC pharmaceutical industry has been driven by favourable demographic trends, continuing urbanization, the overall economy's healthy expansion, and income growth which encourage greater public health awareness and consumption of pharmaceutical products. The demand on pharmaceutical products will remain high and the related consumer expenditure is expected to increase year by year, which is beneficial to the further growth and development of the Group. As such, it is anticipated that stable sales growth of our own-branded products in the PRC will continue in the near future.

During the Review Period, the Group recorded growth in both turnover and profit. The Group had a robust growth trend in the sales of both pharmaceutical manufacturing and operation of chain pharmacies and a turnover of approximately RMB347.3 million was recorded for the six months ended 30 June 2015, representing an increase of approximately 20.6% as compared with the corresponding period last year. The revenue derived from our decoction pieces increased by approximately 31.6%, particularly revenue derived from modern decoction pieces increased by approximately 44.5% to RMB102.1 million, for the Review Period over the corresponding period last year as a result of the Group's effort to expand our distribution and marketing network, with a view to further increase our market share and deepen market penetration.

Looking forward to the second half of 2015, the Group expects the gross profit margin will be improved with the increase in the sales of the modern decoction pieces and Chinese patent medicines with higher gross profit margin. It will strive to sustain long-term sales growth by putting more resources on the research and development of the modern decoction pieces and by formulating appropriate sales and marketing strategy for food product which had been launched in the PRC market since June 2015. The Group will also seek to strengthen cooperation with its customers to develop and manufacture better products to suit market needs. To support the development of its growing business, the Group will continue to implement the following business development strategy, coupled with our experienced and committed management team, in order to maintain growth and achieve higher returns:

- expand our chain pharmacies in the Guangdong province;
- expand the breadth and depth of our distribution network;
- expand our production capacities;

- strengthen our research and development capabilities and product range; and
- strengthen our brand recognition and awareness by enhancing our marketing and promotional activities.

FINANCIAL REVIEW

Revenue

Our operations can be divided into two segments in the PRC pharmaceutical industry, namely (i) pharmaceutical manufacturing; and (ii) operation of chain pharmacies in Zhongshan. Below is the analysis of revenue by segment:

	Revenue for the six months ended 30 June			% of total revenue for the six months ended 30 June		
	2015 RMB'000	2014 RMB'000	Change (%)	2015 (%)	2014 (%)	Change (%)
Pharmaceutical manufacturing	175,803	140,122	25.5	50.6	48.6	+2.0
Operation of chain pharmacies	171,498	147,942	15.9	49.4	51.4	-2.0
	<u>347,301</u>	<u>288,064</u>	20.6	<u>100.0</u>	<u>100.0</u>	

Pharmaceutical Manufacturing

We are engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (consisting of traditional decoction pieces and modern decoction pieces) under our brands in the PRC. Our core brands include “Zeus (中智)”, “Liumian (六棉牌)” and “Caojinghua (草晶華)”.

Revenue derived from pharmaceutical manufacturing increased by approximately 25.5% to RMB175.8 million for the six months ended 30 June 2015 (six months ended 30 June 2014: RMB140.1 million) and accounted for 50.6% of our total revenue during the Review Period (six months ended 30 June 2014: 48.6%), attributable to the growth in sales as a result of the Group’s effort to expand our distribution and marketing network, with a view to further increase our market share and deepen market penetration.

Operation of chain pharmacies in Zhongshan

We have been operating chain pharmacies in Zhongshan under our brand “Zeus (中智)” for the sale of pharmaceutical products since 2001. As at 30 June 2015, we have 201 self-operated chain pharmacies in Zhongshan (30 June 2014: 196).

Segment revenue of our operation of chain pharmacies increased by approximately 15.9% to approximately RMB171.5 million for the six months ended 30 June 2015 (six months ended 30 June 2014: RMB147.9 million) and accounted for 49.4% of our total revenue during the Review Period (six months ended 30 June 2014: 51.4%). The increase in segment revenue was a result of the organic growth of our chain pharmacies, driven by the increase in the overall market demand on pharmaceutical and healthcare products.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the Review Period was RMB192.0 million, representing an increase of RMB37.9 million or 24.6% as compared with RMB154.1 million for the corresponding period in 2014. Below is the analysis of gross profit by segment:

	Gross profit for the six months ended 30 June			Gross profit margin for the six months ended 30 June		
	2015	2014	Change	2015	2014	Change
	<i>RMB'000</i>	<i>RMB'000</i>	(%)	(%)	(%)	(%)
Pharmaceutical manufacturing	111,844	82,574	+35.4	63.6	58.9	+4.7
Operation of chain pharmacies	80,181	71,563	+12.0	46.8	48.4	-1.6
	<u>192,025</u>	<u>154,137</u>	+24.6	<u>55.3</u>	<u>53.5</u>	+1.8

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 35.4% to RMB111.8 million for the six months ended 30 June 2015 (six months ended 30 June 2014: RMB82.6 million). Our gross profit margin increased to 63.6% for the six months ended 30 June 2015 (six months ended 30 June 2014: 58.9%), primarily resulted from the increase in the wholesale of our own-branded products with higher gross profit margin such as modern decoction pieces and Dangshen and Milkvetch Root Oral Solution (參芪口服液).

Operation of chain pharmacies in Zhongshan

The gross profit of chain pharmacies segment increased by approximately 12.0% to RMB80.2 million for the six months ended 30 June 2015 (six months ended 30 June 2014: RMB71.6 million). The gross profit margin of our chain pharmacies segment decreased to 46.8% for the six months ended 30 June 2015 (six months ended 30 June 2014: 48.4%). The decrease was mainly due to the increase in the sales of non-own branded products, which had lower gross profit margin than the own-branded products.

Other Income and Gains

Other income and gains mainly comprise bank interest income and government grants. For the six months ended 30 June 2015, other income and gains of the Group were approximately RMB3.4 million (six months ended 30 June 2014: RMB2.2 million), representing an increase of approximately RMB1.2 million as compared to the corresponding period of 2014 which was mainly attributable to the increase in the recognition of government grants.

Selling and Distribution Expenses

Selling and distribution expenses mainly represent staff costs, advertisement and promotional costs and rental expenses of our chain pharmacies. For the six months ended 30 June 2015, selling and distribution expenses amounted to approximately RMB83.9 million (six months ended 30 June 2014: RMB70.1 million), representing an increase of approximately 19.7% as compared to the corresponding period of 2014. Selling and distribution expense ratio remained stable at approximately 24.0% against revenue for the first half of 2014 and the first half of 2015.

Administrative Expenses

Administrative expenses mainly represent salaries and benefits of our administrative and management staff as well as legal and professional fees. For the six months ended 30 June 2015, administrative expenses amounted to approximately RMB25.4 million (six months ended 30 June 2014: RMB20.0 million), representing an increase of approximately 27.5% as compared to the corresponding period of 2014. The increase was due to the increase of the professional fees of approximately RMB2.5 million as a result of the listing of the Group in July 2015 and increase in salaries by RMB2.7 million in order to retain high quality talents to ensure smooth operation and cater for the Group's expansion plan.

Finance Costs

For the six months ended 30 June 2015 and 2014, the finance costs of the Group remained stable at approximately RMB0.5 million.

Income Tax Expense

Income tax amounted to approximately RMB18.0 million for the six months ended 30 June 2015 (six months ended 30 June 2014: RMB13.4 million). Zhongshan Honeson Pharmaceutical Co., Ltd. (中山市恒生藥業有限公司), enjoyed a preferential tax treatment because of its accreditation as a High and New Technology Enterprise and its applicable tax rate was 15%.

Profit attributable to owners of the parent

As a result of the facts discussed above, profit attributable to owners of the parent increased by 29.9% from RMB47.8 million for the six months ended 30 June 2014 to RMB62.1 million for the six months ended 30 June 2015. The Group's net profit margin increased from 16.6% for the six months ended 30 June 2014 to 17.9% for the six months ended 30 June 2015.

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB48.1 million as at 30 June 2015 (31 December 2014: RMB26.7 million). The current ratio of the Group increased from approximately 1.2 as at 31 December 2014 to 1.3 as at 30 June 2015.

Borrowing and the Pledge of Assets

The bank borrowings of the Group, which were secured by our properties, plant and equipment and land use rights amounted to RMB20.0 million as at 30 June 2015 and were due within one year (31 December 2014: RMB15.0 million). All of our bank borrowings were denominated in RMB with fixed interest rates.

As at 30 June 2015, we had available unutilized banking facilities of approximately RMB15.0 million (31 December 2014: RMB20.0 million). Further details of the Group's bank borrowings are set out in note 16 of the notes to the interim condensed consolidated financial statements.

Gearing Ratio

Our gearing ratio, which is calculated by dividing total borrowings by total equity, as at 30 June 2015 and 31 December 2014 was maintained at a low level at 13.1% and 12.4%, respectively.

Capital Structure

The shares of the Company (the “**Shares**”) were listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 13 July 2015. There has been no change in the capital structure of the Company since then. The capital of the Company comprises ordinary shares and other reserves.

Foreign Exchange Exposure and Exchange Rate Risk

The Group's transactions are mainly denominated in RMB. The majority of assets and liabilities are denominated in RMB, and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than RMB, which is the functional currencies of the major operating companies now comprising the Group. During the period, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

Capital Expenditure

For the six months ended 30 June 2015, the Group had capital expenditure of RMB16.8 million (six months ended 30 June 2014: RMB3.9 million). The capital expenditure was mainly related to the purchasing fixed assets for research and development activities and production of our own-branded products.

EMPLOYEES AND EMOLUMENTS POLICY

As at 30 June 2015 the Group had 2,256 employees with a total remuneration of RMB72.4 million during the six months ended 30 June 2015 (six months ended 30 June 2014: RMB56.7 million). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

SIGNIFICANT INVESTMENT HELD

During the six months ended 30 June 2015, the Group did not have any significant investment.

USE OF PROCEEDS

Our business objectives and planned use of proceeds as stated in the prospectus dated 30 June 2015 (the “**Prospectus**”) were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus. The actual use of proceeds was based on the actual market development. The net proceeds from the public offer and placing of our Shares (the “**Global Offering**”) were approximately HK\$452.9 million. During the period from 13 July 2015 (the “**Listing Date**”), being the date on which dealings in the Shares first commenced in the Stock Exchange to the date of this announcement, the net proceeds from the Global Offering had been applied as follows:

Business objectives as stated in the Prospectus	Use of proceeds as stated in the Prospectus (HK\$'000)	Actual use of proceeds from the Listing Date to the date of this announcement (HK\$'000)
Expansion of our pharmaceutical chain in the Guangdong province	135,870	—
Expansion of our distribution network	90,580	—
Provide funding for our research and development activities	90,580	—
Expansion of our production capacity	90,580	—
General working capital purposes	45,290	—
	<u>452,900</u>	<u>—</u>

The unutilized net proceeds have been placed with licensed banks in Hong Kong as interest bearing deposits in accordance with the intention of the Board as disclosed in the Prospectus.

COMMITMENT

As at 30 June 2015, the Group's operating lease and capital commitment amounted to RMB58.7 million (31 December 2014: RMB56.0 million) and RMB8.0 million (31 December 2014: 2.3 million), respectively. The capital commitment was mainly related to the purchasing fixed assets for research and development activities and production plant of our own-branded products.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Apart from strengthening the Group's current business and the future plans as disclosed in the Prospectus, the Group will devote its best effort and resources to cope with the increasing market demand in our own-branded products, in order to enhance shareholder's value.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as of 30 June 2015 (31 December 2014: nil).

SUBSEQUENT EVENTS AFTER THE REVIEW PERIOD

Pursuant to the written resolutions of the shareholders of the Company passed on 8 June 2015, conditional upon the share premium account of the Company being credited as a result of the Global Offering, the Directors were authorized to capitalize the amount of HK\$5,999,900 from the amount standing to the credit of the share premium account of the Company and to apply such amount to pay in full at par 483,111,948 Shares, 42,239,296 Shares, 59,999,000 Shares, 11,999,800 Shares and 2,639,956 Shares for allotment and issue to Crystal Talent Investment Group Limited, Cheer Lik Development Limited, Advance Keypath Global Investments Limited, Metro Joy International Limited and Aces Chess Global Limited respectively.

On 13 July 2015, 200,000,000 Shares of HK\$0.01 each of the Company were issued at an issue price of HK\$2.46 each in connection with the Global Offering.

On 13 July 2015, Shares were listed on the Stock Exchange.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities from the Listing Date up to the date of this announcement.

INTERIM DIVIDEND

The Board does not recommend payment of interim dividend for the six months ended 30 June 2015 (2014: nil).

AUDIT COMMITTEE

The Audit Committee was established on 8 June 2015 with terms of reference in compliance with the Code on Corporate Governance Practices (the “**Code**”) as set out in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the purpose of to making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the internal control procedures of the Group. The Audit Committee now comprises three members, all being independent non-executive Directors, namely, Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han. The Group’s accounting principles and practices, financial statements and related materials for the period had been reviewed by the Audit Committee.

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the unaudited interim condensed consolidated financial statements matters of the Group for the six months ended 30 June 2015 and recommended its adoption by the Board.

CORPORATE GOVERNANCE PRACTICES

For the period under review, the Company has complied with the code provisions set out in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules except CG Code provision A.2.1.

CG Code provision A.2.1 stipulates that the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Lai is the Chairman and the general manager of the Group. In view of Mr. Lai is the founder of the Group and has been operating and managing our Group since 1999, the Board believes that it is the best interest of the Group to have Mr. Lai taking up both roles for effective management and business development. Therefore, the Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstance. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors out of a total of seven Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

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 (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions. All Directors of the Company have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code for the six months ended 30 June 2015.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.zeus.cn>). The interim report of the Company for the six months ended 30 June 2015 will be dispatched to shareholders of the Company and published on the aforementioned websites in due course.

By order of the Board
Zhongzhi Pharmaceutical Holdings Limited
Mr. Lai Zhi Tian
Chairman and executive director

Hong Kong, 24 August, 2015

As at the date of this announcement, the Board comprises seven directors. The executive directors are Mr. Lai Zhi Tian, Ms. Jiang Li Xia, Ms. Mou Li and Mr. Cao Xiao Jun. The independent non-executive directors are Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han.