



INTERIM REPORT 2021

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

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lai Zhi Tian (Chairman)
Mr. Lai Ying Feng
Mr. Cao Xiao Jun
Mr. Cheng Jin Le

Non-executive Directors

Ms. Jiang Li Xia
Mr. Yang Ai Xing

Independent Non-executive Directors

Mr. Ng Kwun Wan
Mr. Wong Kam Wah
Mr. Zhou Dai Han

COMMITTEES OF THE BOARD

Audit Committee

Mr. Ng Kwun Wan (Chairman)
Mr. Wong Kam Wah
Mr. Zhou Dai Han

Remuneration Committee

Mr. Wong Kam Wah (Chairman)
Mr. Lai Zhi Tian
Mr. Lai Ying Feng
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

Nomination Committee

Mr. Wong Kam Wah (Chairman)
Mr. Lai Zhi Tian
Mr. Lai Ying Feng
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

AUTHORIZED REPRESENTATIVES

Mr. Lai Ying Feng
Ms. Ho Wing Yan

COMPANY SECRETARY

Ms. Ho Wing Yan

REGISTERED ADDRESS

Windward 3
Regatta Office Park
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HEADQUARTER IN THE PRC

No. 3 Kangtai Road South
Torch Development Zone
Zhongshan
Guangdong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 10B, 15/F
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan, New Territories
Hong Kong

OFFICE IN SHENZHEN

Units A-H on the 20th Floor
Dream City Office Tower
Mei Lin Lu, Futian Qu, Shenzhen
PRC

AUDITOR

Ernst & Young

27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

Corporate Information

PRINCIPAL BANKER

Bank of Communications Co., Ltd.
China Construction Bank Corporation
Zhongshan Rural Commercial Bank Co., Ltd.

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Suites 3301-04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point, Hong Kong

STOCK NAME

ZHONGZHIPHARM

STOCK CODE

3737

COMPANY WEBSITE

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Business Review and Prospects

BUSINESS REVIEW AND PROSPECTS

I, on behalf of the board (the "Board") of directors (the "Directors") of Zhongzhi Pharmaceutical Holdings Limited ("Zhongzhi Pharmaceutical" or the "Company"), together with its subsidiaries (collectively, the "Group") is pleased to announce the interim report and the unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2021 (the "Reporting Period") to the shareholders of the Company (the "Shareholders").

BUSINESS REVIEW

By virtue of the clear strategic positioning, in 2021, Zhongzhi Pharmaceutical grasped the best strategic pulse of development, successfully formed its unique brand and marketing mode, and conducted organisational 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 RMB886.7 million (corresponding period in 2020: RMB737.7 million), representing an increase of approximately 20.2% over the corresponding period in last year. The Group recorded a profit for the period of approximately RMB66.5 million (corresponding period in 2020: RMB72.0 million), representing a decrease of 7.6% over the corresponding period in last year. The basic earnings per share is RMB8.1 cents (corresponding period in 2020: RMB8.6 cents), representing a decrease of approximately 5.8% over the corresponding period in last year.

FUTURE AND OUTLOOK

Manufacturing Segment

The Group's manufacturing segment experienced strong growth in 2021, brands under which include Caojinghua (cell-wall broken herbs) and Zhongzhi and Liumian (patented Chinese drugs). Caojinghua cell-wall broken herbs product team initiated a sales mode switch in 2018, from direct sales to the "entrepreneur model" utilizing distribution channels. The business model switch was a success and was fully deployed in 2021. Since the switch, sales momentum has been strong, each region demonstrating strong control, leading to quick and sustainable expansion, helping to increase sales steadily. The Group made adjustments to the patented Chinese drug line and began making changes to sales mode. The change has achieved step goals, beginning to find new growth points. In the near future, the Group will build on the current momentum, whilst continuing to explore new products, strengthening the overall brand image and always be on the lookout for new opportunities.

Chain Pharmacies Segment

Covid-19 pandemic brought a short-term surge in demand for anti-pandemic supplies, temporarily increasing foot traffic in stores, leading to a temporal increase in sales. Under the effective leadership of the Chinese government, pandemic spread quickly got controlled, which in turn brought foot traffic back to normal levels, industry experienced an adjustment beginning from the second half of 2020, trend continuing in 2021. In the first half of 2021, the Group's pharmacy segment continues to maintain strong results and remains the market leader in the Zhongshan region. The Group began exploring the franchise model in 2020, refining the model on the way and has achieved satisfactory results thus far. The Zhongzhi brand continues to be a strong local brand widely recognized by the people, and continues to serve the population.

Business Review and Prospects

Investment In New Projects

In the second half of 2020, the Group entered into two construction contracts, namely the Yunfu Factory construction and the Zhongshan Logistics Centre (previously known as Zhongshan Factory) construction. The first stage of Yunfu factory construction is expected to complete within the year and begin manufacturing in Q4. The factory will undertake the task of handling all of the Group's Chinese medicine examination, storage and initial processing. At the same time, the factory will also explore other domains within in Chinese medicine, bearing the Group's mission to promote Chinese medicine culture and to push forward the Chinese medicine industry, finding new opportunities.

The Zhongshan Logistics Centre is expected to complete in Q1 of 2022 and put into deployment. The Logistics Centre will primarily be used by the Group's Chain Pharmacies segment, using leading design concepts, with the market's best equipment. It is expected that the segment adopts the new technologies in improving all parts of operations, improving overall efficiency and minimizing risk of human error. The Zhongshan Logistics Centre will also serve act the Chain Pharmacy segment's new headquarters, providing improved working environments to its employees.

GRATITUDE

On behalf of the Company, I would like to express my sincere gratitude to our valued shareholders, customers, suppliers, banks and to our management and employees for their continuous trust and support to our Group. We expect the year ahead to be full of opportunities and challenges. As always, we strive to create greater value for our shareholders and investors.

By order of the Board

Lai Zhi Tian

Chairman & Executive Director

Hong Kong, 26 August 2021

Management Discussion and Analysis

BUSINESS REVIEW

By virtue of the clear strategic positioning, in 2021, Zhongzhi Pharmaceutical grasped the best strategic pulse of development, successfully formed its unique brand and marketing mode, and conducted organisational 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 RMB886.7 million (corresponding period in 2020: RMB737.7 million), representing an increase of approximately 20.2% over the corresponding period in last year.
- The Group recorded a profit for the period of approximately RMB66.5 million (corresponding period in 2020: RMB72.0 million), representing a decrease of 7.6% over the corresponding period in last year.
- The basic earnings per share is RMB8.1 cents (corresponding period in 2020: RMB8.6 cents), representing a decrease of approximately 5.8% over the corresponding period in last year.

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 the six months ended 30 June			% of total revenue for the six months ended 30 June		
	2021 RMB'000	2020 RMB'000	Change (%)	2021 (%)	2020 (%)	Change (%)
Pharmaceutical manufacturing	535,533	397,193	+34.8	60.4	53.8	+6.6
Operation of chain pharmacies	312,259	309,830	+0.8	35.2	42.0	-6.8
Operation of on-line pharmacies	38,924	30,653	+27.0	4.4	4.2	+0.2
	886,716	737,676	+20.2	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 34.8% to RMB535.5 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB397.2 million) and accounted for 60.4% of the total revenue during the Reporting Period (six months ended 30 June 2020: 53.8%), which was attributable to the growth in sales as a result of the Group's effort in building the Caojinghua brand and a strong promotion for Caojinghua products through the coherent efforts with channels customers to increase market share; and gradual increase in sales from hospital channels as a result of gradual recovery of footfall in hospitals after the pandemic.

Management Discussion and Analysis

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 2021, the Group has 379 self-operated chain pharmacies in Zhongshan (as at 30 June 2020: 335), of which 325 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies increased by approximately 0.8% to RMB312.3 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB309.8 million) and accounted for 35.2% of the total revenue during the Reporting Period (six months ended 30 June 2020: 42.0%). The increase was primarily attributable to the new sales brought in by the new stores.

Operation of On-line Pharmacies

Revenue derived from operation of on-line pharmacies increased by approximately 27.0% to RMB38.9 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB30.7 million) and accounted for 4.4% of the total revenue during the Reporting Period (six months ended 30 June 2020: 4.2%). The increase was primarily attributable to the Group’s exploration of marketing modes on various e-commerce platforms as well as the coherent efforts with off-line sales channel to promote Caojinghua brand products.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the Reporting Period was RMB545.8 million, representing an increase of 19.1% as compared with RMB458.2 million for the six months ended 30 June 2020. 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		
	2021 RMB'000	2020 RMB'000	Change (%)	2021 (%)	2020 (%)	Change (%)
Pharmaceutical manufacturing	398,036	306,991	+29.7	74.3	77.3	-3.0
Operation of chain pharmacies	123,112	126,164	-2.4	39.4	40.7	-1.3
Operation of on-line pharmacies	24,670	25,016	-1.4	63.4	81.6	-18.2
	545,818	458,171	+19.1	61.6	62.1	-0.5

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 29.7% to RMB398.0 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB307.0 million). The gross profit margin decreased to 74.3% for the six months ended 30 June 2021 (six months ended 30 June 2020: 77.3%). The increase in gross profit was driven by higher sales. The increase in promotional efforts during the year caused a temporary decline in gross margin.

Management Discussion and Analysis

Operation of Chain Pharmacies

The gross profit of chain pharmacies segment decreased by 2.4% to RMB123.1 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB126.2 million). The gross profit margin of the chain pharmacies segment decreased to 39.4% for the six months ended 30 June 2021 (six months ended 30 June 2020: 40.7%). Gross profit margin decreased compared to prior year as there is a decrease in price for promotion.

Operation of On-line Pharmacies

The gross profit of segment of operation of on-line pharmacies decreased by approximately 1.4% to RMB24.7 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB25.0 million). The gross profit margin for the six months ended 30 June 2021 was 63.4% (six months ended 30 June 2020: 81.6%). The decrease in gross profit margin was mainly due to increased promotional efforts and adjustment in product mix.

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 2021, other income and gains of the Group were approximately RMB9.2 million (six months ended 30 June 2020: RMB10.8 million), representing a decrease of approximately RMB1.6 million as compared to corresponding period in last year, which was mainly attributable to the decrease in gains of bank wealth management product.

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 2021 amounted to approximately RMB398.7 million (six months ended 30 June 2020: RMB297.5 million), representing an increase of approximately 34% as compared to corresponding period in last year. Selling and distribution expense ratio increased to approximately 45.0% (six months ended 30 June 2020: 40.3%) against revenue for the six months ended 30 June 2021. The increase in the Group's selling and distribution expenses during the Reporting Period was mainly due to more advertisement investments, on-line and off-line promotion efforts, and market development supports to enhance market vitality and promote sales growth.

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 RMB47.1 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB43.9 million), representing an increase of approximately 7.3% as compared to corresponding period in last year. The increase was mainly attributable to the depreciation and amortisation of canteen complex and dormitory decoration project.

Income Tax Expense

Income tax expense amounted to approximately RMB13.6 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB19.9 million). The decrease was mainly due to a decrease in profit.

Management Discussion and Analysis

Profit Attributable to Owners of the Parent

As a result of the factors discussed above, profit attributable to owners of the parent decreased by 7.5% to RMB66.6 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB72.0 million). The Group's net profit margin maintained at 7.5% for the six months ended 30 June 2021 (six months ended 30 June 2020: 9.8%).

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

As at 30 June 2021, the Group had net current assets of approximately RMB413.0 million (31 December 2020: RMB398.4 million). As at 30 June 2021, the Group's total cash and bank balances amounted to approximately RMB227.0 million (31 December 2020: RMB294.0 million). The current ratio of the Group maintained at approximately 1.8 as at 30 June 2021 (30 June 2020: 1.9).

The equity attributable to shareholders of the Company as at 30 June 2021 amounted to approximately RMB885.1 million (31 December 2020: RMB821.8 million). As at 30 June 2021, the Group had outstanding unsecured borrowings of RMB43.1 million and HK\$70.0 million (31 December 2020: RMB20.0 million and HK\$70.0 million).

The Group's gearing ratio (borrowings over total equity) as at 30 June 2021 was 11.5% (31 December 2020: 9.6%).

As at 30 June 2021, the Group had available unutilized banking facilities of RMB76.9 million (31 December 2020: RMB40 million) and HK\$ nil (31 December 2020: HK\$ Nil).

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 2021, the number of issued shares of the Company was 840,000,000 ordinary Shares of HK\$0.01 each.

Subscription of New Shares

On 29 June 2021, the Company entered into a subscription agreement with Novich Dingli International Investment Limited ("Novich"), a company incorporated in the British Virgin Islands with limited liability advised and managed by its shareholders Novich Positioning Investment (Cayman) Limited, which in turn is indirectly wholly-owned by 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 23,600,000 ordinary Shares of HK\$0.01 each at the subscription price of HK\$1.53 per Share (the "Subscription").

Management Discussion and Analysis

The closing price per ordinary Share as quoted on the Stock Exchange on 29 June 2021, being the date of the subscription agreement was HK\$1.50. The gross proceeds from the Subscription were approximately HK\$36,108,000 and the net proceeds from the Subscription, after deduction of all relevant cost and expenses, were approximately HK\$36,055,430, representing a net issue price of approximately HK\$1.52 per subscription Share. The Company intends to use the net proceeds to enhance the public awareness of the brand and for shareholders' dividend.

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 will continue to grow with Novich and continue to create greater value and explore new business opportunities for the Company through the network and synergy with it.

The completion date of the subscription will be on 26 August 2021. Details of the above Subscription were published in the Company's announcement dated 29 June 2021.

USE OF PROCEEDS

The unutilized portion of the net proceeds was approximately HK\$36,000,000 as at 30 June 2021.

An analysis of the utilization of the net proceeds up to 26 August 2021 is set out below:

	Percentage to the total amount	Net proceeds HK\$ million	Utilized amount up to 26 August 2021 HK\$ million	Unutilized amount up to 26 August 2021 HK\$ million	Expected time period
Enhancing Networking	50%	18	—	18	Year 2023
Building reputation and dividend distribution	50%	18	—	18	Year 2023
	100%	36	—	36	

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 2021. 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 2021 and 31 December 2020, the Group did not have any charges on its assets.

Management Discussion and Analysis

CAPITAL EXPENDITURE

For the six months ended 30 June 2021, the Group had capital expenditure of approximately RMB81.0 million (six months ended 30 June 2020: RMB29.0 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 the Group has commenced the construction of new factory premises and additional production lines to expand its production capacity, the Board proposed not to distribute any interim dividend for the six months ended 30 June 2021 in order to maintain a healthy cash flow. The total interim dividend for the six months ended 30 June 2020 was HK5.15 cents per share, consisting of the interim dividend of HK3.70 cents per share and a special dividend of HK1.45 cents per share.

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 2021, the Group had 3,402 employees with a total remuneration of RMB155.5 million during the Reporting Period (six months ended 30 June 2020: RMB164.9 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

Discloseable Transaction: Construction Contracts

On 10 October 2020, (i) Guangdong Yunzhi, a wholly-owned subsidiary of the Company, entered into the Yunfu Factory First Construction Contract with Guangdong Zhengdong, pursuant to which Guangdong Zhengdong shall provide construction services to Guangdong Yunzhi for the construction of the Yunfu Factory at a consideration of RMB27,000,000; and (ii) Zhongshan Zhongzhi, a wholly-owned subsidiary of the Company, entered into the Zhongshan Factory First Construction Contract with Guangdong Zhengdong, pursuant to which Guangdong Zhengdong shall provide construction services to Zhongshan Zhongzhi for the construction of the Zhongshan Factory at a consideration of RMB31,190,000.

On 24 March 2021, (i) Guangdong Yunzhi, a wholly-owned subsidiary of the Company, further entered into the Yunfu Factory Second Construction Contract with Guangdong Zhengdong, pursuant to which Guangdong Zhengdong shall provide further construction services to Guangdong Yunzhi for the construction of the Yunfu Factory at a consideration of RMB46,000,000; and (ii) Zhongshan Zhongzhi, a wholly-owned subsidiary of the Company, further entered into the Zhongshan Factory Second Construction Contract with Guangdong Zhengdong, pursuant to which Guangdong Zhengdong shall provide further construction services to Zhongshan Zhongzhi for the construction of the Zhongshan Factory at a consideration of RMB25,000,000. For details, please refer to the announcement and supplemental announcement of the Company dated 24 March 2021 and 7 April 2021.

Save as disclosed above, the Group had no significant investments held during the Reporting Period.

Management Discussion and Analysis

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 report.

CAPITAL COMMITMENT

As at 30 June 2021, the Group's capital commitment amounted to RMB71.4 million (31 December 2020: RMB65.9 million). The capital commitment is mainly related to the purchasing of new equipment for research and development activities and to expand the Group's production capacity.

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 2021 (31 December 2020: nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, the trustee of the share award plan (as adopted by the Group on 8 January 2016) (the "Share Award Plan"), pursuant to the rules and trust deed of the Share Award Plan, purchased on the Stock Exchange a total of 3,323,000 Shares of the Company at a total consideration of approximately HK\$5.3 million on 18 June 2021. Save as disclosed above, 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 report.

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 2021 and recommended its adoption by the Board.

Management Discussion and Analysis

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 during the six months ended 30 June 2021.

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.

Report on Review of Interim Condensed Consolidated Financial Information



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To the board of directors of Zhongzhi Pharmaceutical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial information set out on pages 15 to 43, which comprises the consolidated statement of financial position of Zhongzhi Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2021 and the related consolidated statement of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 Interim Financial Reporting ("IAS 34") issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of this interim condensed consolidated financial information accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants
Hong Kong

26 August 2021

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	4	886,716	737,676
Cost of sales		(340,898)	(279,505)
Gross profit		545,818	458,171
Other income and gains	4	9,220	10,808
Selling and distribution expenses		(398,749)	(297,534)
Administrative expenses		(47,078)	(43,872)
Other expenses		(25,593)	(33,072)
Finance costs		(3,462)	(2,585)
PROFIT BEFORE TAX	5	80,156	91,916
Income tax expense	6	(13,612)	(19,912)
PROFIT FOR THE PERIOD		66,544	72,004
Attributable to:			
Owners of the parent		66,588	72,005
Non-controlling interests		(44)	(1)
PROFIT FOR THE PERIOD		66,544	72,004
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDINGS OF THE PARENT			
Basis			
— For profit for the period		RMB0.081	RMB0.086
Diluted			
— For profit for the period		RMB0.081	RMB0.086

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	66,544	72,004
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	601	546
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	601	546
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	67,145	72,550
Attributable to:		
Owners of the parent	67,189	72,551
Non-controlling interests	(44)	(1)
	67,145	72,550

Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	340,736	303,163
Investment properties	9	41,287	—
Prepayment for property, plant and equipment		6,914	25,924
Right-of-use assets		132,143	128,832
Goodwill		1,628	1,628
Other intangible assets	10	19,265	19,560
Investment in a joint venture		388	392
Equity investments at fair value through profit or loss	11	9,568	17,713
Deferred tax assets		17,129	16,208
Prepayments	14	11,050	16,150
Other non-current assets		7,753	7,067
Total non-current assets		587,861	536,637
CURRENT ASSETS			
Inventories	12	265,376	247,121
Trade and notes receivables	13	357,587	283,088
Prepayments, deposits and other receivables	14	53,911	59,063
Equity investments at fair value through profit or loss	11	462	580
Financial assets at fair value through profit or loss	16	37,000	—
Cash and cash equivalents	15	226,961	294,032
Total current assets		941,297	883,884
CURRENT LIABILITIES			
Trade payables	17	116,899	110,439
Interest-bearing bank borrowings		101,386	78,915
Other payables and accruals	18	218,100	201,416
Lease liabilities		37,505	35,772
Amounts due to related parties		8,786	8,786
Deferred income	19	24,062	23,497
Amount due to a joint venture		65	65
Tax payable		21,475	26,580
Total current liabilities		528,278	485,470
NET CURRENT ASSETS		413,019	398,414
TOTAL ASSETS LESS CURRENT LIABILITIES		1,000,880	935,051

Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income	19	16,030	14,215
Lease liabilities		75,574	73,216
Deferred tax liabilities		24,148	25,857
Total non-current liabilities		115,752	113,288
Net assets		885,128	821,763
EQUITY			
Equity attributable to owners of the parent			
Issued capital	20	6,650	6,650
Reserves		876,335	813,526
		882,985	820,176
Non-controlling interests		2,143	1,587
Total equity		885,128	821,763

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

	Attributable to owners of the parent												
	Issued capital	Shares held for the share award plan		Share premium	Merger reserve	Statutory surplus reserve	Share-based payment	Share award reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000										
At 1 January 2021	6,650	(21,217)*	173,030*	31,200*	57,698*	5,680*	(2,079)*	20,921*	548,293*	820,176	1,587	821,763	
Profit for the period	—	—	—	—	—	—	—	—	66,588	66,588	(44)	66,544	
Other comprehensive income for the period													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	601	—	601	—	601	
Total comprehensive income for the period	—	—	—	—	—	—	—	601	66,588	67,189	(44)	67,145	
Capital contribution by a non-controlling shareholder	—	—	—	—	—	—	—	—	—	—	600	600	
Shares repurchased	—	(4,380)	—	—	—	—	—	—	—	(4,380)	—	(4,380)	
Transfer from retained profits	—	—	—	—	3,979	—	—	—	(3,979)	—	—	—	
At 30 June 2021 (unaudited)	6,650	(25,597)*	173,030*	31,200*	61,677*	5,680*	(2,079)*	21,522*	610,902*	882,985	2,143	885,128	

* These reserve accounts comprise the consolidated reserve of RMB876,335,000 (2020: RMB813,526,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

	Attributable to owners of the parent											
	Issued capital	Shares held for the share award plan	Share premium	Merger reserve	Statutory surplus reserve	Share-based payment	Share award reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	6,650	(10,578)*	243,440*	31,200*	47,979*	5,680*	(1,514)*	21,046*	419,480*	763,383	—	763,383
Profit for the period	—	—	—	—	—	—	—	—	72,005	72,005	(1)	72,004
Other comprehensive income for the period												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	546	—	546	—	546
Total comprehensive income for the period	—	—	—	—	—	—	—	546	72,005	72,551	(1)	72,550
Capital contribution by a non-controlling shareholder	—	—	—	—	—	—	—	—	—	—	300	300
Transfer from retained profits	—	—	—	—	13,534	—	—	—	(13,534)	—	—	—
Dividends declared (note 7)	—	—	(33,241) [#]	—	—	—	—	—	—	(33,241)	—	(33,241)
At 30 June 2020 (unaudited)	6,650	(10,578)*	210,199*	31,200*	61,513*	5,680*	(1,514)*	21,592*	477,951*	802,693	299	802,992

* These reserve accounts comprise the consolidated reserve of RMB796,043,000 (2019: RMB756,733,000) in the consolidated statement of financial position.

[#] 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).

Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		80,156	91,916
Adjustments for:			
Finance costs	5	3,462	2,585
Bank interest income	4	(249)	(533)
Interest income from financial assets at fair value through profit or loss	4	(1,897)	(3,206)
Dividend income from an equity investment at fair value through profit or loss	4	(570)	(58)
(Gain)/loss on disposal of items of property, plant and equipment	4	(91)	211
Depreciation of property, plant and equipment and investment properties	5, 9	18,632	19,079
Depreciation of right-of-use assets	5	20,796	17,540
Amortisation of other intangible assets	5, 10	1,556	1,350
Government grants released	18	(2,358)	(2,421)
Fair value losses/(gains), net:			
Equity investments at fair value through profit or loss	5	2,053	(2,562)
Gain on disposal of equity investment at fair value through profit or loss		(452)	—
Impairment losses on trade receivables	5	493	3,627
(Reversal)/write-down of inventories to net realisable value	5	(47)	1,248
		121,484	128,776
Increase in inventories		(18,207)	(29,295)
Increase in trade and notes receivables		(55,690)	(37,668)
Decrease/(increase) in prepayments, deposits and other receivables		10,251	(8,937)
Decrease in non-current assets		(685)	(1,819)
Increase/(decrease) in trade payables		6,460	(2,693)
Decrease in other payables and accruals		(19,262)	(385)
Increase in deferred income		4,737	5,064
Cash generated from operations		49,088	53,043
Interest paid		(1,318)	(771)
Income tax paid		(21,347)	(18,808)
Net cash flows from operating activities		26,423	33,464

Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(81,038)	(29,003)
Decrease in prepayments for purchases of property, plant and equipment		19,010	1,320
Proceeds from disposal of items of property, plant and equipment		262	231
Purchase of other intangible assets		(461)	(857)
Purchase of right-of-use assets		—	(186)
Purchases of an equity investment at fair value through profit or loss		(5)	(1,011)
Proceeds upon maturity of financial assets at fair value through profit or loss		—	200,000
Proceeds from disposal of equity investments at fair value through profit or loss		6,670	—
Purchases of financial assets at fair value through profit or loss		(37,000)	(200,000)
Bank interest received	4	249	533
Interest received from financial assets at fair value through profit or loss	4	1,897	3,206
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		63,000	—
Acquisition of a subsidiary		(782)	—
Dividend received from an equity investment	4	570	58
Net cash flows used in investing activities		(27,628)	(25,709)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		(22,159)	(18,223)
Dividends paid	7	—	(33,241)
Proceeds from borrowings		42,471	20,618
Repayments of bank borrowings		(20,000)	—
Purchase of shares held under the Share Award Plan		(4,379)	—
Capital contribution from a non-controlling shareholder		600	300
Net cash flows used in financing activities		(3,467)	(30,546)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		151,032	380,333
Effect of foreign exchange rate changes, net		601	546
CASH AND CASH EQUIVALENTS AT END OF PERIOD		146,961	358,088

Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	16	140,834	351,488
Non-pledged time deposits	16	86,127	6,600
Cash and bank balances as stated in the statement of financial position		226,961	358,088
Non-pledged time deposits with original maturity of more than three months when acquired		(80,000)	—
Cash and cash equivalents at end of the period		146,961	358,088

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 report, 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 2021 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 2020.

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 2020, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Notes to the Interim Condensed Consolidated Financial Information

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

(Continued)

2.2 Changes in accounting policies and disclosures (Continued)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

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

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.
- (b) Amendment to IFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

Notes to the 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 2020 and 2021, the Group had no revenue from transaction with a single customer which amounted to 10% or more of the Group's sales.

Notes to the Interim Condensed Consolidated Financial Information

3. OPERATING SEGMENT INFORMATION (Continued)

The revenue and results by operating segments of the Group during each of the six months ended 30 June 2020 and 2021 are as follows:

	Six months ended 30 June 2021			
	Pharmaceutical manufacturing RMB'000 (Unaudited)	Operation of chain pharmacies RMB'000 (Unaudited)	Operation of online pharmacies RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue:				
Revenue from external customers (note 4)	535,533	312,259	38,924	886,716
Intersegment sales	32,813	—	—	32,813
Elimination of intersegment sales	(32,813)	—	—	(32,813)
Revenue	535,533	312,259	38,924	886,716
Cost of sales	(137,497)	(189,147)	(14,254)	(340,898)
Segment results	398,036	123,112	24,670	545,818
Reconciliation:				
Other income and gains				9,220
Selling and distribution expenses				(398,749)
Administrative expenses				(47,078)
Other expenses				(25,593)
Finance costs				(3,462)
Profit before tax				80,156

Notes to the Interim Condensed Consolidated Financial Information

3. OPERATING SEGMENT INFORMATION (Continued)

	Six months ended 30 June 2020			
	Pharmaceutical manufacturing RMB'000 (Unaudited)	Operation of chain pharmacies RMB'000 (Unaudited)	Operation of online pharmacies RMB'000 (Unaudited)	Total 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

Notes to the Interim Condensed Consolidated Financial Information

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 2021.

For the six months ended 30 June 2021, 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	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue		
Sale of pharmaceutical products	886,716	737,676
Other income		
Bank interest income	249	533
Dividend income	570	58
Interest income from financial assets at fair value through profit or loss	1,897	3,206
	2,716	3,797
Gains		
Government grants:		
— Related to assets	998	1,162
— Related to income	1,360	1,259
Fair value gain on equity investments and financial assets at fair value through profit or loss	—	2,562
Gain on disposal of items of property, plant and equipment	108	30
Others	4,038	1,998
	6,504	7,011
	9,220	10,808

Notes to the Interim Condensed Consolidated Financial Information

5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cost of inventories sold		340,898	279,505
Depreciation	9	18,632	19,079
Depreciation of right-of-use assets*		20,796	17,540
Amortisation of other intangible assets*	10	1,556	1,350
Research and development costs		22,291	20,304
Advertising, marketing and promotion expenses		215,711	144,559
(Reversal)/write-down of inventories to net realisable value		(47)	1,248
Impairment losses on trade receivables		493	3,627
Fair value (loss)/gain on equity investments and financial assets at fair value through profit or loss**		(2,053)	2,562
Finance costs		3,462	2,585
Auditor's remuneration		1,235	1,643
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		138,046	146,307
Pension scheme contributions (defined contribution scheme)		9,718	8,200
Staff welfare expenses		7,734	10,389
Equity-settled share award expense		—	—
		155,498	164,896

* 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.

** The fair value loss of equity investments at fair value through profit or loss for the reporting period is included in "Other expenses" in the consolidated statement of profit or loss.

Notes to the Interim Condensed Consolidated Financial Information

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% (2020: 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 2021 and 2020, respectively.

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Mainland China		
Current income tax	16,242	14,895
Deferred income tax charge	(2,630)	5,017
Total income tax expense	13,612	19,912

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 2021, the Group recognised a deferred tax liability of RMB17,790,000 (31 December 2020: RMB17,790,000) in respect of the withholding tax on future dividend distribution by the PRC entities.

Notes to the Interim Condensed Consolidated Financial Information

7. DIVIDEND

Subsequent to 30 June 2021, the Company declared an interim dividend of nil (six months ended 30 June 2020: HK3.7 cents) per share, amounting to a total of nil (six months ended 30 June 2020: HK\$31,080,000) and a special dividend of nil (six months ended 30 June 2020: HK1.45 cents) per share, amounting to a total of nil (six months ended 30 June 2020: HK\$12,180,000).

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 826,499,967 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	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	66,588	72,005

Notes to the Interim Condensed Consolidated Financial Information

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

(Continued)

	Six months ended 30 June	
	2021 (Unaudited)	2020 (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 (note 21)	(13,500,033)	(5,451,500)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	826,499,967	834,548,500
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	826,499,967	834,548,500

9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

	30 June	31 December
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Audited)
Carrying amount at 1 January	303,163	279,361
Additions	97,663	61,520
Depreciation provided during the period/year	(18,632)	(36,505)
Transfer to investment properties	(41,287)	—
Disposals	(171)	(1,213)
Carrying amount at 30 June/31 December	340,736	303,163

The Group's buildings are located in Mainland China.

As at 31 December 2020 and 30 June 2021, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB280,000 and RMB243,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

Certain self-owned building of the Group was reclassified to investment properties with original cost of RMB46,127,000 and accumulated depreciation of RMB4,840,000 as at 30 June 2021. The investment property was stated at cost with fair value not less than the carrying amount. The fair value of the investment properties were valued at RMB41,670,000 as at 30 June 2021 by internal appraiser and were determined by income approach.

Notes to the Interim Condensed Consolidated Financial Information

10. OTHER INTANGIBLE ASSETS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Carrying amount at 1 January	19,560	18,559
Additions	461	3,841
Acquisition of a subsidiary	800	—
Amortisation provided during the period/year	(1,556)	(2,840)
Disposal	—	—
Carrying amount at 30 June/31 December	19,265	19,560

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Equity investments at fair value through profit or loss		
Listed equity investment, at fair value	9,381	17,635
Unlisted equity investment, at fair value	649	658
	10,030	18,293

The above listed equity investment at 30 June 2021 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 2021 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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Raw materials	56,774	46,779
Work in progress	14,396	11,599
Finished goods	194,206	188,743
	265,376	247,121

Inventories with a value of RMB2,594,000 (2020: RMB4,711,000) are carried at net realisable value, this being lower than cost.

Notes to the Interim Condensed Consolidated Financial Information

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables:		
Within 1 month	156,668	118,897
1 to 3 months	95,874	65,167
3 to 6 months	41,944	27,154
6 to 12 months	14,950	8,894
Over 12 months	3,582	5,922
	313,018	226,034
Less: Impairment of trade receivables	(3,600)	(3,107)
	309,418	222,927
Notes receivable	48,169	60,161
	357,587	283,088

The notes receivables are settled within 180 days. As at 30 June 2021, the Group continued to recognise endorsed notes receivable and associated liabilities amounting to RMB25,386,000 (2020: RMB6,084,000) respectively. The directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining endorsed notes.

Notes to the Interim Condensed Consolidated Financial Information

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Current		
Prepayments	29,326	40,466
Tax recoverable	1,602	2,170
Deposits and other receivables	22,983	16,427
	53,911	59,063
Non-current		
Prepayments	11,050	16,150

15. CASH AND BANK BALANCES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Cash and bank balances	140,834	151,032
Non-pledged time deposits	86,127	143,000
	226,961	294,032
Denominated in:		
— RMB	222,920	285,557
— HK\$	4,041	8,475
	226,961	294,032

Notes to the Interim Condensed Consolidated Financial Information

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Financial assets at fair value through profit or loss:		
Investments in financial products, at fair value	37,000	—
	37,000	—

The above unlisted investments at 30 June 2021 were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

17. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2020 and 30 June 2021, based on the invoice date, is as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	100,894	96,653
3 to 6 months	9,166	4,905
6 to 12 months	4,028	6,283
over 12 months	2,811	2,598
	116,899	110,439

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

Notes to the Interim Condensed Consolidated Financial Information

18. OTHER PAYABLES AND ACCRUALS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Accruals and other payables	51,720	69,402
Accrued salaries and welfare	36,945	38,850
Contract liabilities	11,400	12,030
Endorsed notes	25,386	6,084
Deposits received	55,010	49,082
Payables for purchases of property and equipment	27,107	10,482
Other tax payables	10,532	15,486
	218,100	201,416

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

19. DEFERRED INCOME

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
At 1 January	37,712	37,121
Received amounts	4,738	9,511
Released amounts	(2,358)	(8,920)
At 30 June/31 December	40,092	37,712
Current	24,062	23,497
Non-current	16,030	14,215
	40,092	37,712

Notes to the Interim Condensed Consolidated Financial Information

20. ISSUED CAPITAL

Issued Capital

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Issued and fully paid: 840,000,000 (2020: 840,000,000) ordinary shares of HK\$0.01 each (HK\$'000)	8,400	8,400
Equivalent to RMB'000	6,650	6,650

21. 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).

Notes to the Interim Condensed Consolidated Financial Information

21. SHARE AWARD PLAN (Continued)

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 Company granted 850,000 shares to certain employees on 2 November 2020 and the vesting date of the shares was 2 November 2020. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.52) on the day of the grant, amounting to HK\$1,292,000 (equivalent to approximately RMB1,117,000).

On 20 October 2020, the board of directors approved to purchase shares as reserve for future granting. From 21 December 2020 to 30 December 2020, the Group purchased 8,677,000 shares in an aggregate amount of HK\$14,268,000 (equivalent to approximately RMB12,322,000).

On 17 June 2021, the board of directors approved to purchase shares as reserve for future granting. On 18 June 2021, the Group purchased 3,323,000 shares in an aggregate amount of HK\$5,288,000 (equivalent to approximately RMB4,379,000).

The Group recognised a share award expense of nil for the six months ended 30 June 2020 and 2021, respectively.

At the date of approval of this interim condensed consolidated financial information, 16,601,500 shares of the Company are held by the Trustee and have yet to be awarded.

Notes to the Interim Condensed Consolidated Financial Information

22. COMMITMENTS

Capital commitments

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contracted, but not provided for: Plant and machinery	71,372	65,850
	71,372	65,850

At the end of 31 December 2020 and 30 June 2021, the Group had significant authorised but not contracted capital commitment of RMB71,000,000 and RMB12,150,000, respectively.

23. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2020 and 30 June 2021 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 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	5,314	3,536
Pension scheme contributions	104	67
Equity-settled share award expense	—	—
	5,418	3,603

Notes to the Interim Condensed Consolidated Financial Information

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Financial assets				
Equity investments at fair value through profit or loss	10,030	18,293	10,030	18,293
Financial assets at fair value through profit or loss	37,000	–	37,000	–
	47,030	18,293	47,030	18,293

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through profit or loss have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest and taxes ("EV/EBIT"), for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Notes to the Interim Condensed Consolidated Financial Information

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2021

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Equity investment at fair value through profit or loss	9,381	–	649	10,030
Financial assets at fair value through profit or loss	–	37,000	–	37,000

As at 31 December 2020

	Fair value measurement using			Total RMB'000 (Audited)
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	
Equity investment at fair value through profit or loss	17,635	–	658	18,293

Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2021, the interests and short positions of the Directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction By Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

(i) Long position in the ordinary shares of the Company

Name of Director	Beneficial interest Number of ordinary Shares	Interest in a controlled corporation Number of ordinary shares	Family interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of the issued share capital of the Company
Mr. Lai Zhi Tian ("Mr. Lai") (Note 1)	1,176,000	471,105,000 (Note 2)	42,240,000 (Note 3)	514,521,000	61.25%
Ms. Jiang Li Xia ("Mrs. Lai")	—	42,240,000 (Note 3)	472,281,000 (Note 2)	514,521,000	61.25%
Mr. Lai Ying Feng	5,990,000	—	—	5,990,000	0.71%

Notes:

- Mr. Lai is personally interested in 21.518% shareholding interest in Advance Keypath Global Investments Limited which is interested in 7.14% shareholding in the Company.
- Crystal Talent Investment Group Limited ("Crystal Talent"), which holds 471,105,000 ordinary shares of the Company, is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai. Accordingly, each of Mr. Lai and Mrs. Lai is deemed to be interested in the ordinary shares of the Company held by Crystal Talent under the SFO.
- Cheer Lik Development Limited ("Cheer Lik"), which holds 42,240,000 ordinary shares of the Company, is 100% beneficially owned by Mrs. Lai. As Mr. Lai is the spouse of Mrs. Lai, Mr. Lai is deemed to be interested in the shares of Cheer Lik held by Mrs. Lai. Accordingly, each of Mrs. Lai and Mr. Lai is deemed to be interested in the ordinary shares of the Company held by Cheer Lik under the SFO.

Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(ii) Long position in Crystal Talent, an associated corporation of the Company

Name of Director	Capital/Nature of Interest	Percentage of the issued share capital of associated corporation
Mr. Lai	Beneficial owner	100%
Mrs. Lai	Family Interest (Note)	100%

Note: Crystal Talent is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai under the SFO.

(iii) Long position in Cheer Lik, an associated corporation of the Company

Name of Director	Capital/Nature of Interest	Percentage of the issued share capital of associated corporation
Mrs. Lai	Beneficial owner	100%
Mr. Lai	Family Interest (Note)	100%

Note: Cheer Lik is 100% beneficially owned by Mrs. Lai. As Mr. Lai is the spouse of Mrs. Lai, Mr. Lai is deemed to be interested in the shares of Cheer Lik held by Mrs. Lai under the SFO.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective associates had registered any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at 30 June 2021, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2021, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, the following shareholders had notified the Company of its relevant interests in the issued share capital of the Company.

LONG POSITIONS IN THE ORDINARY SHARES OF THE COMPANY

Name	Beneficial interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of issued share capital of the Company
Crystal Talent (Note 1)	471,105,000	471,105,000	56.08%
Cheer Lik (Note 2)	42,240,000	42,240,000	5.03%
Advance Keypath Global Investment Limited (Note 3)	60,000,000	60,000,000	7.14%
Novich Positioning Investment Limited Partnership (Note 4)	51,058,000	51,058,000	6.08%

Notes:

- These 471,105,000 shares are held by Crystal Talent, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Lai.
- These 42,240,000 shares are held by Cheer Lik, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mrs. Lai.
- These 60,000,000 shares are held by Advance Keypath Global Investment Limited, a company incorporated in the British Virgin Islands with limited liability.
- These 51,058,000 shares are held by Novich Positioning Investment Limited Partnership, a company incorporated in the Cayman Islands.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2021 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Other Information

SHARE OPTION SCHEME

A share option scheme was conditionally adopted on 8 June 2015 (the "Share Option Scheme"), which became effective on the Listing Date.

The Share Option Scheme is a share incentive scheme and is established to recognize and motivate the contributions that eligible participants (as defined in the Prospectus) have made or may make to the Group.

Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the share of the Company in issue at the Listing Date (i.e. 80,000,000 shares) unless approved by the shareholders of the Company.

The maximum entitlement for any one participant is that the total number of the Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue unless otherwise approved by the Shareholders at a general meeting of the Company.

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall not be less than the highest of:

- (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option;
- (ii) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the relevant option; and
- (iii) the nominal value of a Share on the offer date.

An offer for the grant of options shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK\$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date).

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from date of adoption. The remaining life of the Share Option Scheme is 5 years. There is no share option outstanding, granted, exercised, cancelled and lapsed during the period ended 30 June 2021.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 80,000,000, representing approximately 9.52% of the issued shares of the Company.

Other Information

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 recognise the contributions made by certain selected persons and to attract suitable individuals with experience and ability to further develop and expand the business 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 (the "Trustee") from the open market by utilising the Company's resources provided to the Trustee. The maximum number 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 exceeding 1% of the issued share capital of the Company.

In order to recognise 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).

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 the satisfaction of certain performance target for year 2019. As at 31 December 2019, according to the achievement status of the performance of the Eligible Persons, 1,200,000 shares shall be vested while the remaining was forfeited due to the 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).

Other Information

SHARE AWARD PLAN (Continued)

The Company granted 850,000 shares to certain employees on 2 November 2020 and the vesting date of the shares was 2 November 2020. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.52) on the day of the grant, amounting to HK\$1,292,000 (equivalent to approximately RMB1,117,000).

On 20 October 2020, the board of directors approved to purchase shares as reserve for future granting. From 21 December 2020 to 30 December 2020, the Group purchased 8,677,000 shares in an aggregate of amount HK\$14,268,000 (equivalent to approximately RMB12,322,000).

On 17 June 2021, the board of directors approved to purchase shares as reserve for future granting. On 18 June 2021, the Group purchased 3,323,000 shares in an aggregate amount of HK\$5,288,000 (equivalent to approximately RMB4,379,000).

The Group recognised a share award expense of nil for the six months ended 30 June 2020 and 2021 respectively.

At the date of approval of this interim condensed financial information, 16,601,500 shares of the Company were held by the Trustee and have yet to be awarded.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed in the sections "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Scheme" above, at no time during the Reporting Period and up to the date of this report was the Group a party to any arrangements to enable the Directors to acquire by means of acquisition of shares in, or debt securities, and including debentures, of the Group or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in this report, there was no contract of significance to which the Company or any of its subsidiaries was a party and in which Director(s) had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the Reporting Period.

Other Information

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the Reporting Period and up to the date of this report, none of the Directors or any of their respective associates has engaged in or has any interest in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules during the Reporting Period and up to the date of this report.

By order of the Board

Mr. Lai Zhi Tian

Chairman & Executive Director

Hong Kong
26 August 2021