



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 2016

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 House

P.O. Box 1350

Grand Cayman

KY1-1108

Cayman Islands

Headquarter in the PRC

No. 3 Kangtai Road South

Torch Development Zone

Zhongshan

Guangdong Province

PRC

Principal Place of Business in Hong Kong

Unit 10B, 15/F

Cable TV Tower

9 Hoi Shing Road

Tsuen Wan, New Territories

Hong Kong

Auditors

Ernst & Young

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

Compliance Adviser

CMB International Capital Limited

Unit 1803-4, 18/F

Bank of America Tower

12 Harcourt Road

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

ZHONGZHIPHARM

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”) 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”).

Business Review and Prospects

The Group is 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 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 sales 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 our modern decoction pieces to regain momentum and achieve sales growth in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB'000	2015 RMB'000	Change (%)	2016 (%)	2015 (%)	Change (%)
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)” 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 RMB'000	2015 RMB'000	Change (%)	2016 (%)	2015 (%)	Change (%)
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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 12 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 3 October 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 29 September 2016 to 3 October 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 28 September 2016.

To determine the entitlement of the proposed interim dividend, the register of members of the Company will be closed from 7 October 2016 to 12 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 6 October 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

In order to maximize the utilization of the idle proceeds from the fund raising without affecting the Group's operational liquidity and fund security, the Group utilized certain idle proceeds to subscribe for highly secured principal-guaranteed wealth management product during the Review Period.

During the Review Period, Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("Zhongzhi Pharmaceutical"), an indirectly wholly owned subsidiary of the Company, made subscriptions for wealth management products offered by China Construction Bank Corporation ("CCB") under the first wealth management product master agreement with CCB on 8 September 2015 ("WMP 1") and the second wealth management product master agreement with CCB on 8 March 2016 ("WMP 2").

The major terms of WMP 1 and WMP 2 are as follows:

- | | | |
|-------|--|--|
| (i) | Name of the wealth management product: | WMP 1: “乾元—日積利”(按日)開放式資產組合型人民幣理財產品
WMP 2: “乾元—日鑫月溢”(按日)開放式資產組合型人民幣理財產品 |
| (ii) | Type of return: | principal-guaranteed with floating return and open-ended |
| (iii) | Valid period of product: | no nominal terms |
| (iv) | Expected rate of return: | WMP 1: 1.80% to 4.51% annually, depending on the length of the deposit period;
WMP 2: 2.00% to 4.20% annually, depending on the length of the deposit period. |
| (v) | Redemption of principal and return: | redemption can be applied within the designated time in any statutory working days of the bank in the PRC. The entire redeemed amount will be deposited to Zhongzhi Pharmaceutical's designated bank account immediately upon redemption. |
| (vi) | Right of early termination: | CCB has the right to early terminate the wealth management product at any time, including but not limited to the circumstances of material adjustments to the national financial policies or material changes to the bonds market or other areas within the portfolio of this product which affect the normal functioning of this product. |

CCB shall notify Zhongzhi Pharmaceutical within two working days before the termination date and shall make payment of the principal and return within five working days after the termination date to Zhongzhi Pharmaceutical's designated bank account.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Zhongzhi Pharmaceutical made several subscriptions for WMP 1 since 5 January 2016 and increased the subscription amount from RMB165.0 million to RMB193.0 million. Zhongzhi Pharmaceutical also made 2 withdrawals from WMP 1 and fully withdrawn the subscription balance on 8 March 2016.

Zhongzhi Pharmaceutical made a number of subscriptions for WMP 2 since 8 March 2016 and increased the subscription amount from RMB195.0 million to RMB249.5 million. Zhongzhi Pharmaceutical also made 16 withdrawals from WMP 2 and reduced the subscription balance to RMB198.0 million as at 30 June 2016. Further details of the WMP 2 are set out in note 14 to the interim condensed consolidated financial statements. As at the date of this report, the subscription balance of WMP 2 was RMB120.4 million.

Saved as disclosed herein, the Group did not have any material acquisition, disposal or significant investments during the Review Period.

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	Amount	Balance as at
	proceeds	utilized up to	30 June 2016
	HK\$'000	30 June 2016	30 June 2016
	HK\$'000	HK\$'000	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) WMP 1 and WMP 2 which were principal-guaranteed wealth management products issued by CCB in accordance with the intention of the Board as disclosed in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 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.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



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

To the board of directors of Zhongzhi Pharmaceutical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements set out on pages 13 to 36, 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 2016 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

29 August 2016

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	5	358,968	347,301
Cost of sales		(161,205)	(155,276)
Gross profit		197,763	192,025
Other income and gains	5	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	6	(3)	(526)
PROFIT BEFORE TAX	7	41,125	80,091
Income tax expense	8	(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	10	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 RMB'000 (Unaudited)	2015 RMB'000 (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	11	97,988	89,133
Prepayment for property, plant and equipment		8,433	3,385
Prepaid land lease payments	12	14,132	14,366
Goodwill		1,628	1,628
Other intangible assets	13	1,662	1,808
Available-for-sale investments	14	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	12	470	470
Inventories	15	110,175	99,894
Trade and notes receivables	16	69,761	56,446
Prepayments, deposits and other receivables	17	36,140	12,573
Available-for-sale investments	14	240,577	—
Cash and cash equivalents	19	130,079	426,637
Total current assets		587,202	596,020
CURRENT LIABILITIES			
Trade payables	20	59,692	53,576
Other payables and accruals	21	67,390	66,847
Amounts due to related parties		8,786	8,786
Deferred income	22	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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2016

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income	22	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	23	6,309	6,309
Reserves		552,970	556,379
Total equity		559,279	562,688

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Issued capital RMB'000	Shares held for the share award plan* RMB'000	Share premium* RMB'000	Merger reserve* RMB'000	Statutory surplus reserve* RMB'000	Share- based payment* RMB'000	Share award reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Available- for-sale investments revaluation reserve* RMB'000	Total RMB'000
At 1 January 2016	6,309	—	364,997	31,200	30,239	5,680	—	19,946	104,317	—	562,688
Profit for the period	—	—	—	—	—	—	—	—	31,978	—	31,978
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	—	—	—	1,933	1,933
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	1,719	—	—	1,719
Total comprehensive income for the period	—	—	—	—	—	—	—	1,719	31,978	1,933	35,630
Shares purchased for the share award plan (note 24)	—	(15,651)	—	—	—	—	—	—	—	—	(15,651)
Equity-settled share award expense (note 24)	—	292	—	—	—	—	11	—	—	—	303
Dividends declared (note 9)	—	—	(23,691)	—	—	—	—	—	—	—	(23,691)
At 30 June 2016 (unaudited)	6,309	(15,359)	341,306	31,200	30,239	5,680	11	21,665	136,295	1,933	559,279

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

	Issued capital RMB'000	Shares held for the share award plan* RMB'000	Share premium* RMB'000	Merger reserve* RMB'000	Statutory surplus reserve* RMB'000	Share- based payment* RMB'000	Share award reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Available- for-sale investments revaluation reserve* 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

* 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 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		41,125	80,091
Adjustments for:			
Finance costs	6	3	526
Interest income	5	(2,457)	(145)
Net (gain)/loss on disposal of items of property, plant and equipment		(1)	174
Depreciation	11	8,127	7,106
Recognition of prepaid land lease payments	12	234	234
Amortisation of other intangible assets	13	146	113
Government grants released	22	(7,291)	(2,782)
Equity-settled share award expense	24	303	—
		40,189	85,317
Increase in inventories		(10,281)	(8,746)
Increase in trade and notes receivables		(17,725)	(39,616)
Increase in prepayments, deposits and other receivables		(24,331)	(8,202)
Increase in rental deposits		(518)	(224)
Increase in trade payables		6,116	13,585
Increase in other payables and accruals		6,387	3,254
Increase in deferred income		7,250	723
Cash generated from operations		7,087	46,091
Income tax paid		(6,476)	(22,964)
Net cash flows from operating activities		611	23,127
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(19,829)	(16,820)
Payment of deposits for purchase of property, plant and equipment		(5,047)	(1,196)
Proceeds from disposal of items of property, plant and equipment		1,114	39
Purchases of available-for-sale investment		(253,000)	(1,000)
Proceeds upon maturity of available-for-sale investments		15,000	—
Interest received		2,457	145
Net cash flows used in investing activities		(259,305)	(18,832)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from the shareholder		—	8
New bank borrowings		—	10,000
Repayments of bank borrowings		—	(5,000)
Dividends paid	9	(23,929)	(30,000)
Interest paid		(3)	(526)
Purchase of shares held under the share award plan	24	(15,651)	—
Net cash flows used in financing activities		(39,583)	(25,518)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		426,637	58,004
Exchange of foreign exchange rate changes, net		1,719	11
CASH AND CASH EQUIVALENTS AT END OF PERIOD		130,079	36,792
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	59,764	36,792
Non-pledged time deposits	19	70,315	—
Cash and cash equivalents at end of the period		130,079	36,792

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Zhongzhi Pharmaceutical Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Company 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 (“BVI”).

2. 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.

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 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

Geographical information

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Operating Segment Information *(continued)*

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.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. 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

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 2016.

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

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (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

6. Finance Costs

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

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	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Cost of inventories sold		161,205	155,276
Depreciation of items of property, plant and equipment	11	8,127	7,106
Recognition of prepaid land lease payments	12	234	234
Amortisation of other intangible assets	13	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

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.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. 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 RMB'000 (Unaudited)	2015 RMB'000 (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

9. 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 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 12 October 2016. The interim dividend has not been recognised as a liability at the end of the reporting period.

10. 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.

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	
	2016 (Unaudited)	2015 (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

11. Property, Plant and Equipment

	30 June	31 December
	2016 RMB'000 (Unaudited)	2015 RMB'000 (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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Prepaid Land Lease Payments

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Carrying amount at 1 January	14,836	15,306
Recognised during the period/year	(234)	(470)
Carrying amount at 30 June/31 December	14,602	14,836
Current portion	(470)	(470)
Non-current portion	14,132	14,366

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

13. Other Intangible Assets

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Carrying amount at 1 January	1,808	1,366
Additions	—	685
Amortisation provided during the period/year	(146)	(242)
Disposals	—	(1)
Carrying amount at 30 June/31 December	1,662	1,808

14. 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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Available-For-Sale Investments *(continued)*

Current portion of available-for-sale investments consist of investment in several bank financial products issued by certain banks in the PRC. The investments are principal-guaranteed. RMB198,000,000 of the investment has no maturity date which can be redeemed at any time and 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 this investment. RMB25,000,000 of the investment matured on 16 August 2016 with annualized return of 3.4%. RMB15,000,000 of the investment matured on 5 July 2016 with annualized return of 3.2%.

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 RMB2,577,000, respectively.

15. Inventories

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Raw materials	25,007	19,060
Work in progress	7,647	10,049
Finished goods	77,521	70,785
	110,175	99,894

16. 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. 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 RMB'000 (Unaudited)	31 December 2015 RMB'000 (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.

17. Prepayments, Deposits and Other Receivables

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts and fair values of the Group's major financial instruments are as follows:

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Financial assets		
Available-for-sale investments — current		
Carrying amount	238,000	—
Fair value	240,577	—

Management has assessed that the fair values of cash and cash equivalents, trade and note receivables, financial assets included in prepayments, deposits and other receivables, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the current portion of available-for-sale investments is estimated by adding the return on investment to its carrying amount as if the investment was redeemed in its entirety by 30 June 2016 .

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments measured at fair value at level 2 Input, there are no assets measured at fair value using level 1 or level 3 Input.

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Available-for-sale investments		
Investment in bank financial product	240,577	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Cash and Cash Equivalents

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (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

20. 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 RMB'000 (Unaudited)	31 December 2015 RMB'000 (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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. 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.

22. Deferred Income

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
At 1 January	19,454	15,066
Received amounts	7,250	12,701
Released amounts	(7,291)	(8,313)
Reclassified to other payables	(300)	—
At 30 June/31 December	19,113	19,454
Current	5,493	5,734
Non-current	13,620	13,720
	19,113	19,454

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. 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

24. Share Award Plan

A share award plan was adopted on 8 January 2016 (the "Share Award Plan"). The Share Award Plan is a share incentive scheme and is established to recognize the contributions by certain selected persons and to attract suitable individuals with experience and ability to further development and expansion of the Group.

The awarded shares will be either (i) allotted and issued by the Company, by using the general or specific mandates granted or to be granted to the board of directors by the shareholders of the Company at general meetings of the Company from time to time, or (ii) acquired by an independent trustee ("Trustee") from the open market by utilizing the Company's resources provided to the Trustee. The maximum numbers of shares in respect of which options may be granted under the Share Award Plan cannot result in the aggregate number of shares awarded by the board of directors throughout the duration of the plan to be in excess of 1% of the issued share capital of the Company.

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Plan, the plan will be valid and effective for a term of 10 years commencing on the date of adoption.

During the reporting period, the Company purchased 8,000,000 of its ordinary shares through the Trustee at prices ranging from HK\$2.15 to HK\$2.40 per share at a total consideration of approximately HK\$18,313,000 (equivalent to approximately RMB15,651,000).

The Company granted 149,000 shares to certain employees on 20 June 2016 and the vesting date of the shares is 20 June 2016. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$2.37) on the day of the grant, amounting to HK\$353,000 (equivalent to approximately RMB303,000).

At the date of this report, 7,851,000 shares of the Company are held by the trustee and have yet to be rewarded.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Commitments

Capital commitments

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Contracted, but not provided for:		
Leasehold improvement	31,937	4,772
Plant and machinery	7,629	3,154
	39,566	7,926

At the end of 31 December 2015 and 30 June 2016, the Group had no significant authorised but not contracted capital commitment.

26. Related Party Transactions

(a) Outstanding balances with related parties

- (i) Amounts due to related parties as at 31 December 2015 and 30 June 2016 represent consideration received from the registered shareholders of Zhongzhi Herbal Pieces ("Registered Shareholders") as part of the Reorganisation. Pursuant to the Contractual Arrangements, the consideration is repayable to the Registered Shareholders upon exercise of the option to repurchase the equity interest of Zhongzhi Herbal Pieces by the Group. The amounts are unsecured, interest-free and have no fixed term of repayment.

(b) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	1,887	920
Pension scheme contributions	120	120
	2,007	1,040

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. Subsequent Events

Zhongzhi Pharmaceutical, an indirect wholly owned subsidiary of the Company, 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 sale and purchase agreement with another 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.

28. Approval of the Interim Condensed Consolidated Financial Statements

These unaudited interim condensed consolidated financial statements of the Group for 30 June 2016 were approved and authorised for issue in accordance with a resolution of the board of directors on 29 August 2016.

OTHER INFORMATION

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2015, the interests and short positions of the Directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction By Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

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

Name of Director	Interest in a controlled corporation	Family interest	Total interest	Approximate percentage of the issued share capital of the Company
	Number of ordinary shares	Number of ordinary shares	Number of ordinary shares	
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 Investment Group Limited ("Crystal Talent"), which holds 483,120,000 ordinary shares of the Company, is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai. Accordingly, each of Mr. Lai and Mrs. Lai is deemed to be interested in the ordinary shares of the Company held by Crystal Talent under the SFO.
- Cheer Lik Development Limited ("Cheer Lik"), which holds 42,240,000 ordinary shares of the Company, is 100% beneficially owned by Mrs. Lai. As Mr. Lai is the spouse of Mrs. Lai, Mr. Lai is deemed to be interested in the shares of Cheer Lik held by Mrs. Lai. Accordingly, each of Mrs. Lai and Mr. Lai is deemed to be interested in the ordinary shares of the Company held by Cheer Lik under the SFO.

OTHER INFORMATION (CONTINUED)

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

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

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

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.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, the following shareholder had notified the Company of its relevant interests in the issued share capital of the Company.

Long positions in the ordinary shares of the Company

Name	Beneficial interest Number of ordinary shares	Interest in a controlled corporation Number of ordinary shares	Family interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of issued share capital of the Company
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%

OTHER INFORMATION (CONTINUED)

Notes:

1. As Crystal Talent is 100% beneficially owned by Mr. Lai and regarded as a controlling shareholder of the Company, Crystal Talent is deemed to be interested in a total of 525,360,000 ordinary shares, which represent 65.67% interest of the Company.
2. Crystal Talent is legally interested in 483,120,000 ordinary shares of the Company. As Crystal Talent is 100% beneficially owned by Mr. Lai, Mr Lai is deemed to be interested in the ordinary shares of the Company 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 ordinary shares of the Company in which Mrs. Lai has interest under the SFO and Mrs. Lai is deemed to be interested in the ordinary shares of the Company in which Mr. Lai has interest under the SFO.
4. Cheer Lik is legally interested in 42,240,000 ordinary share of the Company. As Cheer Lik is 100% beneficially owned by Mrs. Lai, Mrs. Lai is deemed to be interested in the ordinary shares of the Company held by Cheer Lik under the SFO.
5. As Cheer Lik is 100% beneficially owned by Mrs. Lai and regarded as a controlling shareholder of the Company, Cheer Lik is deemed to be interested in a total of 525,360,000 ordinary shares, which represent 65.67% interest of the 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 2016 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.

Share Option Scheme

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

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

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

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

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from date of adoption. No share option has been granted under the Share Option Scheme up to the date of this report.

OTHER INFORMATION (CONTINUED)

Share Award Plan

A share award plan was adopted and became effective on 8 January 2016 (the “Share Award Plan”).

The Share Award Plan is a share incentive scheme and is established to recognize the contributions by certain Selected Persons (as defined in the Company’s announcement on 8 January 2016) and to attract suitable individuals with experience and ability for further development and expansion of the Group.

The Share Award Plan shall be subject to the Board or the trustee of the Share Award Plan in accordance with its terms. The Board or the Remuneration Committee may select any eligible person for participation in the Share Award Plan and determine the number of awarded Shares to be awarded to the selected person(s), subject to any condition(s).

Subject to the terms and conditions of the Share Award Plan, the maximum number of shares which may be awarded by the Board throughout the duration of the Share Award Plan shall not, in aggregate, exceed 1% of the issued share capital of the Company as at 8 January 2016 (i.e. 8,000,000 shares). Nevertheless, the Board has the power to refresh the maximum limit of 1% of the issued share capital of the Company.

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Award Plan shall be valid and effective for a period of ten years from the date of adoption.

During the Review Period, the trustee acquired 8,000,000 Shares for the Share Award Plan through purchases in the open market at a total cost of approximately RMB15,651,000, and 149,000 Shares were granted to certain selected persons pursuant to the Share Award Plan. As at the date of this report, the trustee holds 7,851,000 Shares and 149,000 Shares have been granted under the Share Award Plan.

Directors’ Rights to Acquire Shares or Debentures

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

Directors’ Interest in Contracts

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

Directors’ Interest in a Competing Business

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

OTHER INFORMATION (CONTINUED)

Purchase, Sale or Redemption of Listed Securities

During the Review Period, the trustee of 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 report.

Audit Committee

The 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.

Remuneration Committee

The remuneration committee was set up to consider and approve the remuneration packages of the senior employees of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes. The committee comprises three independent non-executive directors of the Company, namely, Mr. Wong Kam Wah (Chairman), Mr. Ng Kwun Wan and Mr. Zhou Dai Han and two executive directors of the Company, namely, Mr. Lai Zhi Tian and Ms. Mou Li. Accordingly, a majority of the members are Independent Non-Executive Directors.

Nomination Committee

The nomination committee reviews the structure, size and diversity (including but not limited to gender, age, cultural and educational background, or professional experience) of the Board from time to time and recommends to the Board on appointments of Directors and the succession plan for Directors. The committee comprises three independent non-executive directors of the Company, namely, Mr. Wong Kam Wah (Chairman), Mr. Ng Kwun Wan and Mr. Zhou Dai Han and two Executive Directors, namely, Mr. Lai Zhi Tian and Ms. Mou Li. Accordingly, a majority of the members are Independent Non-Executive Directors.

OTHER INFORMATION (CONTINUED)

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 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.

Sufficiency of Public Float

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

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

Hong Kong
29 August 2016