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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

INTERIM RESULTS

The board (the “Board”) of directors (“Directors”) of Zhongzhi Pharmaceutical Holdings Limited (the “Company”) presents the unaudited interim condensed consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2017 (the “Reporting Period”), together with the comparative figures for the six months ended 30 June 2016. These results have been reviewed by the Company’s audit committee (the “Audit Committee”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
REVENUE	5	431,530	358,968
Cost of sales		<u>(178,456)</u>	<u>(161,205)</u>
Gross profit		253,074	197,763
Other income and gains	5	8,119	10,705
Selling and distribution expenses		(167,642)	(134,428)
Administrative expenses		(30,405)	(26,180)
Other expenses		(13,208)	(6,732)
Finance costs	6	<u>–</u>	<u>(3)</u>
PROFIT BEFORE TAX	7	49,938	41,125
Income tax expense	8	<u>(11,444)</u>	<u>(9,147)</u>
PROFIT FOR THE PERIOD		<u>38,494</u>	<u>31,978</u>
Attributable to owners of the parent		<u>38,494</u>	<u>31,978</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the period		<u>RMB 0.049</u>	<u>RMB 0.040</u>
Diluted			
– For profit for the period		<u>RMB 0.048</u>	<u>RMB 0.040</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	<u>38,494</u>	<u>31,978</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(885)	1,719
Change in fair value of available-for-sale investments, net of tax	—	1,933
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>(885)</u>	<u>3,652</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>37,609</u>	<u>35,630</u>
Attributable to owners of the parent	<u>37,609</u>	<u>35,630</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		30 June 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	184,340	180,053
Prepayment for property, plant and equipment		1,820	2,345
Prepaid land lease payments	12	13,662	13,896
Goodwill		1,628	1,628
Other intangible assets	13	7,243	1,709
Investment in a joint venture	14	419	430
Available-for-sale investments	15	8,650	8,650
Deferred tax assets		4,724	5,758
Other non-current assets		4,593	8,516
		227,079	222,985
Total non-current assets			
CURRENT ASSETS			
Prepaid land lease payments	12	470	470
Inventories	16	141,801	121,081
Trade and notes receivables	17	101,946	63,863
Prepayments, deposits and other receivables	18	16,059	20,694
Bank financial products	20	90,871	–
Cash and bank balances	21	215,111	326,135
		566,258	532,243
Total current assets			
CURRENT LIABILITIES			
Trade payables	22	71,131	57,531
Other payables and accruals	23	80,489	81,482
Amounts due to related parties		8,786	8,786
Deferred income	24	8,493	6,493
Amount due to a joint venture	14	389	430
Tax payable		10,659	15,589
		179,947	170,311
Total current liabilities			
NET CURRENT ASSETS		386,311	361,932
TOTAL ASSETS LESS CURRENT LIABILITIES		613,390	584,917

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		30 June	31 December
		2017	2016
	Notes	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Deferred income	24	11,091	14,693
Deferred tax liabilities		1,614	1,843
		<hr/>	<hr/>
Total non-current liabilities		12,705	16,536
		<hr/>	<hr/>
Net assets		600,685	568,381
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	25	6,309	6,309
Reserves		594,376	562,072
		<hr/>	<hr/>
Total equity		600,685	568,381
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Zhongzhi Pharmaceutical Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 13 July 2015 (the “Listing Date”).

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacture and sale of pharmaceutical products and operation of chain pharmacies in the People’s Republic of China (the “PRC”). There has been no significant change in the Group’s principal activities during the period.

In the opinion of the Directors, as at the date of this announcement, the immediate and ultimate holding company of the Company is Crystal Talent Investment Group Limited, a company incorporated in the British Virgin Islands (“BVI”).

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), including compliance 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 2016.

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.

3. 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 2016, except for the adoption of the new or revised standards, interpretation and amendments as of 1 January 2017, noted below:

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 included in <i>Annual Improvements 2014–2016 Cycle</i>	<i>Disclosure of Interests in Other Entities</i>

The adoption of the above new or revised standards, interpretation and amendments has had no material financial effect on these interim condensed consolidated financial statements.

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

4. 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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Geographical information

Since over 90% of the Group's revenue and operating profit were generated in the PRC and over 90% of the Group's non-current assets were located in the PRC, no geographical segment information in accordance with IFRS 8 *Operating Segments* is presented.

Information about major customers

During each of the six months ended 30 June 2016 and 2017, the Group had no revenue from transaction with a single customer which amounted to 10% or more of the Group's sales.

The revenue and results by operating segments of the Group during each of the six months ended 30 June 2016 and 2017 are as follows:

	Six months ended 30 June 2017		
	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	206,470	225,060	431,530
Intersegment sales	–	20,620	20,620
Elimination of intersegment sales	–	(20,620)	(20,620)
Revenue	206,470	225,060	431,530
Cost of sales	(109,271)	(69,185)	(178,456)
Segment results	97,199	155,875	253,074
Reconciliation:			
Other income and gains			8,119
Selling and distribution expenses			(167,642)
Administrative expenses			(30,405)
Other expenses			(13,208)
Finance costs			–
Profit before tax			49,938

Six months ended 30 June 2016

	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	194,283	164,685	358,968
Intersegment sales	–	21,616	21,616
Elimination of intersegment sales	–	(21,616)	(21,616)
	<hr/>	<hr/>	<hr/>
Revenue	194,283	164,685	358,968
Cost of sales	(105,601)	(55,604)	(161,205)
	<hr/>	<hr/>	<hr/>
Segment results	<u>88,682</u>	<u>109,081</u>	<u>197,763</u>
Reconciliation:			
Other income and gains			10,705
Selling and distribution expenses			(134,428)
Administrative expenses			(26,180)
Other expenses			(6,732)
Finance costs			(3)
			<hr/>
Profit before tax			<u>41,125</u>

5. REVENUE, 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 2017.

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

	Six months ended 30 June	
	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)
Revenue		
Sale of pharmaceutical products	<u>431,530</u>	<u>358,968</u>
Other income		
Interest income	585	912
Interest income from available-for-sale investments	<u>792</u>	<u>1,545</u>
	<u>1,377</u>	<u>2,457</u>
Gains		
Government grants:		
– Related to assets	282	65
– Related to income	4,587	7,226
Gain on disposal of items of property, plant and equipment	56	2
Others	<u>1,817</u>	<u>955</u>
	<u>6,742</u>	<u>8,248</u>
	<u>8,119</u>	<u>10,705</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)
Other finance costs	<u>–</u>	<u>3</u>
	<u>–</u>	<u>3</u>

7. PROFIT BEFORE TAX

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

		Six months ended 30 June	
	Notes	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Cost of inventories sold		178,456	161,205
Depreciation	11	11,578	8,127
Recognition of prepaid land lease payments*	12	234	234
Amortisation of other intangible assets*	13	155	146
Write-down of inventories to net realisable value		91	-
Minimum lease payments under operating leases		15,352	14,711
Auditor's remuneration		1,452	1,258
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		102,640	74,719
Pension scheme contributions (defined contribution scheme)		6,527	4,499
Staff welfare expenses		7,074	4,679
Equity-settled share award expense		1,618	303
		<u>117,859</u>	<u>84,200</u>
Other expenses:			
Research and development costs		13,313	6,558
Loss on disposal of items of property, plant and equipment		1	1
Others		(106)	173
		<u>13,208</u>	<u>6,732</u>

* The recognition of prepaid land lease payments and the amortisation of other intangible assets for the reporting period is included in "Administrative expenses" in the consolidated statement of profit or loss.

8. 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 profits tax rate is 16.5% (2016:16.5%) 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 25% of their taxable profits.

Zhongshan Honeson Pharmaceutical Co.,Ltd. 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 2016 and 2017, respectively.

Zhongzhi Pharmaceutical applied for the high and new technology enterprise accreditation in 2016. The notice of Zhongzhi Pharmaceutical being qualified as high and new technology enterprise was announced in November 2016 by Guangdong Provincial Government. As the result of national evaluation has not yet been announced in 2016, for prudent consideration management still adopts the income tax rate of 25% for calculating the tax provision of Zhongzhi Pharmaceutical for the year ended 31 December 2016. However, management adopts the income tax rate of 15% for calculating the tax provision for the period ended 30 June 2017 since the national evaluation has been announced in 2017.

The income tax expenses of the Group for the reporting period are analysed as follows:

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Mainland China		
Current income tax	10,639	9,523
Deferred income tax charge/(credit)	<u>805</u>	<u>(376)</u>
Total income tax expense	<u><u>11,444</u></u>	<u><u>9,147</u></u>

9. DIVIDEND

During the six months ended 30 June 2017, the Company declared and paid a final dividend in respect of the previous financial year, of HK1.0 cent per ordinary share, amounting to HK\$7,921,000 (equivalent to approximately RMB6,923,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK\$79,000 (equivalent to approximately RMB69,000).

Subsequent to 30 June 2017, the board of directors determined that an interim dividend of HK1.875 cents per share be payable on or around 15 November 2017 to the shareholders on the register of members of the Company on 19 October 2017. The interim dividend has not been recognised as a liability at the end of the reporting period.

10. 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 profit for the period attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 792,149,000 in issue during the period.

The calculation of the diluted earnings per share amount for the period is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares under the share award plan.

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	38,494	31,978
	38,494	31,978
	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
<u>Shares</u>		
Weighted average number of ordinary shares in issue	800,000,000	800,000,000
Weighted average number of shares held for the share award plan (note 26)	(7,851,000)	(4,885,264)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	792,149,000	795,114,736
Effect of dilution-weighted average number of ordinary shares held for the share awarded plan	7,851,000	4,885,264
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	800,000,000	800,000,000

11. PROPERTY, PLANT AND EQUIPMENT

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Carrying amount at 1 January	180,053	89,133
Additions	16,842	112,790
Depreciation provided during the period/year	(11,578)	(21,651)
Disposals	(977)	(219)
	<hr/>	<hr/>
Carrying amount at 30 June/31 December	<u>184,340</u>	<u>180,053</u>

The Group's buildings are located in Mainland China.

As at 31 December 2016 and 30 June 2017, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB568,000 and RMB532,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

12. PREPAID LAND LEASE PAYMENTS

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Carrying amount at 1 January	14,366	14,836
Recognised during the period/year	(234)	(470)
	<hr/>	<hr/>
Carrying amount at 30 June/31 December	14,132	14,366
Current portion	(470)	(470)
	<hr/>	<hr/>
Non-current portion	<u>13,662</u>	<u>13,896</u>

13. OTHER INTANGIBLE ASSETS

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Carrying amount at 1 January	1,709	1,808
Additions – software	5,689	197
Amortisation provided during the period/year	<u>(155)</u>	<u>(296)</u>
Carrying amount at 30 June/31 December	<u>7,243</u>	<u>1,709</u>

14. INVESTMENT IN A JOINT VENTURE

	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Share of net assets	<u>419</u>	<u>430</u>

Particulars of the joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest	Principal activity
Scienwi Pharmaceutical Technology Company Limited	Ordinary shares	Macao	48%	Sale of pharmaceutical products

The above investment is held through the wholly-owned subsidiaries of the Company.

The capital injection of the joint venture has not been completed as at 30 June 2017 due to administrative process.

15. AVAILABLE-FOR-SALE INVESTMENTS

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Non-current		
Unlisted investment, at cost	<u>8,650</u>	<u>8,650</u>

Non-current portion of available-for-sale investments consist of investment in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate. The fair value of unlisted investment cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for the investment, and (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The investment was stated at cost less any impairment losses. The Group does not intend to dispose of it in the near future.

16. INVENTORIES

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Raw materials	28,596	17,613
Work in progress	9,384	8,272
Finished goods	<u>103,821</u>	<u>95,196</u>
	<u>141,801</u>	<u>121,081</u>

17. TRADE AND NOTES RECEIVABLES

The Group's trading terms with its wholesale customers are mainly on credit. The credit period is generally not more than three 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.

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 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
Within 1 month	47,807	25,325
1 to 3 months	21,085	6,619
3 to 6 months	13,434	3,836
6 to 12 months	4,293	1,417
Over 12 months	316	1,019
	<u>86,935</u>	<u>38,216</u>
Notes receivable	15,011	25,647
	<u>101,946</u>	<u>63,863</u>

The notes receivable are settled within 180 days. No notes receivable are discounted as at 31 December 2016 and 30 June 2017, respectively. As at 31 December 2016 and 30 June 2017, the Group has endorsed notes receivable of RMB12,651,000 and RMB11,967,000 to settle trade payables, respectively.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
Prepayments	7,322	14,682
Tax recoverable	956	1,935
Deposits and other receivables	7,781	4,077
	<u>16,059</u>	<u>20,694</u>

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

During the reporting period, the Group and the Company had no financial instruments, other than those with carrying amounts that reasonably approximate to fair values.

Management has assessed that the fair values of cash and cash equivalents, trade and note receivables, financial assets included in prepayments, deposits and other receivables, bank financial products, trade payables, financial liabilities included in other payables and accruals and amount due to a joint venture approximate to their carrying amounts largely due to the short term maturities of these instruments.

20. BANK FINANCIAL PRODUCTS

Bank financial products are consisted of three bank financial products issued by certain banks in the PRC. These bank financial products are principal guaranteed, have annual target return rates ranged from 2.65% to 3.1%, and have fixed maturity date which will due within the period from 17 July 2017 to 29 January 2018. Bank financial products measured at amortised costs.

21. CASH AND BANK BALANCES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Cash and bank balances	82,171	276,348
Time deposits	<u>132,940</u>	<u>49,787</u>
	<u>215,111</u>	<u>326,135</u>
Denominated in:		
– RMB	174,182	273,816
– HK\$	<u>40,929</u>	<u>52,319</u>
	<u>215,111</u>	<u>326,135</u>

22. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2016 and 30 June 2017, based on the invoice date, is as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 3 months	62,337	48,817
3 to 6 months	4,398	4,541
6 to 12 months	2,765	2,603
over 12 months	1,631	1,570
	<u>71,131</u>	<u>57,531</u>

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

23. OTHER PAYABLES AND ACCRUALS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Accruals and other payables	15,642	10,173
Accrued salaries and welfare	20,842	27,789
Advances from customers	4,910	7,433
Endorsed notes	11,967	12,651
Deposits received	15,250	13,450
Payables for purchases of property and equipment	3,569	4,667
Other tax payables	8,309	5,319
	<u>80,489</u>	<u>81,482</u>

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

24. DEFERRED INCOME

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At 1 January	21,186	19,454
Received amounts	3,267	13,631
Released amounts	<u>(4,869)</u>	<u>(11,899)</u>
At 30 June/31 December	<u>19,584</u>	<u>21,186</u>
Current	8,493	6,493
Non-current	<u>11,091</u>	<u>14,693</u>
	<u>19,584</u>	<u>21,186</u>

25. ISSUED CAPITAL

Issued Capital

The Company's issued share capital during the period is as follows:

	30 June	31 December
	2017	2016
	(Unaudited)	(Audited)
Issued and fully paid: 800,000,000 (2016: 800,000,000) ordinary shares of HK\$0.01 each (HK\$'000)	<u>8,000</u>	<u>8,000</u>
Equivalent to RMB'000	<u>6,309</u>	<u>6,309</u>

26. SHARE AWARD PLAN

A share award plan was adopted on 8 January 2016 (the “Share Award Plan”). The Share Award Plan is a share incentive scheme and is established to recognize the contributions by certain selected persons and to attract suitable individuals with experience and ability to further development and expansion of the Group.

The awarded shares will be either (i) allotted and issued by the Company, by using the general or specific mandates granted or to be granted to the board of directors by the shareholders of the Company at general meetings of the Company from time to time, or (ii) acquired by an independent trustee (“Trustee”) from the open market by utilizing the Company’s resources provided to the Trustee. The maximum numbers of shares in respect of which options may be granted under the Share Award Plan cannot result in the aggregate number of shares awarded by the board of directors throughout the duration of the plan to be in excess of 1% of the issued share capital of the Company.

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Plan, the share award plan will be valid and effective for a term of 10 years commencing on the date of the trust deed.

In 2016, the Company purchased 8,000,000 of its ordinary shares through the Trustee at prices ranging from HK\$2.15 to HK\$2.40 per share at a total consideration of approximately HK\$18,313,000 (equivalent to approximately RMB15,651,000).

The Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares is 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.70) on the day of the grant, amounting to HK\$ 1,823,000 (equivalent to approximately RMB 1,618,000). At the end of 30 June 2017, these shares granted has not been transferred.

At the date of approval of these interim condensed consolidated financial statements, 6,778,500 shares of the Company are held by the trustee and have yet to be rewarded.

27. COMMITMENTS

Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Contracted, but not provided for:		
Leasehold improvement	975	3,817
Plant and machinery	<u>15,519</u>	<u>27,936</u>
	<u>16,494</u>	<u>31,753</u>

At the end of 31 December 2016 and 30 June 2017, the Group had significant authorised but not contracted capital commitment of RMB Nil and RMB4,989,000, respectively.

28. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2016 and 30 June 2017 represent consideration received from the registered shareholders as part of the Reorganisation. Pursuant to the Contractual Arrangements, the consideration is repayable to the Registered Shareholders upon exercise of the option to repurchase the equity interest of Zhongzhi Herbal Pieces by the Group. The amounts are unsecured, interest-free and have no fixed term of repayment.

(b) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	2,621	1,887
Pension scheme contributions	140	120
Equity-settled share award expense	<u>250</u>	<u>–</u>
	<u>3,011</u>	<u>2,007</u>

29. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved and authorised for issue in accordance with a resolution of the board of directors on 29 August 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half year of 2017, the management placed efforts on the development of the Caojinghua cell wall broken herbs (cell wall broken decoction pieces)(草晶華破壁草本(破壁飲片)) strictly following the annual planning formulated at the beginning of the year. The construction of over 100 offices was completed during the Reporting Period, and the terminal sales team with over 500 staff was built up. The sales staff have completed a systematical training and are equipped with terminal mentorship skills. The three ways driven marketing mode has been extensively promoted with good market feedback. The sales of Caojinghua cell wall broken herbs is growing steadily and rapidly, boosting the potential of the brand. The e-commerce platform is developing rapidly while online and offline operations have been basically connected. The hospital sales department of Zeus cell wall broken decoction pieces has been exploring unique academic promotion mode, resulting in a fast-growing momentum. Efficient synergies have been created, which enables guidance and supervision of orderly commencement of business through data analysis. The capability of operation and management is thus greatly strengthened.

During 2017, Zhongzhi Chain Pharmacies Company Limited (“Zhongzhi Chain Pharmacies”) and the Chinese patent medicines products under brand name of “Zeus (中智)” and “Liumian (六棉)” maintained a steady development.

Outlook & Strategy

Following the promulgation and implementation of the “Law on Chinese Medicines”, we will record a more extensive growth in the foreseeable future. We will have our work done in the following aspects:

- (I) We will continue to develop our Caojinghua brand as our core mission and proactively promote the development of cell wall broken herbs business, focusing on three major aspects:
1. Continue to lead the development of cell wall broken herbs in the Chinese medicine field with technological innovation;
 2. Continue to create high level of synergy by organizing functional reforms;
 3. Continue to establish a complementary channel value chain to build a three ways driven (business driven+sales driven+channel driven) marketing model;
 4. Through capital advantages and product advantages and various forms (acquisition, equity participation, cooperation, joint development and so on) to expand the sales channels.

(II) Orderly business development:

1. Strategic development of cell wall broken herbs: striving to expand to 200 offices from over 100 existing offices;
2. Developing Zhongzhi Chain Pharmacies, and the Chinese patent medicines business of “Zeus (中智)” and “Liumian (六棉)” by leveraging on our resources.

In view of the above, for the second half of 2017 and the future, we have clear strategic positioning and precise tactics, coupled with efficient synergy and perfect supervision mechanism. We are very confident for the future development.

BUSINESS OVERVIEW

During the Reporting Period, the Group continued to engage principally in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong Province, the PRC.

The Group recorded a total revenue of approximately RMB431.5 million for the six months ended 30 June 2017, representing a 20.2% increase from the corresponding period in 2016 (six months ended 30 June 2016: RMB359.0 million).

The Group recorded a total profit of approximately RMB38.5 million for the six months ended 30 June 2017, representing a 20.4% increase from the corresponding period in 2016 (six months ended 30 June 2016: RMB32.0 million).

FINANCIAL ANALYSIS

Revenue

The Group’s 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 an analysis of revenue by segment.

	Revenue for the six months ended 30 June			% of total revenue for the six months ended 30 June		
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	Change (%)	2017 (%)	2016 (%)	Change (%)
Pharmaceutical manufacturing	225,060	164,685	+36.7	52.2	45.9	+6.3
Operation of chain pharmacies	206,470	194,283	+6.3	47.8	54.1	-6.3
	<u>431,530</u>	<u>358,968</u>	<u>+20.2</u>	<u>100.0</u>	<u>100.0</u>	

Pharmaceutical Manufacturing

The Group is engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (consisting of traditional decoction pieces and Caojinghua cell wall broken herbs (cell wall broken decoction pieces (草晶華破壁草本(破壁飲片)) under the Group's brands in the PRC. The Group's brand include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

Revenue derived from pharmaceutical manufacturing increased by approximately 36.7% to RMB225.1 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB164.7 million) and accounted for 52.2% of the total revenue during the Reporting Period (six months ended 30 June 2016: 45.9%), attributable to the growth in sales as a result of the Group's effort to expand the distribution and marketing network of Caojinghua cell wall broken herbs (cell wall broken decoction pieces (草晶華破壁草本(破壁飲片)), with a view to further increase the Group's market share and deepen market penetration.

Operation of chain pharmacies

The Group has been operating chain pharmacies in Zhongshan under the brand “Zeus (中智)” for the sale of pharmaceutical products since 2001. As at 30 June 2017, the Group has 247 self-operated chain pharmacies in Zhongshan (as at 30 June 2016: 233), of which 233 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies increased by approximately 6.3% to RMB206.5 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB194.3 million) and accounted for 47.8% of the total revenue during the Reporting Period (six months ended 30 June 2016: 54.1%). The increase in segment revenue was a result of the organic growth of the Group’s 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 Reporting Period was RMB253.1 million, representing an increase of RMB55.3 million or 28.0% as compared with RMB197.8 million for the six months ended 30 June 2016. The analysis of gross profit by segment is as below:

	Gross profit for the six months ended 30 June			Gross profit margin for the six months ended 30 June		
	2017 RMB'000	2016 RMB'000	Change (%)	2017 (%)	2016 (%)	Change (%)
Pharmaceutical manufacturing	155,875	109,081	+42.9	69.3	66.2	+3.1
Operation of chain pharmacies	97,199	88,682	+9.6	47.1	45.6	+1.5
	<u>253,074</u>	<u>197,763</u>	<u>+28.0</u>	<u>58.6</u>	<u>55.1</u>	<u>+3.5</u>

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 42.9% to RMB155.9 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB109.1 million). The gross profit margin increased to 69.3% for the six months ended 30 June 2017 (six months ended 30 June 2016: 66.2%), primarily resulted from the increase in sales of own branded products, Caojinghua cell wall broken herbs (cell wall broken decoction pieces) (草晶華破壁草本(破壁飲片)) with higher profit than the non-own branded products.

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by 9.6% to RMB97.2 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB88.7 million). The gross profit margin of the chain pharmacies segment increased to 47.1% for the six months ended 30 June 2017 (six months ended 30 June 2016: 45.6%). The increase was mainly due to the increase in the sales of own branded products with higher profit, Caojinghua cell wall broken herbs (cell wall broken decoction pieces) (草晶華破壁草本(破壁飲片)) and non-own branded healthcare products.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, interest income from available-for-sale investments and government grants. For the six months ended 30 June 2017, other income and gains of the Group were approximately RMB8.1 million (six months ended 30 June 2016: RMB10.7 million), representing an decrease of approximately RMB2.6 million as compared to corresponding period in last year which was mainly attributable to the decrease in (i) interest income of approximately RMB0.8 million from available-for-sale investments; and (ii) government grants of approximately RMB2.4 million.

Selling and Distribution Expenses

Selling and distribution expenses mainly represent staff costs, advertisement and promotional costs and rental expenses of the Group's chain pharmacies. Selling and distribution expenses for the six months ended 30 June 2017 amounted to approximately RMB167.6 million (six months ended 30 June 2016: RMB134.4 million), representing an increase of approximately 24.7% as compared to corresponding period in last year. Selling and distribution expense ratio increased to approximately 38.8% (six months ended 30 June 2016: 37.4%) against revenue for the six months ended 30 June 2017. The Group's selling and distribution expenses increased during the Reporting Period mainly due to (i) the increase in advertising expenses for promoting Caojinghua cell wall broken (cell wall broken decoction pieces) (草晶華破壁草本(破壁飲片)) through different media channels and platforms; (ii) the Group has devoted more resources in sales and marketing staff for the exploration and expansion of distribution networks, including e-commerce, hospital and internet channels; and (iii) the increase in salary of RMB22.0 million for retaining high caliber business talents, thus ensuring smooth business operation to meet business expansion plans of the Group.

Administrative Expenses

Administrative expenses mainly represent salaries and benefits of the administrative office and management staff as well as legal and professional fees. Administrative expenses amounted to approximately RMB30.4 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB26.2 million), representing an increase of approximately 16.1% as compared to corresponding period in last year. The increase was mainly attributable to (i) the increase in office and meeting fee of the Group, and (ii) the increase in employees' salary and introduction of high caliber talents in order to ensure the smooth operation and cater for the talent training plan and business expansion plan of the Group.

Income Tax Expense

Income tax expense amounted to approximately RMB11.4 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB9.1 million). Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) ("Zhongzhi Pharmaceutical") and Zhongshan Honeson Pharmaceutical Co., Ltd. (中山市恒生藥業有限公司) ("Zhongshan Honeson") enjoyed a preferential tax rate 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 factors discussed above, profit attributable to owners of the parent increased by 20.4% to RMB38.5 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB32.0 million). The Group's net profit margin maintained at 8.9% for the six months ended 30 June 2017 (six months ended 30 June 2016: 8.9%).

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

As at 30 June 2017, the Group had net current assets of approximately RMB386.3 million (31 December 2016: RMB361.9 million). As at 30 June 2017, the Group's total cash and bank balances amounted to approximately RMB215.1 million (31 December 2016: RMB326.1 million). The current ratio of the Group maintained at approximately 3.1 as at 30 June 2017 (30 June 2016: 3.1).

The equity attributable to shareholders of the Company as at 30 June 2017 amounted to approximately RMB600.7 million (31 December 2016: RMB568.4 million). As at 30 June 2017, the Group had no outstanding bank borrowings (31 December 2016: nil). Therefore there was no gross debt gearing ratio (borrowings over total equity) as at 30 June 2017 (31 December 2016: nil).

As at 30 June 2017, the Group had available unutilized banking facilities of RMB30.0 million (31 December 2016: RMB30.0 million).

The Group adopts a centralized management of its financial resources and always maintains a prudent approach for a steady financial position.

Financing

The Board considers that the existing financial resources together with funds generated from business operations will be sufficient to meet future expansion plans and, if necessary, the Group believes that it will be capable of obtaining additional financing with favorable terms.

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 (the “Listing Date”). 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. Certain of the Group’s cash and bank deposits are denominated in Hong Kong dollars. In addition, the Company will pay dividend in Hong Kong dollars in the future. Any significant exchange rate fluctuations of Hong Kong dollars against RMB may have financial impacts on the Group. The Group did not use any forward contracts, currency borrowings or other means to hedge its foreign currency exposure as at 30 June 2017. Nevertheless, the Group will from time to time review and adjust the Group’s hedging and financing strategies based on the RMB and Hong Kong dollars exchange rate movement.

CHARGE ON GROUP ASSETS

As at 30 June 2017 and 31 December 2016, the Group did not have any charges on its assets.

CAPITAL EXPENDITURE

For the six months ended 30 June 2017, the Group had capital expenditure of approximately RMB17.9 million (six months ended 30 June 2016: RMB19.8 million). The capital expenditure was mainly related to the purchasing of fixed assets for research and development activities and production of the Group’s own-branded products.

INTERIM DIVIDEND

As a token of the Group's gratitude for the support of our shareholders of the Company (the "Shareholders"), the Board has recommended the distribution of an interim dividend of HK1.875 cents per ordinary share for the six months ended 30 June 2017 (six months ended 30 June 2016: HK1.6 cents) to Shareholders on the register of members of the Company on 19 October 2017, amounting to approximately HK\$15.0 million which will be subject to the approval of the Company's shareholders in an extraordinary general meeting to be held on 13 October 2017 (the "EGM"). The interim dividend will be payable on or around 15 November 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 October 2017 to 13 October 2017, both days inclusive, during which period no transfers of shares shall be effected. The record date will be 6 October 2017. In order to qualify for attending the forthcoming EGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 4 October 2017.

To determine the entitlement of the proposed interim dividend, the register of members of the Company will be closed from 19 October 2017 to 24 October 2017, both days inclusive, during which period no transfers of shares shall be effected. The record date will be 19 October 2017. In order to be eligible for receiving the interim dividend, all completed transfers forms accomplished by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 18 October 2017.

EMPLOYEES AND EMOLUMENTS POLICY

As at 30 June 2017, the Group had 2,949 employees with a total remuneration of RMB117.9 million during the Reporting Period (six months ended 30 June 2016: RMB84.2 million) (including pension scheme contributions, staff welfare expenses and equity-settled share award expense). The salaries of the employees are determined with reference to individual performance, work experience, qualification and current industry practices.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Wealth Management Products

In order to maximize the utilization of the idle proceeds from the fund raised without affecting the Group's operational liquidity and fund security, the Group utilized certain idle proceeds to subscribe for highly secured principal-guaranteed wealth management product during the Reporting Period.

Zhongzhi Pharmaceutical an indirectly wholly owned subsidiary of the Company, made subscriptions for wealth management products offered by Agricultural Bank of China (“ABC”) under wealth management product master agreement with ABC on 16 January 2017 (“C1010314006708”).

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|-------|--|---|
| (i) | Name of the wealth management product: | Agricultural Bank of China “Benlifeng” 181-day RMB Wealth Management Product |
| (ii) | Type of return: | Wealth management product with principal-preservation and guaranteed return |
| (iii) | Valid period of product: | 181 days |
| (iv) | Expected rate of return: | 2.85% |
| (v) | Redemption of principal and return: | The principal and return of the wealth management product will be paid in a lump sum within 1 bank business day after the maturity date. |
| (vi) | Full redemption: | No early redemption of the product shall be opened for investors within the agreed holding period. |
| (vii) | Right of early termination: | No rights of early termination is offered to investors, except that Agricultural Bank of China can exercise its rights of early termination before the maturity date to terminate this product. |

Agricultural Bank of China will publish the early termination announcement to the investors 2 working days before the date of termination, and will transfer the principal and revenue (if any) of the wealth management product to the original account of the investors within 1 working day after the date of early termination.

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by Industrial and Commercial Bank of China (“ICBC”) under wealth management product master agreement with ICBC on 16 January 2017 (“WL63BBX”).

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|--------|--|---|
| (viii) | Name of the wealth management product: | ICBC Principal Guaranteed Corporate 63-day Fixed Rate RMB Wealth Management Product |
| (ix) | Type of return: | Principal-guaranteed and floating income |
| (x) | Valid period of product: | every 63-day an investment cycle (6 cycles) |
| (xi) | Expected rate of return: | 2.65% |
| (xii) | Redemption of principal and return: | The next day of the last day of investment cycle is the fund payment date. If the fund payment date is statutory holiday, the investment cycle would be extended accordingly and the fund payment date will be the establishment day of the latest product (working day). |
| (xiii) | Full redemption: | No early redemption of the product shall be opened for investors within the agreed holding period. |
| (xiv) | Right of early termination: | ICBC has the rights to terminate the wealth management product according to its operating situation and disclose the information at least 3 working days before date of termination. The customer funds will be transferred to the designated account of the customers within 3 working days after the date of termination. No interests will be incurred on the customer funds for the period between the date of termination and exact fund payment date. |

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by Bank of China (“BOC”) under wealth management product master agreement with BOC on 16 January 2017 (“CNYAQKFTP1”).

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|---------|--|--|
| (xv) | Name of the wealth management product: | Principal-guaranteed Wealth Management product of BOC – RMB Open-ended Wealth Management Product with due dates |
| (xvi) | Type of return: | guaranteed return |
| (xvii) | Valid period of product: | 344 days |
| (xviii) | Expected rate of return: | 3.1% |
| (xix) | Redemption of principal and return: | The fund will be received within 2 working days after the date of revenue payment or the date of returning principal of wealth management, No interest will be incurred during this period. |
| (xx) | Full redemption: | Investors have the right to redeem the wealth management product on opening days, which is subject to full redemption only. |
| (xxi) | Right of early termination: | Investors have no unilateral rights to make automatic decision of early termination during the effective period of this wealth management product and can only redeem on respective opening days. Bank of China has the unilateral rights to early terminate on its own initiative according to the actual situation of capital functioning of this wealth management product. |

Announcement will be made by Bank of China at least 2 working days (inclusive) in advance if it needs to early terminate this wealth management product.

USE OF PROCEEDS

The Group's 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 the Shares (the "Global Offering") were approximately HK\$452.9 million. During the period from the Listing Date 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	Actual net proceeds <i>HK\$'000</i>	Amount utilized	
		up to 30 June 2017 <i>HK\$'000</i>	Balance as at 30 June 2017 <i>HK\$'000</i>
Expansion of pharmaceutical chain in the Guangdong province	135,870	(40,755)	95,115
Expansion of distribution network	90,580	(90,580)	–
Providing funding for research and development activities	90,580	(29,579)	61,001
Expansion of production capacity	90,580	(28,552)	62,028
General working capital purposes	45,290	(45,290)	–
	<u>452,900</u>	<u>(234,756)</u>	<u>218,144</u>

The unused net proceeds have been placed as (i) interest bearing deposits with licensed banks in Hong Kong and PRC; and (ii) principal-guaranteed wealth management products issued by ABC, ICBC and BOC pursuant to the Board intention as disclosed in the Prospectus.

COMMITMENT

As at 30 June 2017, the Group's capital commitment amounted to RMB16.5 million (31 December 2016: RMB31.8 million). The capital commitment was mainly related to the purchasing of fixed assets for research and development activities and production plant of the Group's 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 and the Business Review and Outlook in this announcement, the Group will devote its best effort and resources to cope with the increasing market demand in the Group's own-branded products, in order to enhance Shareholder's value. The Group will also consider any potential investment opportunities which may benefit its Shareholders as and when these opportunities arise.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 30 June 2017 (31 December 2016: nil).

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 during the Reporting Period and up to the date of this announcement.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and overseeing the risk management and internal controls of the Group. The Audit Committee 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 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 2017 and recommended its adoption by the Board.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency and safeguard the interests of the Company and its shareholders, customers, staff and other stakeholders. It strives to maintain effective accountability systems through well-developed corporate policies and procedures, and internal systems and controls. The Company has complied with the Code on Corporate Governance Practices ("CG Code") as set out in the Appendix 14 to the Listing Rules except CG Code provision A.2.1.

Pursuant to CG Code provision A.2.1, the role(s) of a chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lai Zhi Tian ("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 the Group since 1999, the Board believes that it is in 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 circumstances.

As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive 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 “MODEL CODE”)

The Company has adopted 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 throughout the Reporting Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be 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 2017 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 29 August 2017

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