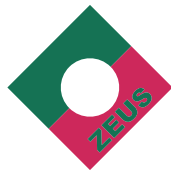


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Zhongzhi Pharmaceutical Holdings Limited

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 2020

FINANCIAL HIGHLIGHTS:

The Group's revenue for the six months ended 30 June 2020 amounted to approximately RMB737.7 million, representing an increase of approximately 16.0% when compared to the six months ended 30 June 2019.

The Group's gross profit for the six months ended 30 June 2020 amounted to approximately RMB458.2 million, representing an increase of approximately 16.7% when compared to the six months ended 30 June 2019. Gross profit margin increased by approximately 0.3 percentage point to approximately 62.1%, as compared to the six months ended 30 June 2019.

Profit attributable to owners of the Company amounted to approximately RMB72.0 million, representing an increase of approximately 22.1% as compared to the six months ended 30 June 2019.

Basic earnings per share was approximately RMB8.6 cents for the six months ended 30 June 2020, representing an increase of approximately 21.1% from approximately RMB7.1 cents for the six months ended 30 June 2019.

The Board has recommended the distribution of an interim dividend of HK3.7 cents per ordinary share and a special dividend of HK1.45 cents per ordinary share for the six months ended 30 June 2020 (for the six months ended 30 June 2019: HK4.6 cents).

INTERIM RESULTS

The board (the “Board”) of directors (“Directors”) of Zhongzhi Pharmaceutical Holdings Limited (the “Company”) presents the interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2020 (the “Reporting Period”), together with the unaudited comparative figures for the six months ended 30 June 2019. These interim condensed consolidated financial information have not been audited, but 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 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
REVENUE	4	737,676	635,913
Cost of sales		(279,505)	(243,231)
Gross profit		458,171	392,682
Other income and gains	4	10,808	13,456
Selling and distribution expenses		(297,534)	(257,445)
Administrative expenses		(43,872)	(38,706)
Other expenses		(33,072)	(25,217)
Finance costs		(2,585)	(2,059)
PROFIT BEFORE TAX	5	91,916	82,711
Income tax expense	6	(19,912)	(23,717)
PROFIT FOR THE PERIOD		72,004	58,994
Attributable to:			
Owners of the parent		72,005	58,994
Non-controlling interests		(1)	—
PROFIT FOR THE PERIOD		72,004	58,994
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
— For profit for the period		RMB0.086	RMB0.071
Diluted			
— For profit for the period		RMB0.086	RMB0.071

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>72,004</u>	<u>58,994</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>546</u>	<u>(555)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>546</u>	<u>(555)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>72,550</u>	<u>58,439</u>
Attributable to:		
Owners of the parent	<u>72,551</u>	<u>58,439</u>
Non-controlling interests	<u>(1)</u>	<u>—</u>
	<u>72,550</u>	<u>58,439</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	310,329	279,361
Prepayment for property, plant and equipment		273	1,593
Right-of-use assets		106,758	109,537
Goodwill		1,628	1,628
Other intangible assets	10	18,066	18,559
Investment in a joint venture		426	417
Equity investments at fair value through profit or loss	11	12,959	10,396
Deferred tax assets		14,754	13,377
Other non-current assets		8,931	7,112
Total non-current assets		474,124	441,980
CURRENT ASSETS			
Inventories	12	227,086	199,039
Trade and notes receivables	13	272,094	242,764
Prepayments, deposits and other receivables	14	25,360	16,423
Equity investments at fair value through profit or loss	11	1,011	—
Cash and cash equivalents	15	358,088	380,333
Total current assets		883,639	838,559
CURRENT LIABILITIES			
Trade payables	16	101,607	104,300
Interest-bearing bank borrowings		51,970	31,352
Other payables and accruals	17	212,780	196,389
Lease liabilities		33,399	32,187
Amounts due to related parties		8,786	8,786
Deferred income	18	18,966	19,353
Amount due to a joint venture		70	70
Tax payable		25,799	29,712
Total current liabilities		453,377	422,149
NET CURRENT ASSETS		430,262	416,410
TOTAL ASSETS LESS CURRENT LIABILITIES		904,386	858,390

		30 June 2020	31 December 2019
	Notes	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income	18	20,798	17,768
Lease liabilities		60,929	63,966
Deferred tax liabilities		19,667	13,273
		<hr/>	<hr/>
Total non-current liabilities		101,394	95,007
		<hr/>	<hr/>
Net assets		802,992	763,383
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	19	6,650	6,650
Reserves		796,043	756,733
		<hr/>	<hr/>
		802,693	763,383
		<hr/>	<hr/>
Non-controlling interests		299	—
		<hr/>	<hr/>
Total equity		802,992	763,383
		<hr/>	<hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 information for the six months ended 30 June 2020 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), including compliance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial information does 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 2019.

The interim condensed consolidated financial information has been prepared under a historical cost convention, except for equity investments and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's office buildings and retail stores have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB696,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

- (c) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

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) Pharmaceutical manufacturing
- (b) Operation of chain pharmacies
- (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 2019 and 2020, 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 2019 and 2020 are as follows:

	Six months ended 30 June 2020			Total RMB'000 (unaudited)
	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of chain pharmacies RMB'000 (unaudited)	Operation of online pharmacies RMB'000 (unaudited)	
Segment revenue:				
Revenue from external customers (note 4)	397,193	309,830	30,653	737,676
Intersegment sales	32,312	—	—	32,312
Elimination of intersegment sales	(32,312)	—	—	(32,312)
Revenue	397,193	309,830	30,653	737,676
Cost of sales	(90,202)	(183,666)	(5,637)	(279,505)
Segment results	306,991	126,164	25,016	458,171
Reconciliation:				
Other income and gains				10,808
Selling and distribution expenses				(297,534)
Administrative expenses				(43,872)
Other expenses				(33,072)
Finance costs				(2,585)
Profit before tax				91,916
	Six months ended 30 June 2019			Total RMB'000 (unaudited)
	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of chain pharmacies RMB'000 (unaudited)	Operation of online pharmacies RMB'000 (unaudited)	
Segment revenue:				
Revenue from external customers (note 4)	354,206	259,699	22,008	635,913
Intersegment sales	17,889	—	—	17,889
Elimination of intersegment sales	(17,889)	—	—	(17,889)
Revenue	354,206	259,699	22,008	635,913
Cost of sales	(98,028)	(141,341)	(3,862)	(243,231)
Segment results	256,178	118,358	18,146	392,682
Reconciliation:				
Other income and gains				13,456
Selling and distribution expenses				(257,445)
Administrative expenses				(38,706)
Other expenses				(25,217)
Finance costs				(2,059)
Profit before tax				82,711

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 2020.

For the six months ended 30 June 2020, 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	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of pharmaceutical products	<u>737,676</u>	<u>635,913</u>
Other income		
Bank interest income	533	837
Dividend income	58	76
Interest income from financial assets at fair value through profit or loss	<u>3,206</u>	<u>3,159</u>
	<u>3,797</u>	<u>4,072</u>
Gains		
Government grants:		
— Related to assets	1,162	168
— Related to income	1,259	1,127
Fair value gain on equity investments and financial assets at fair value through profit or loss	2,562	7,239
Gain on disposal of items of property, plant and equipment	30	16
Others	<u>1,998</u>	<u>834</u>
	<u>7,011</u>	<u>9,384</u>
	<u>10,808</u>	<u>13,456</u>

5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cost of inventories sold		279,505	243,231
Depreciation	9	19,079	12,998
Depreciation of right-of-use assets*		17,540	15,840
Amortisation of other intangible assets*	10	1,350	646
Research and development costs		20,304	21,123
Advertising, marketing and promotion expenses		144,559	99,776
Write-down of inventories to net realisable value		1,248	451
Impairment losses on trade receivables		3,627	3,488
Fair value gain on equity investments and financial assets at fair value through profit or loss		2,562	7,239
Finance costs		2,585	2,059
Auditor's remuneration		1,643	2,048
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		146,307	133,827
Pension scheme contributions (defined contribution scheme)		8,200	7,804
Staff welfare expenses		10,389	9,569
Equity-settled share award expense		—	161
		164,896	151,361

* The depreciation of right-of-use assets and the amortisation of other intangible assets for the reporting period is included in "Administrative expenses", and "Selling and distribution 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 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% (2019:16.5%) of the estimated assessable 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 2020 and 2019, respectively.

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China		
Current income tax	14,895	14,224
Deferred income tax charge	5,017	9,493
	<hr/>	<hr/>
Total income tax expense	19,912	23,717
	<hr/>	<hr/>

In accordance with the Enterprise Income Tax Law of the PRC effective on 1 January 2008, a 10% (or a lower rate if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors) withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable to withholding taxes on dividends distributed by the PRC subsidiaries of the Company, in respect of earnings generated from 1 January 2008. As at 30 June 2020, the Group recognised a deferred tax liability of RMB15,292,000 (31 December 2019: RMB9,501,000) in respect of the withholding tax on future dividend distribution by the PRC entities.

7. DIVIDEND

During the six months ended 30 June 2020, the Company declared and paid a final dividend (HK2.9 cents per ordinary share) and a special dividend (HK1.45 cents per ordinary share) in respect of the previous financial year amounting to HK\$36,540,000 (equivalent to approximately RMB33,458,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK\$237,000 (equivalent to approximately RMB217,000).

Subsequent to 30 June 2020, the board of directors recommended that an interim dividend of HK3.7 cents per share and a special dividend of HK1.45 cents per share will be payable on or around 2 November 2020 to the shareholders on the register of members of the Company on 21 October 2020. 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 834,548,500 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	
	2020	2019
	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>72,005</u>	<u>58,994</u>
	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue	840,000,000	840,000,000
Weighted average number of shares held for the share award plan (<i>note 20</i>)	<u>(5,451,500)</u>	<u>(6,652,206)</u>
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<u>834,548,500</u>	<u>833,347,794</u>
Effect of dilution — weighted average number of ordinary shares held for the share award plan	—	—
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<u>834,548,500</u>	<u>833,347,794</u>

9. PROPERTY, PLANT AND EQUIPMENT

	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Carrying amount at 1 January	279,361	256,464
Additions	50,489	52,640
Depreciation provided during the period/year	(19,079)	(29,565)
Disposals	<u>(442)</u>	<u>(178)</u>
Carrying amount at 30 June/31 December	<u>310,329</u>	<u>279,361</u>

The Group's buildings are located in Mainland China.

As at 31 December 2019 and 30 June 2020, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB352,000 and RMB316,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

10. OTHER INTANGIBLE ASSETS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Carrying amount at 1 January	18,559	8,877
Additions	857	11,572
Amortisation provided during the period/year	(1,350)	(1,822)
Disposal	—	(68)
	<hr/>	<hr/>
Carrying amount at 30 June/31 December	18,066	18,559

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Equity investments at fair value through profit or loss		
Listed equity investment, at fair value	13,303	9,890
Unlisted equity investment, at fair value	667	506
	<hr/>	<hr/>
	13,970	10,396

The above listed equity investment at 30 June 2020 was classified as equity investment at fair value through profit or loss as it was held for trading.

The above unlisted equity investment at 30 June 2020 was classified as equity investment at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

12. INVENTORIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Raw materials	46,068	47,043
Work in progress	6,598	6,841
Finished goods	174,420	145,155
	<hr/>	<hr/>
	227,086	199,039

Inventories with a value of RMB3,603,000 (2019: RMB4,851,000) are carried at net realisable value, this being lower than cost.

13. 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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables:		
Within 1 month	94,023	100,450
1 to 3 months	90,908	31,702
3 to 6 months	27,018	16,888
6 to 12 months	15,178	11,089
Over 12 months	7,505	5,917
	234,632	166,046
Less: Impairment of trade receivables	(6,340)	(2,713)
	228,292	163,333
Notes receivable	43,802	79,431
	272,094	242,764

The notes receivables are settled within 180 days. As at 30 June 2020, the Group continued to recognise endorsed notes receivable and associated liabilities amounting to RMB13,649,000 (2019: RMB18,360,000) respectively. The directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining endorsed notes.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Prepayments	5,583	4,926
Tax recoverable	5,114	3,635
Deposits and other receivables	14,663	7,862
	<u>25,360</u>	<u>16,423</u>

15. CASH AND BANK BALANCES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Cash and bank balances	351,488	373,996
Non-pledged time deposits	6,600	6,337
	<u>358,088</u>	<u>380,333</u>
Denominated in:		
— RMB	353,315	377,333
— HK\$	4,773	3,000
	<u>358,088</u>	<u>380,333</u>

16. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2019 and 30 June 2020, based on the invoice date, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	91,973	90,813
3 to 6 months	4,708	3,686
6 to 12 months	2,506	1,082
over 12 months	2,420	8,719
	<u>101,607</u>	<u>104,300</u>

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

17. OTHER PAYABLES AND ACCRUALS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Accruals and other payables	65,687	69,564
Accrued salaries and welfare	34,603	35,147
Contract liabilities	9,359	13,229
Endorsed notes	13,649	18,360
Deposits received	46,256	43,360
Payables for purchases of property and equipment	28,674	7,187
Other tax payables	14,552	9,542
	<u>212,780</u>	<u>196,389</u>

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

18. DEFERRED INCOME

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
At 1 January	37,121	27,534
Received amounts	5,064	14,701
Released amounts	(2,421)	(5,114)
	<u>39,764</u>	<u>37,121</u>
At 30 June/31 December	<u>39,764</u>	<u>37,121</u>
Current	18,966	19,353
Non-current	20,798	17,768
	<u>39,764</u>	<u>37,121</u>

19. ISSUED CAPITAL

Issued Capital

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

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Issued and fully paid: 840,000,000 (2019: 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>6,650</u>	<u>6,650</u>

20. 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.

In order to recognize and reward the contribution of and solidify the relationship with the service providers and distributors, the Board has resolved to increase the limit of the Share Award Plan from 1% of the issued share capital of the Company to 2.5% of the issued share capital of the Company on 25 March 2019.

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).

In 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).

In 2019, the Company granted 127,000 shares to certain employees on 2 January 2019 and the vesting date of the shares was 2 January 2019. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.45) on the day of the grant, amounting to HK\$184,000 (equivalent to approximately RMB161,000).

The board of directors also approved to grant certain shares with a maximum number of 5,940,000 shares to certain employees, service providers and distributors (the “Eligible Persons”) on 25 March 2019, which was subject to satisfaction of certain performance target for year 2019. According to the achievement status of performance of the Eligible Persons, 1,200,000 shares were vested while the remaining was forfeited due to failure to meet the performance target. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.439) on the day of the grant, amounting to HK\$1,727,000 (equivalent to approximately RMB1,477,000).

The Group recognised a share award expense of RMB161,000 and nil for the six months ended 30 June 2019 and 2020, respectively.

At the date of approval of this interim condensed consolidated financial information, 5,451,500 shares of the Company are held by the Trustee and have yet to be awarded.

21. COMMITMENTS

Capital commitments

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contracted, but not provided for:		
Plant and machinery	<u>10,326</u>	<u>55,506</u>
	<u>10,326</u>	<u>55,506</u>

At the end of 31 December 2019 and 30 June 2020, the Group had significant authorised but not contracted capital commitment of RMB45,469,820 and RMB9,927,000, respectively.

22. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2019 and 30 June 2020 represent consideration received from the registered shareholders as part of the historical 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 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	3,536	3,417
Pension scheme contributions	67	135
Equity-settled share award expense	<u>—</u>	<u>63</u>
	<u>3,603</u>	<u>3,615</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

By virtue of the clear strategic positioning, in 2020, 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 RMB737.7 million (corresponding period in 2019: RMB635.9 million), representing an increase of approximately 16.0% over the corresponding period in last year.
- The Group recorded a profit for the period of approximately RMB72.0 million (corresponding period in 2019: RMB59.0 million), representing an increase of 22.1% over the corresponding period in last year.
- The basic earnings per share is RMB8.6 cents (corresponding period in 2019: RMB7.1 cents), representing an increase of approximately 21.1% over the corresponding period in last year.

FUTURE AND OUTLOOK

In 2020, the coronavirus pneumonia pandemic spread around the world, which brought unprecedented challenges to all walks of life. Chinese medicine played a key role in the diagnosis and treatment of this pneumonia pandemic, which was recognised by more countries and people and boosted the development of Chinese medicine. As a leading innovative Chinese medicine enterprise in Guangdong Province, the Group has played a positive role in the fight against the pandemic. During the pandemic, The Group donated a total of RMB6.8 million worth of anti-pandemic drugs and materials to various organizations, including medical institutions in Hubei, hospitals and police force in ZhongShan in an effort to help mitigate further impacts from the virus and to act socially responsible for the society. Zhongzhi Pharmaceutical will continue to contribute to its social role in the “post-epidemic” era.

During the pandemic, Zhongzhi Pharmaceutical, with firm belief, carried out works with continuous focus on developing new categories of products under the Caojinghua brand as its core development direction. At the “Guangdong Chinese Medicine Conference” held in Guangzhou on 2 July 2020, Li Xi, the provincial party secretary, encouraged the Group to feel more strongly of its mission of corporate development. Zhongzhi Pharmaceutical will follow the basic rules, adhere to the right direction and the right path and make innovation, thus promoting the creative transformation and innovative development of Chinese medicine, and driving the Chinese medicine to go global and achieve high quality development. The conference has provided strong support to Chinese medicine enterprises. As a leading enterprise in Chinese cell-broken decoction pieces, it is our objective to strive to be a pioneer in the high quality development of Chinese medicine in Guangdong-Hong Kong-Macao Greater Bay Area and contribute to the high quality development of the Chinese medicine in Guangdong in terms of Chinese cell-broken decoction pieces through next 5 years’ efforts.

Digital Management

In 2020, the Group will continue to strengthen and improve internal management processes to enhance its overall management efficiency. In addition to the continuous optimisation of the Group’s business intelligence (BI) system, a new internal office administration (OA) system was also launched successfully, which enhanced internal management and promoted for a paperless working environment through the digitalisation of various processes. The establishment of digital systems is not an overnight task and the Group will continue to invest in its digital systems in the second half of the year to improve work efficiency and increase employees’ sensitivity to digital operations. Meanwhile, the Group will continue to stride towards the digital era, driving data-based decisions in management modes.

Research and Development

The Group continues to focus on the development of Caojinghua Cell-broken Herb (Chinese medicine cell-broken decoction pieces) (草晶華破壁草本(中藥破壁飲片)) as its core development direction. In the first half of the year, at the 18th ISO/TC249 WG2 meeting (remote), it was agreed by the working group to recommend to start the special NP voting, and it was agreed to start the NP voting after ISO/TC249 internal voting. This represented that the establishment of the first international standard on Chinese medicine cell-broken products worldwide led by the Company has entered into the substantial working stage. In the future, we will continue our efforts in research and development focusing on the breakthrough of new decoction pieces, Chinese medicines, health supplements and SC Food Product Permit labelled products. We will echo the demands of the leaders in our government and continue to globalise Chinese medicine.

FINANCIAL ANALYSIS

Revenue

The Group's operations can be divided into three segments in the PRC pharmaceutical industry, namely (i) pharmaceutical manufacturing; (ii) operation of chain pharmacies in Zhongshan; and (iii) operation of on-line pharmacies. Below is an analysis of revenue by segment.

	Revenue for			% of total revenue for		
	the six months ended 30 June			the six months ended 30 June		
	2020	2019	Change	2020	2019	Change
	RMB'000	RMB'000	(%)	(%)	(%)	(%)
Pharmaceutical manufacturing	397,193	354,206	+12.1	53.8	55.7	-1.9
Operation of chain pharmacies	309,830	259,699	+19.3	42.0	40.8	+1.2
Operation of on-line pharmacies	30,653	22,008	+39.3	4.2	3.5	+0.7
	737,676	635,913	+16.0	100.0	100.0	

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 Broken Herb (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 12.1% to RMB397.2 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB354.2 million) and accounted for 53.8% of the total revenue during the Reporting Period (six months ended 30 June 2019: 55.7%), which was attributable to the growth in sales as a result of the Group's effort in building the Caojinghua brand and investing in its existing and new sales channels, such as the distribution channel.

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 2020, the Group has 335 self-operated chain pharmacies in Zhongshan (as at 30 June 2019: 316), of which 298 are medical insurance designated pharmacies (醫保定點藥店). Meanwhile, the Group has started to explore the franchise business model in the year.

Segment revenue of the operation of chain pharmacies increased by approximately 19.3% to RMB309.8 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB259.7 million) and accounted for 42.0% of the total revenue during the Reporting Period (six months ended 30 June 2019: 40.8%). The increase was primarily attributable to new sales brought in by the 12 new stores opened at the end of 2019. In addition, due to the impact of coronavirus pneumonia pandemic, the sales of anti-pandemic drugs increased as compared with the corresponding period in 2019.

Operation of On-line Pharmacies

Revenue derived from operation of on-line pharmacies increased by approximately 39.3% to RMB30.7 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB22.0 million) and accounted for 4.2% of the total revenue during the Reporting Period (six months ended 30 June 2019: 3.5%). The increase was primarily attributable to the continuing efforts in the Group's various e-commerce platforms and the increase in sales of the Group's Caojinghua branded products during the Reporting Period.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the Reporting Period was RMB458.2 million, representing an increase of RMB65.5 million or 16.7% as compared with RMB392.7 million for the six months ended 30 June 2019. 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		
	2020 RMB'000	2019 RMB'000	Change (%)	2020 (%)	2019 (%)	Change (%)
Pharmaceutical manufacturing	306,991	256,178	+19.8	77.3	72.3	+5.0
Operation of chain pharmacies	126,164	118,358	+6.6	40.7	45.6	-4.9
Operation of on-line pharmacies	25,016	18,146	+37.9	81.6	82.5	-0.9
	458,171	392,682	+16.7	62.1	61.8	+0.3

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 19.8% to RMB307.0 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB256.2 million). The gross profit margin increased to 77.3% for the six months ended 30 June 2020 (six months ended 30 June 2019: 72.3%), the increase was mainly attributable to the increase in the sales of Caojinghua and its proportion increased in the pharmaceutical manufacturing segment.

Operation of Chain Pharmacies

The gross profit of chain pharmacies segment increased by 6.6% to RMB126.2 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB118.4 million). The gross profit margin of the chain pharmacies segment decreased by 4.9% to 40.7% for the six months ended 30 June 2020 (six months ended 30 June 2019: 45.6%). During the current period, the increase in overall gross profit was due to the increase in sales. Gross profit margin decreased compared to prior year as there is a temporary increase in the sales of lower margin products related to anti-pandemic.

Operation of On-line Pharmacies

The gross profit of segment of operation of on-line pharmacies increased by approximately 37.9% to RMB25.0 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB18.1 million). The gross profit margin for the six months ended 30 June 2020 was 81.6% (six months ended 30 June 2019: 82.5%), and there was no significant changes.

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 2020, other income and gains of the Group were approximately RMB10.8 million (six months ended 30 June 2019: RMB13.5 million), representing a decrease of approximately RMB2.7 million as compared to corresponding period in last year, which was mainly attributable to the disposal of financial assets in the corresponding period in last year, resulting in less impact in the current period.

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 2020 amounted to approximately RMB297.5 million (six months ended 30 June 2019: RMB257.4 million), representing an increase of approximately 15.6% as compared to corresponding period in last year. Selling and distribution expense ratio decreased to approximately 40.3% (six months ended 30 June 2019: 40.5%) against revenue for the six months ended 30 June 2020. The increase in the Group's selling and distribution expenses during the Reporting Period was mainly due to more promotion efforts were made and sales supports were provided during the six months ended 30 June 2020 to mitigate the temporary lock down impact due to the coronavirus pandemic.

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 RMB43.9 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB38.7 million), representing an increase of approximately 13.3% as compared to corresponding period in last year. The increase was mainly attributable to the increase in salary expenses as a result of introducing 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 RMB19.9 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB23.7 million). There is no significant changes compared to the corresponding period in last year.

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 RMB72.0 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB59.0 million). The Group's net profit margin maintained at 9.8% for the six months ended 30 June 2020 (six months ended 30 June 2019: 9.3%).

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

As at 30 June 2020, the Group had net current assets of approximately RMB430.3 million (31 December 2019: RMB416.4 million). As at 30 June 2020, the Group's total cash and bank balances amounted to approximately RMB358.1 million (31 December 2019: RMB380.3 million). The current ratio of the Group maintained at approximately 1.9 as at 30 June 2020 (30 June 2019: 2.2).

The equity attributable to shareholders of the Company as at 30 June 2020 amounted to approximately RMB802.7 million (31 December 2019: RMB763.4 million). As at 30 June 2020, the Group had outstanding unsecured borrowings of RMB20 million and HK\$35 million (31 December 2019: HK\$35 million).

The Group's gearing ratio (borrowings over total equity) as at 30 June 2020 was 6.5 (31 December 2019: 4.1).

As at 30 June 2020, the Group had available unutilized banking facilities of RMB70.0 million (31 December 2019: RMB30 million) and HK\$5 million (31 December 2019: HK\$5 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 capital of the Company comprises ordinary shares and other reserves. As at 30 June 2020, the number of issued shares of the Company was 840,000,000 ordinary Shares of HK\$0.01 each.

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 2020. 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 2020 and 31 December 2019, the Group did not have any charges on its assets.

CAPITAL EXPENDITURE

For the six months ended 30 June 2020, the Group had capital expenditure of approximately RMB29.0 million (six months ended 30 June 2019: RMB30.0 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 HK3.7 cents per ordinary share and a special dividend of HK1.45 cents per ordinary share for the six months ended 30 June 2020 (six months ended 30 June 2019: HK4.6 cents) to shareholders on the register of members of the Company on Wednesday, 21 October 2020, amounting to approximately HK\$43.3 million which will be subject to the approval of the Company’s shareholders in an extraordinary general meeting to be held on Monday, 12 October 2020 (the “EGM”). The interim dividend and special dividend will be payable on or around Monday, 2 November 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 6 October 2020 to Monday, 12 October 2020, both days inclusive, during which period no transfers of shares shall be effected. The record date will be Monday, 12 October 2020. 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 and transfer office, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Monday, 5 October 2020.

To determine the entitlement of the proposed interim dividend and special dividend, the register of members of the Company will be closed from Monday, 19 October 2020 to Wednesday, 21 October 2020, both days inclusive, during which period no transfers of shares shall be effected. The record date will be Wednesday, 21 October 2020. 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 and transfer office, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Friday, 16 October 2020.

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 scheme adopted on 8 June 2015, which became effective on the Listing Date, and shares to be granted under the share award plan which was adopted and became effective on 8 January 2016.

As at 30 June 2020, the Group had 3,303 employees with a total remuneration of RMB164.9 million during the Reporting Period (six months ended 30 June 2019: RMB151.4 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

Discloseable Transaction: Subscription of Wealth Management Products – Unit Customer Smart Deposits

On 2 January 2020 and 7 July 2020, Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd.* (中山市中智藥業集團有限公司), as a subscriber and a wholly owned subsidiary of the Company, entered into the First Customer Smart Deposits Business Agreement and the Second Customer Smart Deposits Business Agreement with Guangdong Huaxing Bank Zhongshan Branch, pursuant to which, Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. subscribed for wealth management products of Guangdong Huaxing Bank Zhongshan Branch in the principal amount of RMB50,000,000 and RMB80,000,000, respectively, totaling RMB130,000,000. For details, please refer to the announcement of the Company dated 7 July 2020.

Save as disclosed above, 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.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed under the section headed “SIGNIFICANT INVESTMENTS”, there were no significant events after the Reporting Period up to the date of this announcement.

COMMITMENT

As at 30 June 2020, the Group’s capital commitment amounted to RMB10.3 million (31 December 2019: RMB55.5 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, 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 2020 (31 December 2019: 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 information matters of the Group for the six months ended 30 June 2020 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 2020 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, 26 August 2020

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*