Zhongzhi Pharmaceutical Holdings Limited

中 智 藥 業 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3737)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

INTERIM RESULTS

The board (the "**Board**") of directors ("**Directors**") of Zhongzhi Pharmaceutical Holdings Limited (the "**Company**") presents the unaudited interim condensed consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2016 (the "**Review Period**"), together with the comparative figures for the six months ended 30 June 2015. These results have been reviewed by Ernst & Young, the external auditor of the Group, and the Company's audit committee (the "**Audit Committee**").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
REVENUE	4	**358,968**	347,301
Cost of sales		**(161,205)**	(155,276)
Gross profit		**197,763**	192,025
Other income and gains	4	**10,705**	3,396
Selling and distribution expenses		**(134,428)**	(83,906)
Administrative expenses		**(26,180)**	(25,448)
Other expenses		**(6,732)**	(5,450)
Finance costs	5	**(3)**	(526)
PROFIT BEFORE TAX	6	**41,125**	80,091
Income tax expense	7	**(9,147)**	(17,987)
PROFIT FOR THE PERIOD		**31,978**	62,104
Attributable to owners of the parent		**31,978**	62,104
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	**RMB4.02 cents**	RMB10.35 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**31,978**	62,104
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,719**	11
Change in fair value of available-for-sale investments, net of tax	**1,933**	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**35,630**	62,115
Attributable to owners of the parent	**35,630**	62,115

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	**30 June 2016** *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**97,988**	89,133
Prepayment for property, plant and equipment		**8,433**	3,385
Prepaid land lease payments		**14,132**	14,366
Goodwill		**1,628**	1,628
Other intangible assets		**1,662**	1,808
Available-for-sale investments	*11*	**8,650**	7,650
Deferred tax assets		**6,711**	5,756
Rental deposits		**4,300**	3,782
Total non-current assets		**143,504**	127,508
CURRENT ASSETS			
Prepaid land lease payment		**470**	470
Inventories		**110,175**	99,894
Trade and notes receivables	*12*	**69,761**	56,446
Prepayments, deposits and other receivables	*13*	**36,140**	12,573
Available-for-sale investments	*11*	**240,577**	—
Cash and cash equivalents	*14*	**130,079**	426,637
Total current assets		**587,202**	596,020
CURRENT LIABILITIES			
Trade payables	*15*	**59,692**	53,576
Other payables and accruals	*16*	**67,390**	66,847
Amounts due to related parties		**8,786**	8,786
Deferred income		**5,493**	5,734
Tax payable		**13,789**	10,167
Total current liabilities		**155,150**	145,110
NET CURRENT ASSETS		**432,052**	450,910
TOTAL ASSETS LESS CURRENT LIABILITIES		**575,556**	578,418

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income		**13,620**	13,720
Deferred tax liabilities		**2,657**	2,010
Total non-current liabilities		**16,277**	15,730
Net assets		**559,279**	562,688
Equity			
Equity attributable to owners of the parent			
Issued capital	*17*	**6,309**	6,309
Reserves		**552,970**	556,379
Total equity		**559,279**	562,688

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2016 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 2015.

The interim condensed consolidated financial statements have been prepared under the historical cost convention except for bank financial products 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. 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 2015, except for the adoption of the new or revised standards, interpretation and amendments as of 1 January 2016, noted below:

Amendments to IAS 1	Disclosure Initiative
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Annual Improvements 2012–2014 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 these interim condensed consolidated financial statements.

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

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 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.

Geographical information

During the reporting period, the Group operates within one geographical segment because nearly all of its revenue was generated in the People's Republic of China (the "**PRC**") and nearly 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 2015 and 2016, the Group had no revenue from transaction with a single customer which amounted to 10% or more of the Group's sales.

3. **OPERATING SEGMENT INFORMATION (Continued)**

The revenue and results by operating segments of the Group during each of the six months ended 30 June 2015 and 2016 are as follows:

	Six months ended 30 June 2016		
	Operation of chain pharmacies *RMB'000* (unaudited)	**Pharmaceutical manufacturing** *RMB'000* (unaudited)	**Total** *RMB'000* (unaudited)
Segment revenue:			
Revenue from external customers	**194,283**	**164,685**	**358,968**
Intersegment sales	**—**	**21,616**	**21,616**
Elimination of intersegment sales	**—**	**(21,616)**	**(21,616)**
Revenue	**194,283**	**164,685**	**358,968**
Cost of sales	**(105,601)**	**(55,604)**	**(161,205)**
Segment results	**88,682**	**109,081**	**197,763**
Reconciliation:			
Other income and gains			**10,705**
Selling and distribution expenses			**(134,428)**
Administrative expenses			**(26,180)**
Other expenses			**(6,732)**
Finance costs			**(3)**
Profit before tax			**41,125**

3. OPERATING SEGMENT INFORMATION (Continued)

	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

4. 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 2016.

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of pharmaceutical products	**358,968**	347,301
Other income		
Interest income	**912**	145
Interest income from available-for-sale investments	**1,545**	—
	2,457	145
Gains		
Government grants:		
— Related to assets	**65**	6
— Related to income	**7,226**	2,776
Gain on disposal of items of property, plant and equipment	**2**	9
Others	**955**	460
	8,248	3,251
	10,705	3,396

5. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**—**	526
Other finance costs	**3**	—
	3	526

6. PROFIT BEFORE TAX

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

	Note	Six months ended 30 June	
		2016	2015
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Cost of inventories sold		**161,205**	155,276
Depreciation of items of property, plant and equipment	*10*	**8,127**	7,106
Recognition of prepaid land lease payments		**234**	234
Amortisation of other intangible assets		**146**	113
Provision for impairment of trade receivables		**—**	63
Research and development costs		**6,558**	5,096
Loss on disposal of items of property, plant and equipment		**1**	183

7. 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 British Virgin Islands ("**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.

Zhongshan Honeson Pharmaceutical Co., Ltd. is qualified as high and new technology enterprises and is subject to a preferential income tax rate of 15% for the six months ended 30 June 2015 and 2016, respectively.

7. **INCOME TAX EXPENSE (Continued)**

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China		
Current income tax	**9,523**	17,457
Deferred income tax (credit)/charge	**(376)**	530
Total income tax expense	**9,147**	17,987

8. **DIVIDEND**

During the six months ended 30 June 2016, the Company declared and paid a final dividend in respect of the previous financial year, of HK3.5 cents per ordinary share, amounting to HK$27,720,000 (equivalent to approximately RMB23,691,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK$280,000 (equivalent to approximately RMB237,000). The dividends declared by Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("**Zhongzhi Pharmaceutical**") to its then shareholders during the six months ended 30 June 2015 and 30 June 2016 were RMB30,000,000 and nil, respectively.

Subsequent to 30 June 2016, the board of directors determined that an interim dividend of HK1.6 cents per share be payable on or around 10 November 2016 to the shareholders on the register of members of the Company on 11 October 2016. The interim dividend has not been recognised as a liability at the end of the reporting period.

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

The calculation of basic earnings per share for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue less shares held under the share award plan of 795,106,611 (six months ended 30 June 2015: 600,000,000) in issue during the year.

There were no potentially dilutive ordinary shares in issue during the six months ended 30 June 2016 and 2015, and therefore the diluted earnings per share amount is equivalent to the basic earnings per share.

9. 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	
	2016	2015
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the parent (RMB'000)	**31,978**	62,104
Weighted average number of ordinary shares in issue less shares held for the share award plan used in the basic and diluted earnings per share calculation	**795,106,611**	600,000,000
Basic and diluted earnings per share	**RMB4.02 cents**	RMB10.35 cents

10. PROPERTY, PLANT AND EQUIPMENT

	30 June	31 December
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Carrying amount at 1 January	**89,133**	79,366
Additions	**17,017**	26,400
Depreciation provided during the period/year	**(8,127)**	(16,049)
Disposals	**(35)**	(584)
Carrying amount at 30 June/31 December	**97,988**	89,133

The Group's buildings are located in mainland China.

As at 31 December 2015 and 30 June 2016, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB640,000 and RMB604,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

11. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Current		
Investment in bank financial product, at fair value	**240,577**	—
Non-current		
Unlisted investment, at cost	**8,650**	7,650

Current portion of available-for-sale investments consist of investment in a bank financial product issued by a reputable bank in the PRC. The investment is principal-guaranteed, there is no maturity date on the investment, and it can be redeemed at any time. Return on investment is accumulated daily, on floating rates determined based on the length of the investment, however, actual return is not calculated until the corresponding investment is redeemed. The Group does not have a definitive schedule on the redemption of the investment.

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

During the six months ended 30 June 2015 and 30 June 2016, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income was nil and RMB2,300,570, respectively.

12. TRADE AND NOTES RECEIVABLES

The Group's trading terms with its wholesale customers are mainly on credit. The credit period generally does not exceed 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.

12. TRADE AND NOTES RECEIVABLES (Continued)

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 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 month	**41,923**	29,652
1 to 3 months	**7,580**	4,726
3 to 6 months	**3,831**	1,046
6 to 12 months	**2,419**	3,112
Over 12 months	**485**	384
	56,238	38,920
Notes receivable	**13,523**	17,526
	69,761	56,446

The notes receivable are settled within 180 days. No notes receivable are discounted as at 31 December 2015 and 30 June 2016, respectively. As at 31 December 2015 and 30 June 2016, the Group has endorsed notes receivable of RMB11,427,000 and RMB7,017,000 to settle trade payables, respectively.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepayments	**31,401**	8,610
Tax recoverable	**207**	227
Deposits and other receivables	**4,532**	3,736
	36,140	12,573

14. CASH AND CASH EQUIVALENTS

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cash and bank balances	**59,764**	245,028
Time deposits	**70,315**	181,609
	130,079	426,637
Denominated in:		
— RMB	**57,799**	279,526
— HK$	**72,280**	147,111
	130,079	426,637

15. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2015 and 30 June 2016, based on the invoice date, is as follows:

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**49,699**	39,148
3 to 6 months	**5,248**	10,578
6 to 12 months	**3,241**	1,403
over 12 months	**1,504**	2,447
	59,692	53,576

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

16. OTHER PAYABLES AND ACCRUALS

	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
Accruals and other payables	**13,765**	7,531
Accrued salary and welfare	**17,368**	23,041
Advances from customers	**6,852**	6,074
Endorsed notes	**7,017**	11,427
Deposits received	**11,418**	8,247
Payables for purchases of property and equipment	**1,733**	2,936
Other tax payables	**9,237**	7,591
	67,390	66,847

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

17. ISSUED CAPITAL

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

	Number of ordinary shares of HK$0.01	**Nominal value of ordinary shares** *HK$*
Unaudited		
Authorised:		
As at beginning and end of the period	1,560,000,000	15,600,000
Issued and fully paid:		
As at beginning and end of the period	800,000,000	8,000,000

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

The Group is principally engaged in pharmaceutical manufacturing in 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 year of 2016 shall continue to be a year full of challenges for the PRC economy, if not more rigorous than 2015, considering the continuous downward pressure of the economy it is facing. The domestic economy is still finding its way in the economic structural reform including the pharmaceutical industry and healthcare industry.

Nevertheless, the Group had recorded slim growth in its revenue during the Review Period. The Group had devoted more resources in developing new sales channels, including but not limited to, the hospital and internet sales channel, the number of self-operated chain pharmacies had also increased steadily by 32 to 233 as at 30 June 2016 and promoting the Group's brand through different media channels and platforms. Engrossed in the development of new sales channels, and through research and development to provide new products of modern decoction pieces, revenue is expected to come along and bring future prospects to the Group.

The Group has entered into a new phase of its corporate development. It had commenced its business in Hong Kong in June 2016, and had registered 11 products with the Department of Health as at 30 June 2016. The Group has commended surveys and research on the market response by different sale strategies in Hong Kong. And in August 2016, the Group had entered into sale and purchase agreements to acquire certain office properties in Shenzhen. The Group intends to establish a sales office in Shenzhen to leverage on its strategic location to consolidate and expand the distribution network and promote the Company's brand in the PRC and international market.

Looking forward, we believe that by committing more resources in sales and marketing, we can establish a solid foundation to the long term development and sustainable growth of the Group. We expect the sales of the modern decoction pieces to regain momentum and achieve sales growth in the future.

Revenue

The Group recorded a total revenue of approximately RMB359.0 million for the six months ended 30 June 2016, representing a 3.4% increase from the corresponding period in 2015 (six months ended 30 June 2015: RMB347.3 million), with contributions from the two segments, 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**		
	2016	2015	Change	**2016**	2015	Change
	RMB'000	*RMB'000*	*(%)*	***(%)***	*(%)*	*(%)*
Pharmaceutical manufacturing	**164,685**	175,803	–6.3	**45.9**	50.6	–4.7
Operation of chain pharmacies	**194,283**	171,498	+13.3	**54.1**	49.4	+4.7
	358,968	347,301	+3.4	**100.0**	100.0	

Pharmaceutical Manufacturing

Revenue derived from pharmaceutical manufacturing decreased by approximately 6.3% to RMB164.7 million for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB175.8 million) and accounted for 45.9% of the total revenue during the Review Period (six months ended 30 June 2015: 50.6%). The decrease was mainly due to the decrease in sales of our modern decoction pieces as the Group had undergone re-positioning on its "Caojinghua (草晶華)" brand during the Review Period.

Operation of chain pharmacies

Revenue of the operation of chain pharmacies increased by approximately 13.3% to approximately RMB194.3 million for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB171.5 million) and accounted for 54.1% of the total revenue during the Review Period (six months ended 30 June 2015: 49.4%). The increase in revenue in the operation of chain pharmacies business was mainly due to the increase in the number of self-operated chain pharmacies in Zhongshan by 32 to 233 during the Review Period (30 June 2015: 201). During the Review Period, the Group continued its growth of operation of chain pharmacies through increasing the consumption and product mix which are better adapted to the needs of customers.

Gross Profit and Gross Profit Margin

The Group recorded gross profit of approximately RMB197.8 million for the six months ended 30 June 2016, representing an increase of RMB5.8 million or 3.0% as compared with RMB192.0 million for the corresponding period in 2015. 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**		
	2016	2015	Change	**2016**	2015	Change
	RMB'000	*RMB'000*	*(%)*	***(%)***	*(%)*	*(%)*
Pharmaceutical manufacturing	**109,081**	111,844	–2.5	**66.2**	63.6	+2.6
Operation of chain pharmacies	**88,682**	80,181	+10.6	**45.6**	46.8	–1.2
	197,763	192,025	+3.0	**55.1**	55.3	–0.2

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment decreased by approximately 2.5% to RMB109.1 million for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB111.8 million). The gross profit margin increased to 66.2% for the six months ended 30 June 2016 (six months ended 30 June 2015: 63.6%), primarily resulted from the increase in sales of products with higher profit margins such as "houttuynia* (魚腥草)" and "milkvetch root (黃芪)".

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by approximately 10.6% to RMB88.7 million for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB80.2 million). The gross profit margin of the chain pharmacies segment decreased to 45.6% for the six months ended 30 June 2016 (six months ended 30 June 2015: 46.8%). 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 of bank interest income and government grants. For the six months ended 30 June 2016, other income and gains of the Group were approximately RMB10.7 million (six months ended 30 June 2015: RMB3.4 million), representing an increase of approximately RMB7.3 million as compared to corresponding period in 2015, which was mainly attributable to the increase in government grants and interest income from available-for-sale investments.

Selling and Distribution Expenses

Selling and distribution expenses for the six months ended 30 June 2016 amounted to approximately RMB134.4 million (six months ended 30 June 2015: RMB83.9 million), representing an increase of approximately 60.2% as compared to corresponding period in 2015. Selling and distribution expense ratio increased to approximately 37.4% (six months ended 30 June 2015: 24.2%) against revenue for the six months ended 30 June 2016. The Group's selling and distribution expenses increased during the Review Period mainly due to (i) the increase in advertising expenses for promoting the Group's modern decoction pieces and its brand "Caojinghua (草晶華)" through different media channels and platforms; (ii) the Group has devoted more resources in sales and marketing staff for the exploration and expansion of distribution networks, including hospital and internet channels; and (iii) the increase in the number of self-operated chain pharmacies by 32 to 233 as compared to the corresponding period in 2015.

Administrative Expenses

Administrative expenses amounted to approximately RMB26.2 million for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB25.4 million), representing an increase of approximately 3.1% as compared to the corresponding period in 2015 and accounted for 7.3% (six months ended 30 June 2015: 7.3%) of the Group's revenue. The increase was attributable to the net effect of the decrease in the listing expenses of approximately RMB4.3 million as a result of the listing of the Group in July 2015 and the increase in salaries in order to retain high quality talents to ensure smooth operation and cater for the Group's expansion plan.

Income Tax Expense

Income tax expense amounted to approximately RMB9.1 million for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB18.0 million). Zhongshan Honeson Pharmaceutical Co., Ltd. (中山市恒生藥業有限公司) enjoyed a preferential tax rate because of its accreditation as a High and New Technology Enterprise and its applicable tax rate was 15%.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent decreased by 48.5% to RMB32.0 million for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB62.1 million). The Group's net profit margin decreased to 8.9% for the six months ended 30 June 2016 (six months ended 30 June 2015: 17.9%).

Liquidity and Capital Resources

Net Current Assets

As at 30 June 2016, the Group had net current assets of approximately RMB432.1 million (31 December 2015: RMB450.9 million). As at 30 June 2016, the Group's cash and cash equivalents amounted to approximately RMB130.1 million (31 December 2015: RMB 426.6 million). The current ratio of the Group decreased from approximately 4.1 as at 31 December 2015 to 3.8 as at 30 June 2016.

The equity attributable to shareholders of the Company as at 30 June 2016 amounted to approximately RMB559.3 million (31 December 2015: RMB562.7 million). As at 30 June 2016, the Group had no outstanding bank borrowings (31 December 2015: nil). Therefore there was no gross debt gearing ratio (borrowings over total equity) as at 30 June 2016 (31 December 2015: nil).

As at 30 June 2016, the Group had available unutilized banking facilities of RMB30.0 million (31 December 2015: RMB30.0 million).

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

Financing

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

Capital Structure

The share capital of the Company is comprised of ordinary shares and other reserves for the six months ended 30 June 2016.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange gain of approximately RMB0.2 million for the six months ended 30 June 2016 (six months ended 30 June 2015: net exchange loss of approximately RMB16,000), relatively unchanged in the period. The Group mainly operates in the PRC with most of its transactions denominated in RMB, hence, no financial instrument of hedging was employed because hedging cost is relatively high and the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 30 June 2016, the Group did not have any borrowings. Should the Group require borrowing in future, it would most likely be bank borrowings denominated in RMB and at variable interest rate with reference to The People's Bank of China Prescribed Interest Rate. The Board is of the opinion that the Group is not subject to any significant foreign exchange risk and interest rate risk.

Capital Expenditure

For the six months ended 30 June 2016, the Group had capital expenditure of approximately RMB19.8 million (six months ended 30 June 2015: RMB16.8 million). The capital expenditure was mainly related to the purchasing of fixed assets for research and development activities and production of the Group's own-branded products.

INTERIM DIVIDEND

As a token of the Group's gratitude for the support of our shareholders, the Board has recommended the distribution of an interim dividend of HK1.6 cents per ordinary share for the six months ended 30 June 2016 (six months ended 30 June 2015: nil) to shareholders on the registrar of members of the Company on 11 October 2016, amounting to approximately HK$12.8 million which will be subject to the approval of the Company's shareholders in an extraordinary general meeting to be held on 30 September 2016 (the "**EGM**"). The interim dividend will be payable on or around 10 November 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 28 September 2016 to 30 September 2016, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming EGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 27 September 2016.

To determine the entitlement of the proposed interim dividend, the register of members of the Company will be closed from 6 October 2016 to 11 October 2016, both days inclusive, during which period no transfers of shares shall be effected. In order to be eligible for receiving the interim dividend, all completed transfers forms accomplished by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 5 October 2016.

EMPLOYEES AND EMOLUMENTS POLICY

As at 30 June 2016, the Group had 2,347 employees in the PRC and Hong Kong with total employee benefit expenses amounting to approximately RMB84.2 million (six months ended 30 June 2015: RMB 72.4 million). The Group offers a comprehensive and competitive remuneration, retirement schemes, a share award plan and benefit package to its employees. The salaries of the employees are determined with reference to individual performance, working experience, qualification and prevailing market practices. Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme. Employees in the PRC are provided with basic social insurance and housing fund in compliance with the requirements of the laws of the PRC. The Group has adopted a share option scheme and a share award plan (which was adopted and became effective on 8 January 2016) for the purpose of providing incentives to participants for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

MATERIAL ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENTS

During the Review Period, the Group did not have any material acquisition, disposal or significant investments.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

The Group's business objectives and planned use of proceeds as stated in the prospectus dated 30 June 2015 (the "**Prospectus**") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus. The actual use of proceeds was based on the actual market development. The net proceeds from the public offer and placing of the shares of the Company (the "**Shares**") (the "**Global Offering**") were approximately HK$452.9 million. During the Review Period, the net proceeds from the Global Offering had been applied as follows:

Business objectives as stated in the Prospectus	**Actual net proceeds** *(HK$'000)*	**Amount utilized up to 30 June 2016** *(HK$'000)*	**Balance as at 30 June 2016** *(HK$'000)*
Expansion of pharmaceutical chain in the Guangdong province	135,870	(27,574)	108,296
Expansion of distribution network	90,580	(81,679)	8,901
Providing funding for research and development activities	90,580	(11,408)	79,172
Expansion of production capacity	90,580	(16,430)	74,150
General working capital purposes	45,290	(45,290)	—
	452,900	(182,381)	270,519

The unused net proceeds have been placed as (i) interest bearing deposits with licensed banks in Hong Kong and the PRC; and (ii) an available-for-sale investment which was a principal-guaranteed bank financial product issued by China Construction Bank (the "**Investment Deposit**") in accordance with the intention of the Board as disclosed in the Prospectus.

The Investment Deposit is not restricted as to use and not pledged against any assets. The principal of the Investment Deposit is fully guaranteed by the bank, there is no maturity date and the entire amount can be redeemed any time. Further details of the Investment Deposit is set out in note 11 to the interim condensed consolidated financial statements.

COMMITMENT

As at 30 June 2016, the Group's capital commitment amounted to RMB39.6 million (31 December 2015: RMB7.9 million). The capital commitment was mainly related to the purchasing of fixed assets for research and development activities and production plant of the Group's own-branded products.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Apart from strengthening the Group's current business and the future plans as disclosed in the Prospectus, the Group had devoted more resources to expand market penetration, explore new sales channel to increase the coverage of its products in different market, promote our decoction pieces under the brand "Caojinghua (草晶華)" and develop new products through our research and development to stimulate growth in product sales. Regarding the development of new products, the Group will further develop and introduce diversified decoction pieces products to enrich its product profile, and enhance the market share in the Chinese decoction pieces market.

The Company had been negotiating with certain vendors in relation to the acquisition of properties (the "**Acquisition**") as the Company intended to establish a self-owned sales office in Shenzhen. Subsequent to the Review Period, Zhongzhi Pharmaceutical, an indirectly wholly owned subsidiary of the Company, entered into agreements in relation to the Acquisition. Details of the Acquisition are set out under the section headed "Subsequent Event after the Review Period" below.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no contingent liabilities (2015: nil).

SUBSEQUENT EVENTS AFTER THE REVIEW PERIOD

As disclosed in the announcement of the Company dated 4 August 2016, Zhongzhi Pharmaceutical had been negotiating with certain vendors in relation to the Acquisition as the Company intends to establish a self-owned sales office in Shenzhen. As such, Zhongzhi Pharmaceutical had entered into the following agreements.

On 27 July 2016, Zhongzhi Pharmaceutical entered into a renovation agreement with Shenzhen Nantu Decoration and Design Company Limited (深圳市藍塗裝飾設計工程有限公司) in relation to the renovation of the office property at a consideration of approximately RMB4.1 million. On 4 August 2016, Zhongzhi Pharmaceutical entered into sale and purchase agreements with Shenzhen Xinrunyuan Property Development Company Limited (深圳市新潤園房地產開發有限公司) for the acquisition of certain office properties at a consideration of approximately RMB54.1 million. On the same date, Zhongzhi Pharmaceutical entered into the sale and purchase agreements with Mr. Zheng Yuan Zhi (鄭元治) for the acquisition of certain residential properties as staff quarters at a consideration of RMB10.0 million. The above transactions are expected to be completed before end of September 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Review 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 8,000,000 Shares of the Company at a total consideration of approximately HK$18.3 million. 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 Review Period and up to the date of this announcement.

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Audit Committee comprises three members, all being independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han.

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the unaudited interim condensed consolidated financial statements matters of the Group for the six months ended 30 June 2016 and recommended its adoption by the Board.

CORPORATE GOVERNANCE PRACTICES

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

Pursuant to CG Code provision A.2.1, the role(s) of a chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lai Zhi Tian ("**Mr. Lai**") is the Chairman and the general manager of the Group. In view of Mr. Lai is the founder of the Group and has been operating and managing the Group since 1999, the Board believes that it is in the best interest of the Group to have Mr. Lai taking up both roles for effective management and business development. Therefore the Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstances.

As all major decisions are made in consultation with the members of the Board, and there are three Independent Non-Executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (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 Review Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.zeus.cn). The interim report of the Company for the six months ended 30 June 2016 will be dispatched to shareholders of the Company and published on the websites of the Hong Kong Stock Exchange and the Company in due course.

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

Hong Kong, 29 August 2016

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