



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 REPORT
2015

ZHONGZHI PHARMACEUTICAL



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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Lai Zhi Tian (*Chairman*)

Mr. Cao Xiao Jun

Ms. Jiang Li Xia

Ms. Mou Li

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

Ms. Mou Li

Mr. Ng Kwun Wan

Mr. Zhou Dai Han

Nomination Committee

Mr. Wong Kam Wah (*Chairman*)

Mr. Lai Zhi Tian

Ms. Mou Li

Mr. Ng Kwun Wan

Mr. Zhou Dai Han

Authorized Representatives

Ms. Chow Fung Ling

Ms. Mou Li

Company Secretary

Ms. Chow Fung Ling

Registered Address

Clifton House

75 Fort Street

P.O. Box 1350

Grand Cayman

KY1-1108

Cayman Islands

Headquarter in the PRC

No. 3 Kongtai Road South

Torch Development Zone

Zhongshan

Guangdong Province

PRC

Principal Place of Business in Hong Kong

Room 2102–2103

China Insurance Group Building

No. 141 Des Voeux Road Central

Central

Hong Kong

Auditors

Ernst & Young

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

Compliance Adviser

Guosen Securities (HK) Capital Co., Ltd.

42/F, Two International Finance Centre

No. 8 Finance Street

Central

Hong Kong

CORPORATE INFORMATION (CONTINUED)

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

Appleby 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

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Stock Name

Zhongzhi Pharmaceutical Holdings Limited

Stock Code

3737

Company Website

www.zeus.cn

BUSINESS REVIEW AND PROSPECTS

The board of directors (the “Board”) of Zhongzhi Pharmaceutical Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2015 (the “Review Period”).

Business Review and Prospects

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

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

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

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

- expand our chain pharmacies in the Guangdong province;
- expand the breadth and depth of our distribution network;
- expand our production capacities;
- strengthen our research and development capabilities and product range; and
- strengthen our brand recognition and awareness by enhancing our marketing and promotional activities.

KEY FINANCIAL HIGHLIGHTS

Key Financial Highlights

Operating performance

| | For the six months ended 30 June | |
|---|-------------------------------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Results | | |
| Revenue | 347,301 | 288,064 |
| Gross profit | 192,025 | 154,137 |
| Profit before taxation | 80,091 | 61,170 |
| Profit attributable to owners of the parent | 62,104 | 47,814 |
| Profitability | | |
| Gross profit margin | 55.3% | 53.5% |
| Net profit margin | 17.9% | 16.6% |
| Earnings per share | RMB10.35 cents | RMB7.97 cents |

Financial position

| | 30 June | 31 December |
|--------------|-----------------|-----------------|
| | 2015 RMB'000 | 2014 RMB'000 |
| Total assets | 344,046 | 297,924 |
| Net assets | 153,020 | 120,897 |

Liquidity

| | 30 June | 31 December |
|---------------|---------|-------------|
| | 2015 | 2014 |
| Current ratio | 1.3 | 1.2 |
| Quick ratio | 0.7 | 0.6 |
| Gearing ratio | 13.1% | 12.4% |

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Analysis

Revenue

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

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

Pharmaceutical Manufacturing

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

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

Operation of chain pharmacies in Zhongshan

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit and Gross Profit Margin

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

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

Pharmaceutical Manufacturing

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

Operation of chain pharmacies in Zhongshan

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

Other Income and Gains

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

Selling and Distribution Expenses

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

Administrative Expenses

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Finance Costs

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

Income Tax Expense

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

Profit attributable to owners of the parent

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

Liquidity and Capital Resources

Net Current Assets

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

Borrowing and the Pledge of Assets

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

As at 30 June 2015, we had available unutilized banking facilities of approximately RMB15.0 million (31 December 2014: RMB20.0 million). Further details of the Group’s bank borrowings are set out in note 21 of the notes to the interim condensed consolidated financial statements.

Gearing Ratio

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

Capital Structure

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

Foreign Exchange Exposure and Exchange Rate Risk

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Capital Expenditure

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

Interim Dividend

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

Employees and Emoluments Policy

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

Significant Investments Held

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

Use of Proceeds

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Commitment

As at 30 June 2015, the Group's operating lease and capital commitment amounted to RMB58.7 million (31 December 2014: RMB56.0 million) and RMB8.0 million (31 December 2014: RMB2.3 million), respectively. The capital commitment was mainly related to the purchasing fixed assets for research and development activities and production plant of our own-branded products.

Future Plans for Material Investments or Capital Assets

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

Material Acquisitions, Disposals and Significant Investment

During the Review Period, there was no material acquisition, disposal or significant investment by the Group.

Contingent Liabilities

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

Subsequent Events after the Review Period

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

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

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

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



To the board of directors of Zhongzhi Pharmaceutical Holdings Limited

(Incorporated in Cayman Islands with limited liability)

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements set out on pages 12 to 35, which comprises the interim condensed 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 2015 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing 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”).

The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements 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 statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

24 August 2015

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2015

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------------|--------------------------------|
| | | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Unaudited) |
| REVENUE | 5 | 347,301 | 288,064 |
| Cost of sales | | (155,276) | (133,927) |
| Gross profit | | 192,025 | 154,137 |
| Other income and gains | 5 | 3,396 | 2,211 |
| Selling and distribution expenses | | (83,906) | (70,096) |
| Administrative expenses | | (25,448) | (19,960) |
| Other expenses | | (5,450) | (4,600) |
| Finance costs | 6 | (526) | (522) |
| PROFIT BEFORE TAX | 7 | 80,091 | 61,170 |
| Income tax expense | 8 | (17,987) | (13,356) |
| PROFIT FOR THE PERIOD | | 62,104 | 47,814 |
| Attributable to owners of the parent | | 62,104 | 47,814 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | | | |
| For profit for the period | 10 | RMB10.35 cents | RMB7.97 cents |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

| | Notes | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--|-------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 88,612 | 79,366 |
| Prepayment for property, plant and equipment | | 3,296 | 2,100 |
| Prepaid land lease payments | 12 | 14,602 | 14,836 |
| Goodwill | | 1,628 | 1,628 |
| Other intangible assets | 13 | 1,253 | 1,366 |
| Available-for-sale investment | 14 | 1,000 | — |
| Deferred tax assets | | 4,427 | 4,976 |
| Rental deposits | | 3,499 | 3,275 |
| Total non-current assets | | 118,317 | 107,547 |
| CURRENT ASSETS | | | |
| Prepaid land lease payment | 12 | 470 | 470 |
| Inventories | 15 | 97,217 | 88,471 |
| Trade and notes receivables | 16 | 75,105 | 35,489 |
| Prepayments, deposits and other receivables | 17 | 16,145 | 7,943 |
| Cash and cash equivalents | 18 | 36,792 | 58,004 |
| Total current assets | | 225,729 | 190,377 |
| CURRENT LIABILITIES | | | |
| Trade payables | 19 | 66,387 | 52,802 |
| Other payables and accruals | 20 | 63,804 | 60,805 |
| Amounts due to related parties | | 8,786 | 8,786 |
| Interest-bearing bank borrowings | 21 | 20,000 | 15,000 |
| Deferred income | 22 | 3,967 | 6,019 |
| Tax payable | | 14,712 | 20,219 |
| Total current liabilities | | 177,656 | 163,631 |
| NET CURRENT ASSETS | | 48,073 | 26,746 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 166,390 | 134,293 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2015

| | Notes | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--|-------|---|---|
| NON-CURRENT LIABILITIES | | | |
| Deferred income | 22 | 9,040 | 9,047 |
| Deferred tax liabilities | | 4,330 | 4,349 |
| Total non-current liabilities | | 13,370 | 13,396 |
| Net assets | | 153,020 | 120,897 |
| Equity | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 23 | 8 | — |
| Reserves | | 153,012 | 120,897 |
| Total equity | | 153,020 | 120,897 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

| | Issued capital RMB'000 | Merger reserve* RMB'000 | Statutory surplus reserve* RMB'000 | Share- based payment* RMB'000 | Exchange fluctuation reserve* RMB'000 | Retained profits* RMB'000 | Total RMB'000 |
|--|------------------------------|-------------------------------|---|--|--|---------------------------------|------------------|
| At 1 January 2015 | — | 31,200 | 6,003 | 5,680 | — | 78,014 | 120,897 |
| Issuance of Share capital | 8 | — | — | — | — | — | 8 |
| Profit for the period | — | — | — | — | — | 62,104 | 62,104 |
| Other comprehensive income for the period | — | — | — | — | — | — | — |
| Exchange differences on translation of foreign operations | — | — | — | — | 11 | — | 11 |
| Total comprehensive income for the period | — | — | — | — | 11 | 62,104 | 62,115 |
| Transfer from retained profits | — | — | 17,865 | — | — | (17,865) | — |
| Dividends declared by Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("Zhongzhi Pharmaceutical") (note 9) | — | — | — | — | — | (30,000) | (30,000) |
| At 30 June 2015 (unaudited) | 8 | 31,200 | 23,868 | 5,680 | 11 | 92,253 | 153,020 |
| At 1 January 2014 | — | 31,200 | 9,778 | 5,680 | 1 | 83,551 | 130,210 |
| Profit for the period | — | — | — | — | — | 47,814 | 47,814 |
| Other comprehensive income for the period | — | — | — | — | — | — | — |
| Exchange differences on translation of foreign operations | — | — | — | — | — | — | — |
| Total comprehensive income for the period | — | — | — | — | — | 47,814 | 47,814 |
| At 30 June 2014 (unaudited) | — | 31,200 | 9,778 | 5,680 | 1 | 131,365 | 178,024 |

* Included in reserves in the interim condensed consolidated statements of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------------|--------------------------------|
| | | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 80,091 | 61,170 |
| Adjustments for: | | | |
| Finance costs | 6 | 526 | 522 |
| Interest income | 5 | (145) | (513) |
| Net loss on disposal of items of property, plant and equipment | | 174 | 14 |
| Loss on disposal of intangible assets | 7 | — | 216 |
| Depreciation | 7 | 7,106 | 6,622 |
| Recognition of prepaid land lease payments | 7 | 234 | 234 |
| Amortisation of other intangible assets | 7 | 113 | 192 |
| Government grants released | 22 | (2,782) | (926) |
| | | 85,317 | 67,531 |
| (Increase)/decrease in inventories | | (8,746) | 24,554 |
| Increase in trade and notes receivables | | (39,616) | (17,132) |
| Increase in prepayments, deposits and other receivables | | (8,202) | (11,860) |
| Increase in rental deposits | | (224) | (105) |
| Increase/(decrease) in trade payables | | 13,585 | (157) |
| Increase/(decrease) in other payables and accruals | | 3,254 | (18,898) |
| Increase in deferred income | | 723 | 4,393 |
| Cash generated from operations | | 46,091 | 48,326 |
| Income tax paid | | (22,964) | (8,014) |
| Net cash flows from operating activities | | 23,127 | 40,312 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of items of property, plant and equipment | | (16,820) | (3,923) |
| Payment of deposits for purchase of property, plant and equipment | | (1,196) | (293) |
| Proceeds from disposal of items of property, plant and equipment | 39 | 39 | 235 |
| Purchase of other intangible assets | 13 | — | (125) |
| Purchases of available-for-sale investment | | (1,000) | — |
| Proceeds upon maturity of available-for-sale investments | | — | (10,000) |
| Interest received | | 145 | 513 |
| Net cash flows used in investing activities | | (18,832) | (13,593) |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2015

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------------|--------------------------------|
| | | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Unaudited) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Capital contribution from the shareholder | | 8 | — |
| New bank borrowings | | 10,000 | 5,000 |
| Repayments of bank borrowings | | (5,000) | (5,000) |
| Dividends paid | 9 | (30,000) | — |
| Interest paid | | (526) | (522) |
| Net cash flows used in financing activities | | (25,518) | (522) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of period | | 58,004 | 29,077 |
| Exchange of foreign exchange rate changes net | | 11 | — |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | 36,792 | 55,274 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 18 | 36,792 | 55,274 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Zhongzhi Pharmaceutical Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. It became the holding company of the Group as a result of the reorganisation as described in the paragraph headed “History and Corporate Structure — Reorganisation” to the Prospectus dated 30 June 2015 (the “Reorganisation”).

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”).

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.

2. Basis of Preparation

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Impact of New and Revised International Financial Reporting Standards

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

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

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

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

4. Operating Segment Information

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Operating Segment Information *(continued)*

Geographical information

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

Information about major customers

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Operating Segment Information *(continued)*

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Revenue and Other Income and Gains

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

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

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

6. Finance Costs

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Unaudited) |
| Interest on bank loans wholly repayable within five years | 526 | 522 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Profit Before Tax

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

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Unaudited) |
| Cost of inventories sold | | 155,276 | 133,927 |
| Depreciation of items of property, plant, and equipment | 11 | 7,106 | 6,622 |
| Recognition of prepaid land lease payments* | 12 | 234 | 234 |
| Recognition of other intangible assets** | 13 | 113 | 192 |
| Provision for impairment of trade receivables | | 63 | — |
| Research and development costs | | 5,096 | 3,982 |
| Loss on disposal of items of property, plant and equipment | | 183 | 49 |
| Loss on disposal of intangible assets | | — | 216 |

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

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

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

8. Income Tax Expense

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Income Tax Expense *(continued)*

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

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

9. Dividend

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

10. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic earnings per share for the period is based on the consolidated profit for the period attributable to the ordinary equity holders of the parent, and on the basis that 600,000,000 ordinary shares, being the number of shares immediately prior to the issuance of new shares on 13 July 2015, were in issue during the period, and assuming the Capitalisation Issue had been completed on 1 January 2014, as further detailed in note 26 to the financial statements.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent *(continued)*

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

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

11. Property, Plant and Equipment

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

The Group's buildings are located in Mainland China.

As at 31 December 2014 and 30 June 2015, certain of the Group's buildings with a net carrying amount of RMB25,467,000 and RMB24,325,000 respectively, were pledged as security for the bank borrowings granted to the Group (note 21).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Prepaid Land Lease Payments

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--|---|---|
| Carrying amount at 1 January | 15,306 | 15,776 |
| Recognised during the period/year | (234) | (470) |
| Carrying amount at 30 June/31 December | 15,072 | 15,306 |
| Current portion | (470) | (470) |
| Non-current portion | 14,602 | 14,836 |

The Group's leasehold land is held under a medium term lease and is situated in Mainland China.

The above leasehold lands are pledged as security for the bank loan granted to the Group as at 31 December 2014 and 30 June 2015 (note 21).

13. Other Intangible Assets

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--|---|---|
| Carrying amount at 1 January | 1,366 | 1,573 |
| Additions | — | 233 |
| Depreciation provided during the period/year | (113) | (224) |
| Disposals | — | (216) |
| Carrying amount at 30 June/31 December | 1,253 | 1,366 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Available-for-Sale Investments

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|---|---|---|
| Non-current Unlisted investment, at cost | 1,000 | — |

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

During the six months ended 30 June 2014 and 30 June 2015, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income was nil.

15. Inventories

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|------------------|---|---|
| Raw materials | 28,049 | 22,146 |
| Work in progress | 7,703 | 7,983 |
| Finished goods | 61,465 | 58,342 |
| | 97,217 | 88,471 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Trade and Notes Receivables

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

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

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

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

17. Prepayments, Deposits and Other Receivables

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Cash and Cash Equivalents

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

19. Trade Payables

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Other Payables and Accruals

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

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

21. Interest-Bearing Bank Borrowings

30 June 2015

| | Effective interest rate (%) | Maturity | RMB'000 |
|----------------------|-----------------------------------|----------|---------|
| Current | | | |
| Bank loans — secured | 6.00–6.90 | 2016 | 20,000 |

31 December 2014

| | Effective interest rate (%) | Maturity | RMB'000 |
|----------------------|-----------------------------------|----------|---------|
| Current | | | |
| Bank loans — secured | 6.00–6.90 | 2015 | 15,000 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Interest-Bearing Bank Borrowings *(continued)*

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|--------------------------------------|---|---|
| Analysed into: | | |
| Bank loans and overdrafts repayable: | | |
| Within one year or on demand | 20,000 | 15,000 |

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

- (i) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB25,467,000 and RMB24,325,000 as at 31 December 2014, and 30 June 2015, respectively; and were pledged as security for the bank borrowings of RMB15,000,000 and RMB20,000,000 as at 31 December 2014, and 30 June 2015, respectively, granted to Honeson Pharmaceutical and Zhongzhi Pharmaceutical; and
- (ii) mortgages over the Group's prepaid land lease payments, which had an aggregate carrying value of approximately RMB15,306,000 and RMB15,072,000 as at 31 December 2014 and 30 June 2015, respectively.

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

22. Deferred Income

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|------------------------|---|---|
| At 1 January | 15,066 | 11,430 |
| Received amounts | 723 | 7,731 |
| Released amounts | (2,782) | (4,095) |
| At 30 June/31 December | 13,007 | 15,066 |
| Current | 3,967 | 6,019 |
| Non-current | 9,040 | 9,047 |
| | 13,007 | 15,066 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Issued Capital

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

| | Notes | Number of ordinary shares of HK\$0.01 | Nominal value of ordinary shares HK\$ |
|---|-------|---------------------------------------|---------------------------------------|
| Unaudited | | | |
| Authorised: | | | |
| On incorporation | (a) | 39,000,000 | 390,000 |
| Increase in authorised share capital on 8 June 2015 | (b) | 1,521,000,000 | 15,210,000 |
| As at 30 June 2015 and 13 July 2015 | | 1,560,000,000 | 15,600,000 |
| Issued and fully paid: | | | |
| On incorporation | (a) | 10,000 | 100 |
| As at 30 June 2015 | | | |
| Capitalisation Issue credited as fully paid conditional on the share premium account of the Company, being credited as a result of the issuance of new shares to the public | 26 | 599,990,000 | 5,999,900 |
| Issuance of new shares on 13 July 2015 | 26 | 200,000,000 | 2,000,000 |
| As at 13 July 2015 | | 800,000,000 | 8,000,000 |

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

(b) On 8 June 2015, pursuant to the written resolutions of the shareholders, the authorised share capital of the Company was increased from HK\$390,000 to HK\$15,600,000 by the creation of an additional of 1,521,000,000 Shares of HK\$0.01 each.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Commitments

Capital commitments

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

| | 30 June 2015 RMB'000 (Unaudited) | 31 December 2014 RMB'000 (Audited) |
|-----------------------------------|---|---|
| Contracted, but not provided for: | | |
| Leasehold improvement | 3,814 | 545 |
| Plant and machinery | 4,144 | 1,745 |
| | 7,958 | 2,290 |

At the end of 31 December 2014 and 30 June 2015, the Group had no significant authorised but not contracted capital commitment.

25. Related Party Transactions

(a) Outstanding balances with related parties

- (i) Amounts due to related parties as at 31 December 2014 and 30 June 2015 represent consideration received from the registered shareholders of Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd ("Registered Shareholders") as part of the Reorganisation. Pursuant to the Contractual Arrangements, the consideration is repayable to the Registered Shareholders upon exercise of the option to repurchase the equity interest of Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd 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 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Unaudited) |
|---|--|--------------------------------|
| Salaries, allowances and benefits in kind | 920 | 934 |
| Pension scheme contributions | 120 | 118 |
| | 1,040 | 1,052 |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Events After the Reporting Period

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

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

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

27. Approval of the Interim Condensed Consolidated Financial Statements

These unaudited interim condensed consolidated financial statements of the Group for 30 June 2015 were approved and authorised for issue in accordance with a resolution of the board of directors on 24 August 2015.

OTHER INFORMATION

Directors' and Chief Executive's Interests and Short Positions in Shares Underlying Shares and Debentures of the Company and its associated corporations

As the Shares were listed on the Stock Exchange on 13 July 2015, the Company was not required to keep any register under Part XV of the SFO as at 30 June 2015.

As at the date of this report, interests or short positions in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to 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) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") are as follows:

(a) Long position in the Shares

| Name of Directors | Interest in a controlled corporation Number of Shares | Family interest Number of Shares | Total interest Number of Shares | Approximate percentage of the issued share capital of the Company upon Listing |
|---------------------------------------|--|-------------------------------------|------------------------------------|--|
| Mr. Lai Zhi Tian ("Mr. Lai") (Note 1) | 483,120,000 (Note 2) | 42,240,000 (Note 3) | 525,360,000 | 65.67% |
| Ms. Jiang Li Xia ("Mrs. Lai") | 42,240,000 (Note 3) | 483,120,000 (Note 2) | 525,360,000 | 65.67% |

Notes:

- Mr. Lai is personally interested in 21.518% shareholding interest in Advance Keypath Global Investments Limited which is interested in 7.5% shareholding in the Company.
- Crystal Talent, which holds 483,120,000 Shares, 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 Shares held by Crystal Talent under the SFO.
- Cheer Lik, which holds 42,240,000 Shares, 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 Shares held by Cheer Lik under the SFO.

OTHER INFORMATION (CONTINUED)

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

| Name of Directors | Capacity/Nature of Interest | Percentage of the issued share capital of associated corporation |
|--------------------------|------------------------------------|---|
| Mr. Lai | Beneficial owner | 100% |
| Mrs. Lai | Family interest (<i>Note 1</i>) | 100% |

Note:

1. 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.

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 the date of this report, 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.

Directors' Rights to Acquire Shares or Debenture

Save as disclosed herein, at no time from the Listing Date 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.

OTHER INFORMATION (CONTINUED)

Substantial Shareholders' and Others' Interests and Short Positions in Shares and Underlying Shares

Long position in the Shares

| Name | Beneficial Interest Number of Shares | Interest in a controlled corporation Number of Shares | Family interest Number of Shares | Total interest Number of Shares | Approximate percentage of issued share capital of the Company upon Listing |
|-------------------------|--------------------------------------|---|----------------------------------|---------------------------------|--|
| Crystal Talent (Note 1) | 483,120,000 | — | — | 483,120,000 | 60.39% |
| Mr. Lai | — | 483,120,000 (Note 2) | 42,240,000 (Note 3) | 525,360,000 | 65.67% |
| Mrs. Lai | — | 42,240,000 (Note 4) | 483,120,000 (Note 3) | 525,360,000 | 65.67% |
| Cheer Lik (Note 5) | 42,240,000 | — | — | 42,240,000 | 5.28% |

Notes:

1. As Crystal Talent is 100% beneficially owned by Mr. Lai and regarded as a Controlling Shareholder, Crystal Talent is deemed to be interested in a total of 525,360,000 Shares, which represent 65.67% interest of the Company.
2. Crystal Talent is legally interested in 483,120,000 Shares. As Crystal Talent is 100% beneficially owned by Mr. Lai, Mr. Lai is deemed to be interested in the Shares held by Crystal Talent under the SFO.
3. Mr. Lai is the spouse of Mrs. Lai. Accordingly, Mr. Lai is deemed to be interested in the Shares in which Mrs. Lai has interest under the SFO and Mrs. Lai is deemed to be interested in the Shares in which Mr. Lai has interest under the SFO.
4. Cheer Lik is legally interested in 42,240,000 Shares. As Cheer Lik is 100% beneficially owned by Mrs. Lai, Mrs. Lai is deemed to be interested in the Shares held by Cheer Lik under the SFO.
5. As Cheer Lik is 100% beneficially owned by Mrs. Lai and regarded as a Controlling Shareholder, Cheer Lik is deemed to be interested in a total of 525,360,000 Shares, which represent 65.67% interest of our Company.

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 2015 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.

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 Review Period.

OTHER INFORMATION (CONTINUED)

Directors' Interests in Competing Businesses

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

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 Shares in issue as at the Listing Date (i.e. 80,000,000 shares) unless approved by the shareholders of the Company.

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 the date of adoption. No share option has been granted under the Share Option Scheme up to the date of this report.

Purchase, Sale or Redemption of Listed Securities

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

Audit Committee

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

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

Remuneration Committee

The remuneration committee (the "Remuneration Committee") was established on 8 June 2015 with terms of reference in compliance with the Code for the purpose of making recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of our Group, to review and evaluate their performance in

OTHER INFORMATION (CONTINUED)

order to make recommendations on the remuneration package of each of the Directors and senior management personnel as well as other employee benefit arrangements. The Remuneration Committee comprises three independent non-executive Directors, namely, Mr. Wong Kam Wah (Chairman), Mr. Ng Kwun Wan and Mr. Zhou Dai Han; and two executive Directors, namely, Mr. Lai and Ms. Mou Li.

Nomination Committee

The nomination committee (the "Nomination Committee") was established on 8 June 2015 with terms of reference in compliance with the Code for the purpose of making recommendations to the Board on the appointment of Directors and the management of the Board succession. The Nomination Committee comprises three independent non-executive Directors, namely, Mr. Wong Kam Wah (Chairman), Mr. Ng Kwun Wan and Mr. Zhou Dai Han; and two executive Directors, namely, Mr. Lai and Ms. Mou Li.

Corporate Governance Practices

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

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

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 from Listing Date up to the date of this report.

Model Code for Securities Transactions by Directors of Listed Issuers

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 for the six months ended 30 June 2015.

By order of the Board
Mr. Lai Zhi Tian
Chairman & Executive Director

Hong Kong
24 August 2015