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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 RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 2018 (the “Reporting Period”), together with the comparative figures for the six months ended 30 June 2017. 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 2018

		Six months ended 30 June	
	Notes	2018	2017
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	<u>556,668</u>	<u>431,530</u>
Cost of sales		(213,915)	(178,456)
Gross profit		342,753	253,074
Other income and gains	4	11,266	8,119
Selling and distribution expenses		(234,089)	(167,642)
Administrative expenses		(34,408)	(30,405)
Other expenses		<u>(26,016)</u>	<u>(13,208)</u>
PROFIT BEFORE TAX	5	<u>59,506</u>	<u>49,938</u>
Income tax expense	6	<u>(12,498)</u>	<u>(11,444)</u>
PROFIT FOR THE PERIOD		<u>47,008</u>	<u>38,494</u>
Attributable to owners of the parent		<u>47,008</u>	<u>38,494</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
— For profit for the period		<u>RMB 0.056</u>	<u>RMB 0.049</u>
Diluted			
— For profit for the period		<u>RMB 0.056</u>	<u>RMB 0.048</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	47,008	38,494
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	73	(885)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	73	(885)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	47,081	37,609
Attributable to owners of the parent	47,081	37,609

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	217,569	203,198
Prepayment for property, plant and equipment		1,735	3,206
Prepaid land lease payments	10	13,191	13,426
Goodwill		1,628	1,628
Other intangible assets	11	10,189	10,413
Investment in a joint venture	12	405	405
Equity instruments at fair value through profit or loss		23,642	—
Available-for-sale investments		—	8,650
Deferred tax assets		8,838	7,681
Other non-current assets		4,980	4,787
Total non-current assets		282,177	253,394
CURRENT ASSETS			
Prepaid land lease payment	10	470	470
Inventories	13	152,818	137,924
Trade and notes receivables	14	185,616	118,318
Prepayments, deposits and other receivables	15	26,353	42,388
Financial assets at fair value through profit or loss		163,086	—
Bank financial products		39,722	—
Cash and cash equivalents	16	101,726	359,458
Total current assets		669,791	658,558
CURRENT LIABILITIES			
Trade payables	17	79,777	71,623
Interest-bearing loans and borrowings	18	12,647	—
Other payables and accruals	19	110,703	123,211
Amounts due to related parties		8,786	8,786
Deferred income	20	11,400	11,314
Amount due to a joint venture		376	376
Tax payable		13,531	15,272
Total current liabilities		237,220	230,582
NET CURRENT ASSETS		432,571	427,976
TOTAL ASSETS LESS CURRENT LIABILITIES		714,748	681,370

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income	20	11,386	11,628
Deferred tax liabilities		5,439	1,467
Total non-current liabilities		16,825	13,095
Net assets		697,923	668,275
EQUITY			
Equity attributable to owners of the parent			
Issued capital	21	6,650	6,650
Reserves		691,273	661,625
Total equity		697,923	668,275

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 year.

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 AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 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 2017.

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.

2.2 New standards, interpretations and amendments adopted by the Group

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 consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, the following new and amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for the period.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to IFRS 1 and IAS 28

Other than as further explained below, the directors do not anticipate that the application of the new and revised IFRSs above will have a material effect on the Group's consolidated financial statements and the disclosure.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group's principal activities consist of the manufacture and sale of pharmaceutical products. The application of IFRS 15 does not have material impact on the timing and amounts of revenue recognized on the Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group adopted IFRS 9 retrospectively with the initial application date of 1 January 2018. The Group selected not to adjust the comparative information for the period beginning 1 January 2017.

(a) Classification and measurement

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available-for-sale.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, deposits and other receivables, and bank financial products with fixed interest rate.
- Financial assets at FVPL comprise unquoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Group's debt instruments were classified as bank financial products and available-for-sale investments.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The statement of financial position as at 1 January 2018 was restated, resulting in a decrease in available-for-sale investments of RMB8,650,000 and an increase in financial assets at fair value through profit or loss, retained earnings and deferred tax liability of RMB20,934,000, RMB9,212,000 and RMB3,072,000 respectively.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39.

(b) *Impairment*

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

There is no material impact on the Group to the opening balance of retained earnings as at 1 January 2018 for the adoption of the ECL requirements of IFRS 9.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

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 three reportable operating segments as follows:

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

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 2017 and 2018, 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 2017 and 2018 are as follows:

	Six months ended 30 June 2018			Total RMB'000 (unaudited)
	Operation of chain pharmacies RMB'000 (unaudited)	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of online pharmacies RMB'000 (unaudited)	
Segment revenue:				
Revenue from external customers	221,196	316,909	18,563	556,668
Intersegment sales	—	20,897	—	20,897
Elimination of intersegment sales	—	(20,897)	—	(20,897)
Revenue	<u>221,196</u>	<u>316,909</u>	<u>18,563</u>	<u>556,668</u>
Cost of sales	<u>(116,846)</u>	<u>(88,185)</u>	<u>(8,884)</u>	<u>(213,915)</u>
Segment results	<u><u>104,350</u></u>	<u><u>228,724</u></u>	<u><u>9,679</u></u>	<u><u>342,753</u></u>
Reconciliation:				
Other income and gains				11,266
Selling and distribution expenses				(234,089)
Administrative expenses				(34,408)
Other expenses				<u>(26,016)</u>
Profit before tax				<u><u>59,506</u></u>

	Six months ended 30 June 2017			
	Operation of chain pharmacies RMB'000 (unaudited)	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of online pharmacies RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue				
Revenue from external customers	202,937	225,060	3,533	431,530
Intersegment sales	—	20,620	—	20,620
Elimination of intersegment sales	—	(20,620)	—	(20,620)
Revenue	<u>202,937</u>	<u>225,060</u>	<u>3,533</u>	<u>431,530</u>
Cost of sales	<u>(107,513)</u>	<u>(69,185)</u>	<u>(1,758)</u>	<u>(178,456)</u>
Segment results	<u><u>95,424</u></u>	<u><u>155,875</u></u>	<u><u>1,775</u></u>	<u><u>253,074</u></u>
Reconciliation:				
Other income and gains				8,119
Selling and distribution expenses				(167,642)
Administrative expenses				(30,405)
Other expenses				<u>(13,208)</u>
Profit before tax				<u><u>49,938</u></u>

4. 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 2018.

For the six months ended 30 June 2018, the revenue from contracts with customers is recognised at a point in time.

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of pharmaceutical products	<u><u>556,668</u></u>	<u><u>431,530</u></u>
Other income		
Interest income	2,187	880
Dividend income from equity instruments at fair value through profit or loss	932	—
Dividend income from available-for-sale investments	<u>—</u>	<u>497</u>
	<u>3,119</u>	<u>1,377</u>
Gains		
Government grants:		
— Related to assets	146	282
— Related to income	2,141	4,587
Fair value gain on equity instruments and financial assets at fair value through profit or loss	4,794	—
Gain on disposal of items of property, plant and equipment	—	56
Others	<u>1,066</u>	<u>1,817</u>
	<u>8,147</u>	<u>6,742</u>
	<u><u>11,266</u></u>	<u><u>8,119</u></u>

5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Cost of inventories sold		213,915	178,456
Depreciation	9	12,002	11,578
Recognition of prepaid land lease payments*	10	235	234
Amortisation of other intangible assets*	11	639	155
Research and development costs		21,698	13,313
Advertising, marketing and promotion expenses		82,661	42,676
Write-down of inventories to net realisable value		3,235	91
Impairment losses on trade receivables		582	—
Fair value gain on equity instruments and financial assets at fair value through profit or loss		4,794	—
Minimum lease payments under operating leases		19,038	15,352
Auditor's remuneration		1,785	1,452
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		118,655	102,640
Pension scheme contributions (defined contribution scheme)		6,962	6,527
Staff welfare expenses		9,514	7,074
Equity-settled share award expense		—	1,618
		135,131	117,859

* 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.

6. 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 operated.

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% (2017:16.5%) 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. and Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. are qualified as high and new technology enterprises and are subject to a preferential income tax rate of 15% for the six months ended 30 June 2017 and 2018, respectively.

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China		
Current income tax	12,754	10,639
Deferred income tax (credit)/charge	<u>(256)</u>	<u>805</u>
Total income tax expense	<u><u>12,498</u></u>	<u><u>11,444</u></u>

7. DIVIDEND

During the six months ended 30 June 2018, the Company declared and paid a final dividend(HK2.21 cents per ordinary share) and a special dividend(HK1.709 cents per ordinary share) in respect of the previous financial year amounting to HK\$32,920,000 (equivalent to approximately RMB26,859,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK\$266,000 (equivalent to approximately RMB214,000).

Subsequent to 30 June 2018, the board of directors recommended that an interim dividend of HK2.65 cents per share and a special dividend of HK1.70 cents per share will be payable on or around 20 November 2018 to the shareholders on the register of members of the Company on 22 October 2018. The interim dividend has not been recognised as a liability at the end of the reporting period.

8. 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 833,221,500 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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u><u>47,008</u></u>	<u><u>38,494</u></u>
	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue	840,000,000	800,000,000
Weighted average number of shares held for the share award plan (note 22)	<u><u>(6,778,500)</u></u>	<u><u>(7,851,000)</u></u>
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<u><u>833,221,500</u></u>	<u><u>792,149,000</u></u>
Effect of dilution—weighted average number of ordinary shares held for the share award plan	—	7,851,000
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<u><u>833,221,500</u></u>	<u><u>800,000,000</u></u>

9. PROPERTY, PLANT AND EQUIPMENT

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Carrying amount at 1 January	203,198	180,053
Additions	26,538	47,446
Depreciation provided during the period/year	(12,002)	(22,368)
Disposals	(165)	(1,933)
	<hr/>	<hr/>
Carrying amount at 30 June/31 December	<u>217,569</u>	<u>203,198</u>

The Group's buildings are located in Mainland China.

As at 31 December 2017 and 30 June 2018, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB496,000 and RMB460,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

10. PREPAID LAND LEASE PAYMENTS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Carrying amount at 1 January	13,896	14,366
Recognised during the period/year	(235)	(470)
	<hr/>	<hr/>
Carrying amount at 30 June/31 December	13,661	13,896
Current portion	(470)	(470)
	<hr/>	<hr/>
Non-current portion	<u>13,191</u>	<u>13,426</u>

11. OTHER INTANGIBLE ASSETS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Carrying amount at 1 January	10,413	1,709
Additions-software	415	9,481
Amortisation provided during the period/year	<u>(639)</u>	<u>(777)</u>
Carrying amount at 30 June/31 December	<u><u>10,189</u></u>	<u><u>10,413</u></u>

12. INVESTMENT IN A JOINT VENTURE

	2018 RMB'000 (Unaudited)	2017 RMB'000 (Audited)
Share of net assets	<u><u>405</u></u>	<u><u>405</u></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.

13. INVENTORIES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Raw materials	35,696	27,698
Work in progress	12,806	10,739
Finished goods	<u>104,316</u>	<u>99,487</u>
	<u><u>152,818</u></u>	<u><u>137,924</u></u>

Inventories with a value of RMB13,647,000 (2017: RMB13,647,000) are carried at net realisable value, this being lower than cost.

14. 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 the balances of notes receivable is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade receivables:		
Within 1 month	49,262	50,520
1 to 3 months	39,959	18,433
3 to 6 months	51,002	11,634
6 to 12 months	18,747	6,745
Over 12 months	2,934	742
	<u>161,904</u>	<u>88,074</u>
Less: Impairment of trade receivables	<u>(582)</u>	—
	<u>161,322</u>	<u>88,074</u>
Notes receivable	<u>24,294</u>	<u>30,244</u>
	<u>185,616</u>	<u>118,318</u>

The notes receivable are settled within 180 days. No notes receivable are discounted as at 31 December 2017 and 30 June 2018, respectively. As at 31 December 2017 and 30 June 2018, the Group has endorsed notes receivable of RMB19,800,000 and RMB14,840,000 to settle trade payables, respectively.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Prepayments	16,270	33,219
Tax recoverable	56	2
Deposits and other receivables	10,027	9,167
	<u>26,353</u>	<u>42,388</u>

16. CASH AND BANK BALANCES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Cash and bank balances	58,479	180,120
Non-pledged time deposits	43,247	179,338
	<u>101,726</u>	<u>359,458</u>
Denominated in:		
— RMB	50,564	293,203
— HK\$	51,162	66,255
	<u>101,726</u>	<u>359,458</u>

17. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2017 and 30 June 2018, based on the invoice date, is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 3 months	68,926	61,813
3 to 6 months	5,130	6,070
6 to 12 months	4,266	1,884
over 12 months	1,455	1,856
	<u>79,777</u>	<u>71,623</u>

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

18. INTEREST-BEARING LOANS AND BORROWINGS

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000
Bank borrowings, unsecured	<u>3.70%</u>	<u>28 Nov 2018</u>	<u>12,647</u>	<u>—</u>	<u>—</u>	<u>—</u>

19. OTHER PAYABLES AND ACCRUALS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Accruals and other payables	22,106	25,834
Accrued salaries and welfare	25,319	30,353
Advances from customers	11,071	8,037
Endorsed notes	14,843	19,804
Deposits received	24,573	23,523
Payables for purchases of property and equipment	5,914	8,894
Other tax payables	6,877	6,766
	<u>110,703</u>	<u>123,211</u>

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

20. DEFERRED INCOME

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
At 1 January	22,942	21,186
Received amounts	2,131	10,417
Released amounts	<u>(2,287)</u>	<u>(8,661)</u>
At 30 June/31 December	<u><u>22,786</u></u>	<u><u>22,942</u></u>
Current	11,400	11,314
Non-current	<u>11,386</u>	<u>11,628</u>
	<u><u>22,786</u></u>	<u><u>22,942</u></u>

21. ISSUED CAPITAL

Issued Capital

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Issued and fully paid: 840,000,000 (2017: 840,000,000) ordinary shares of HK\$0.01 each (HK\$'000)	<u>8,400</u>	<u>8,400</u>
Equivalent to RMB'000	<u><u>6,650</u></u>	<u><u>6,650</u></u>

22. 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 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).

During the six months ended 30 June 2017, the Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 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 RMB1,618,000).

The Group recognised a share award expense of RMB1,618,000 and nil for the six months ended 30 June 2017 and 2018, respectively.

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 awarded.

23. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group sublets certain of its leased properties under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	279	250
In the second to fifth years, inclusive	<u>585</u>	<u>293</u>
	<u>864</u>	<u>543</u>

(b) As lessee

The Group leases certain of its land and buildings under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from 1 to 10 years. As at the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	35,624	31,562
In the second to fifth years, inclusive	87,224	81,133
Beyond five years	<u>10,153</u>	<u>9,790</u>
	<u>133,001</u>	<u>122,485</u>

24. COMMITMENTS

Capital commitments

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Contracted, but not provided for:		
Leasehold improvement	4,827	—
Plant and machinery	12,388	29,324
	<u>17,215</u>	<u>29,324</u>

At the end of 31 December 2017 and 30 June 2018, the Group had significant authorised but not contracted capital commitment of nil and RMB100,000, respectively.

25. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2017 and 30 June 2018 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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	2,311	2,621
Pension scheme contributions	110	140
Equity-settled share award expense	—	250
	<u>2,421</u>	<u>3,011</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

By virtue of the clear strategic positioning, in 2018, Zhongzhi Pharmaceutical grasped the best strategic pulse of development, successfully formed its unique brand and marketing mode, and conducted organizational transformation, which resulted in high synergy and enabled it to stay at the top of the industry.

During the Reporting Period, the Group recorded a total revenue of approximately RMB556.7 million (corresponding period in 2017: RMB431.5 million), representing an increase of approximately 29.0 % over the corresponding period in last year. The Group recorded a profit for the period of approximately RMB47.0 million (corresponding period in 2017: RMB38.5 million), representing an increase of 22.1% over the corresponding period in last year. The basic earnings per share is RMB5.6 cents (corresponding period in 2017: RMB4.9 cents), representing an increase of approximately 14.3% over the corresponding period in last year.

Outlook & Strategy

Traditional Chinese medicine industry is an important component of the national strategy, and the development of Chinese medicine is supported by the best policy dividends right now. According to estimates by authoritative departments and based on market demand, current economic development and health sector demand, by 2020, the scale of the Chinese medicine industry will reach 3 trillion yuan. The whole industry of Chinese medicine decoction pieces will maintain a leading high growth rate, whereas the sub-category of Chinese medicine decoction pieces, Caojinghua Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (草晶華破壁草本(中藥破壁飲片)), will be benefited from this trend.

Caojinghua Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (草晶華破壁草本(中藥破壁飲片)), the innovative Chinese medicine decoction pieces developed by Zhongzhi Pharmaceutical, closely matches the national strategic development goals of Chinese medicine, conforms to the general trend of development and fully enjoys the development momentum brought to enterprises by the policy dividends. From 2012 to 2017, the compound growth rate of Caojinghua Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (草晶華破壁草本(中藥破壁飲片)) was higher than that of traditional Chinese medicine decoction pieces. It also started well in 2018, maintaining the momentum of continued rapid growth.

Zhongzhi Pharmaceutical takes the development of Caojinghua Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (草晶華破壁草本(中藥破壁飲片)), the innovative Chinese medicine decoction pieces, as its core development direction. The Company has established a national key research department, which attracted three former academicians of the Chinese Academy of Engineering and two former national medical masters, totaling 18 top experts in the medical science field.

“CaoJinghua (草晶華)” brand and the innovative category of “Cell-broken Herb (破壁草本)” are brand strategies cooperatively established by Zhongzhi Pharmaceutical and Trout & Partners China (特勞特中國公司), a global strategic consulting company. Under the escort of the Trout team, Zhongzhi Pharmaceutical successfully set up and underpinned its pathfinder’s status in the category of Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (破壁草本(中藥破壁飲片)) and the market sales has been leaping forward vigorously. With the continuous hot-selling momentum in mainstream pharmacy chain channel, it becomes a new engine that leads the innovation and development of Chinese medicine as well as economic growth.

In compliance with the sales momentum of mainstream pharmacy chains, in 2018, the Company set up an entrepreneurial business division to explore the channels of small and medium-sized pharmacy chains, and introduced the distributor sales model to rapidly replicate the successful experience of mainstream pharmacy chains to small and medium pharmacy chain channels. Under the influence of national strategy and various market dividends, it is expected that the sales of Caojinghua Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (草晶華破壁草本(中藥破壁飲片)) will continue to grow rapidly and become a benchmark for creating the new Chinese medicine economy.

In order to be in line with the general trend faster, exploit the market and occupy the commanding heights of the industry, Zhongzhi Pharmaceutical accelerated its expansion in new business. Hospital customers and the performance of e-commerce platform have successfully achieved qualitative changes from small to large, which further opened up product sales opportunities, accumulating stronger momentum for sales of the company. In the first half of 2018, the sales of new business and e-commerce platform of Zhongzhi Pharmaceuticals doubled rapidly, becoming a phenomenon brand of Chinese medicine sales.

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 RMB556.7 million for the six months ended 30 June 2018, representing a 29.0% increase from the corresponding period in 2017 (six months ended 30 June 2017: RMB431.5 million).

The Group recorded a total profit of approximately RMB47.0 million for the six months ended 30 June 2018, representing a 22.1% increase from the corresponding period in 2017 (six months ended 30 June 2017: RMB38.5 million).

FINANCIAL ANALYSIS

Revenue

The Group's operations can be divided into two segments in the PRC pharmaceutical industry, namely (i) pharmaceutical manufacturing; (ii) operation of on-line pharmacies; and (iii) 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		
	2018 RMB'000	2017 RMB'000	Change (%)	2018 (%)	2017 (%)	Change (%)
Pharmaceutical manufacturing	316,909	225,060	40.8	56.9	52.2	+4.7
Operation of on-line pharmacies	18,563	3,533	425.4	3.4	0.8	+2.5
Operation of chain pharmacies	221,196	202,937	9.0	39.7	47.0	-7.3
	<u>556,668</u>	<u>431,530</u>	<u>29.0</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 brands include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

Revenue derived from pharmaceutical manufacturing increased by approximately 40.8% to RMB316.9 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB225.1 million) and accounted for 56.9% of the total revenue during the Reporting Period (six months ended 30 June 2017: 52.2%), 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 increasing the Group's market share and deepening market penetration.

Operation of On-line Pharmacies

Revenue derived from operation of on-line pharmacies increased by approximately 425.4 % to RMB 18.6 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB3.5 million) and accounted for 3.4% of the total revenue during the Reporting Period (six months ended 30 June 2017: 0.8%), which was attributable to the establishment of the subsidiary, Guangzhou Yunzhi Health Technology Co., Ltd.* (廣州雲智健康科技有限公司), at the end of 2017. The subsidiary provided customer flow to the official website of Caojinghua through marketing channels such online advertising, and its revenue increased by RMB12.0 million as compared to corresponding period in last year.

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 2018, the Group has 284 self-operated chain pharmacies in Zhongshan (as at 30 June 2017: 247), of which 241 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies increased by approximately 9.0% to RMB221.2 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB202.9 million) and accounted for 39.7% of the total revenue during the Reporting Period (six months ended 30 June 2017: 47.0%). 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 RMB342.8 million, representing an increase of RMB89.7 million or 35.4% as compared with RMB253.1 million for the six months ended 30 June 2017. 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		
	2018 RMB'000	2017 RMB'000	Change (%)	2018 (%)	2017 (%)	Change (%)
Pharmaceutical manufacturing	228,724	155,875	46.7	72.2	69.3	+2.9
Operation of on-line pharmacies	9,679	1,775	445.3	52.1	50.2	+1.9
Operation of chain pharmacies	104,350	95,424	9.4	47.2	47.0	+0.2
	<u>342,753</u>	<u>253,074</u>	<u>35.4</u>	<u>61.6</u>	<u>58.6</u>	<u>+3.0</u>

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 46.7% to RMB228.7 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB155.9 million). The gross profit margin increased to 72.2% for the six months ended 30 June 2018 (six months ended 30 June 2017: 69.3%), primarily attributable to 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 margin.

Operation of On-line Pharmacies

The gross profit of segment of operation of on-line pharmacies increased by approximately 445.3% to RMB9.7 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB1.8 million). The gross profit margin increased to 52.1% for the six months ended 30 June 2018 (six months ended 30 June 2017: 50.2%), primarily attributable to 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 margin.

Operation of chain Pharmacies

The gross profit of chain pharmacies segment increased by 9.4% to RMB104.4 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB95.4 million). The gross profit margin of the chain pharmacies segment increased by 0.2% to 47.2% for the six months ended 30 June 2018 (six months ended 30 June 2017: 47.0%). The increase was mainly due to the increase in the sales of own branded products with higher profit margin, 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, changes in the fair value of financial assets and government grants. For the six months ended 30 June 2018, other income and gains of the Group were approximately RMB11.3 million (six months ended 30 June 2017: RMB8.1 million), representing an increase of approximately RMB3.2 million as compared to corresponding period in last year, which was mainly attributable to (i) the increase in bank interest income of approximately RMB1.3 million, (ii) the increase in changes in the fair value of financial assets of RMB4.8 million; and (iii) the decrease in government grants of approximately RMB2.6 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 2018 amounted to approximately RMB 234.1 million (six months ended 30 June 2017: RMB 167.6 million), representing an increase of approximately 39.7% as compared to corresponding period in last year. Selling and distribution expense ratio increased to approximately 42.1% (six months ended 30 June 2017: 38.8%) against revenue for the six months ended 30 June 2018. The increase in the Group's selling and distribution expenses during the Reporting Period was mainly due to (i) the increase in the business promotion expenses, and intensification of cooperation with consulting companies for the purpose of carrying out marketing activities across the PRC, with a view to 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 increased resources devoted by the Group 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 RMB6.4 million for retaining high caliber business talents, thus ensuring smooth business operation to meet business expansion plans of the Group.

Research and Development Expenses

Research and development expenses mainly represent various expenses incurred in the course of research and development of products, technologies, materials, crafts and standards. For the six months ended 30 June 2018, research and development expenses amounted to approximately RMB21.7 million (for the six months ended 30 June 2017: RMB13.3 million), representing an increase of approximately 63.2% compared to that for the same period of last year. Such increase was mainly due to (i) the increase in manpower input used to strengthen the research on the scientific essence of Caojinghua Cell-broken Herb (cell wall broken decoction pieces) (草晶華破壁草本(破壁飲片)), aiming to demonstrating its security, effectiveness and controllable quality with more research information.

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 RMB34.4 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB30.4 million), representing an increase of approximately 13.2% 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 as a result of 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 RMB12.5 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB11.4 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") each 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 22.1% to RMB47.0 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB38.5 million). The Group's net profit margin maintained at 8.4% for the six months ended 30 June 2018 (six months ended 30 June 2017: 8.9%).

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

As at 30 June 2018, the Group had net current assets of approximately RMB432.6 million (31 December 2017: RMB428.0 million). As at 30 June 2018, the Group's total cash and bank balances amounted to approximately RMB101.7 million (31 December 2017: RMB359.5 million). The current ratio of the Group maintained at approximately 2.8 as at 30 June 2018 (30 June 2017: 3.1).

The equity attributable to shareholders of the Company as at 30 June 2018 amounted to approximately RMB697.9 million (31 December 2017: RMB668.3 million). As at 30 June 2018, total interest-bearing debts of the Group amounted to RMB12.6 million (31 December 2017: nil).

As at 30 June 2018, the Group had available unutilized banking facilities of RMB35.0 million and HK\$5.0 million (31 December 2017: 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 on 13 July 2015 (the "Listing Date"). The capital of the Company comprises ordinary shares and other reserves. As at 30 June 2018, the number of issued shares of the Company was 840,000,000 ordinary Shares of HK\$0.01 each.

Subscription of New Shares

On 27 October 2017, the Company entered into a subscription agreement with Novich Positioning Investment Limited Partnership ("Novich"), an exempted limited partnership registered in Cayman Islands which is an investment fund advised and managed by its general partner Novich Positioning Investment (Cayman) Limited (an indirect wholly-owned subsidiary of Shanghai Novich Positioning Investment Management Co., Limited* (上海諾偉其定位投資管理有限公司)), pursuant to which, the Company conditionally agreed to allot and issue a total of 40,000,000 ordinary Shares of HK\$0.01 each at the subscription price of HK\$1.53 per Share (the "Subscription"). In respect of the Subscription Shares, there is a 2 years lock-up restrictions undertaken by Novich.

The closing price per ordinary Share as quoted on the Stock Exchange on 27 October 2017, being the date of the subscription agreement was HK\$1.79. The gross proceeds from the Subscription were approximately HK\$61,200,000 and the net proceeds from the Subscription, after deduction of all relevant cost and expenses, were approximately HK\$60,800,000, representing a net issue price of HK\$1.52 per subscription Share. The Company intends to use the net proceeds to expand the distribution network of the Company so as to enhance the public awareness of the brand. The net proceeds shall also be applied on the research and development activities.

The Board considers that, while broadening the shareholder base, the Subscription represents a valuable opportunity for the Company to bring in an investment fund as a shareholder which can enhance the corporate image of the Group. Also, the Board believes that the Group may leverage on the network of Novich in the consumer industry to provide synergy or business opportunities to the Group.

Details of the above Subscription were published in the Company's announcement dated 27 October 2017.

The equity fund raising activities conducted by the Company during the Reporting Period are set out below:

	Intended use of net proceeds from Subscription (Approximate)	Actual use of net proceeds from Subscription as of 31 December 2017 (Approximate)	Utilised net proceeds from Subscription for the six months ended 30 June 2018 (Approximate)	Unutilised net proceeds from Subscription as at 30 June 2018 (Approximate)
For expanding the distribution network of the Company and applying on the research and development activities	HK\$60,800,000	HK\$27,785,000 for distribution network of the Company	HK\$33,015,000 for distribution network of the Company	—

As at 30 June 2018, all net proceeds raised from Subscription have been fully utilised.

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 2018. 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 2018 and 31 December 2017, the Group did not have any charges on its assets.

CAPITAL EXPENDITURE

For the six months ended 30 June 2018, the Group had capital expenditure of approximately RMB29.2 million (six months ended 30 June 2017: RMB17.9 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, the Board has recommended the distribution of an interim dividend of HK2.65 cents per ordinary share and a special dividend of HK1.70 cents per ordinary share for the six months ended 30 June 2018 (six months ended 30 June 2017: HK1.875 cents) to shareholders on the register of members of the Company on 22 October 2018, amounting to approximately HK\$36.5 million which will be subject to the approval of the Company's shareholders in an extraordinary general meeting to be held on 12 October 2018 (the "EGM"). The interim dividend and special dividend will be payable on or around 20 November 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 October 2018 to 12 October 2018, both days inclusive, during which period no transfers of shares shall be effected. The record date will be 12 October 2018. 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 5 October 2018.

To determine the entitlement of the proposed interim dividend and special dividend, the register of members of the Company will be closed from 19 October 2018 to 22 October 2018, both days inclusive, during which period no transfers of shares shall be effected. The record date will be 22 October 2018. In order to be eligible for receiving the interim dividend and special 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 2018.

EMPLOYEES AND EMOLUMENTS POLICY

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, commission, bonuses and the Group's contribution to mandatory provident funds or state-managed retirement benefits scheme. Other benefits include share options to be granted under the Share Option Schemes and shares to be granted under the Share Award Plan.

As at 30 June 2018, the Group had 3,434 employees with a total remuneration of RMB135.1 million during the Reporting Period (six months ended 30 June 2017: RMB117.9 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.

SIGNIFICANT INVESTMENTS

The Group had no significant investments held during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Reporting Period.

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. On 4 April 2018, the Board resolved to change the use of the remaining unutilised proceeds from Global Offering (the "Proposed Change"). For details of the Proposed Change, please refer to the announcement of the Company dated 4 April 2018. The following table sets forth the status of use of net proceeds from Global Offering:

Business objectives as stated in the Prospectus	Use of net proceeds from Global Offering prior to the Proposed Change		Use of net proceeds subsequent to the Proposed Change		Unused balance up to 30 June 2018	Expected timeline for unused net proceeds subsequent to the Proposed Change
	HK\$'000	The Proposed Change HK\$'000	HK\$'000	Utilized up to 30 June 2018 HK\$'000		
Expansion of pharmaceutical chain in the Guangdong province	135,870	(72,360)	63,510	51,600	11,910	by 2018
Expansion of distribution network	90,580	72,360	162,940	145,018	17,922	by 2018
Providing funding for research and development activities	90,580	—	90,580	49,523	41,057	by 2019
Expansion of production capacity	90,580	—	90,580	51,498	39,082	by 2019
General working capital purposes	45,290	—	45,290	45,290	—	N/A
	<u>452,900</u>	<u>—</u>	<u>452,900</u>	<u>342,929</u>	<u>109,971</u>	

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

COMMITMENT

As at 30 June 2018, the Group's capital commitment amounted to RMB17.2 million (31 December 2017: RMB29.3 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 2018 (31 December 2017: 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 control systems 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 2018 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 2018 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 2018

As at the date of this announcement, the Board comprises nine Directors. The executive Directors are Mr. Lai Zhi Tian, Mr. Lai Ying Feng, Mr. Cao Xiao Jun and Mr. Cheng Jin Le. The non-executive Directors are Ms. Jiang Li Xia and Mr. Yang Ai Xing. The independent non-executive Directors are Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han.

* *For identification purpose only*