



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 2017



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# Corporate Information

## Board of Directors

### *Executive Directors*

Mr. Lai Zhi Tian (*Chairman*)

Mr. Cao Xiao Jun

Mr. Cheng Jin Le

Ms. Mou Li

### *Non-executive Director*

Ms. Jiang Li Xia

### *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. Mou Li

Ms. Ho Wing Yan

## Company Secretary

Ms. Ho Wing Yan

## 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

## Office in Shenzhen

Units A-H on the 20th Floor,

Dream City Office Tower,

Mei Lin Lu, Futian Qu, Shenzhen

PRC

## Auditors

### **Ernst & Young**

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

# Corporate Information

## **Principal Banker**

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

## **Cayman Islands Principal Share Registrar and Transfer Office**

Estera 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](http://www.zeus.cn)

# Business Review and Prospects

## BUSINESS REVIEW AND PROSPECTS

I, on behalf of the board (the “Board”) of directors (the “Directors”) of Zhongzhi Pharmaceutical Holdings Limited (the “Company”), together with its subsidiaries (collectively, the “Group”) is pleased to announce the interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 (the “Reporting Period”) to the shareholders of the Company (the “Shareholders”).

### Business Review

During the first half year of 2017, the management placed efforts on the development of the Caojinghua cell wall broken herbs (cell wall broken decoction pieces)(草晶華破壁草本(破壁飲片)) strictly following the annual planning formulated at the beginning of the year. The construction of over 100 offices was completed during the Reporting Period, and the terminal sales team with over 500 staff was built up. The sales staff have completed a systematical training and are equipped with terminal mentorship skills. The three ways driven marketing mode has been extensively promoted with good market feedback. The sales of Caojinghua cell wall broken herbs is growing steadily and rapidly, boosting the potential of the brand. The e-commerce platform is developing rapidly while online and offline operations have been basically connected. The hospital sales department of Zeus cell wall broken decoction pieces has been exploring unique academic promotion mode, resulting in a fast-growing momentum. Efficient synergies have been created, which enables guidance and supervision of orderly commencement of business through data analysis. The capability of operation and management is thus greatly strengthened.

During 2017, Zhongzhi Chain Pharmacies Company Limited (“Zhongzhi Chain Pharmacies”) and the Chinese patent medicines products under brand name of “Zeus (中智)” and “Liumian (六棉)” maintained a steady development.

During the Reporting Period, the Group recorded a total revenue of approximately RMB431.5 million (corresponding period in 2016: RMB359.0 million), representing an increase of approximately 20.2% over the corresponding period in last year. The Group recorded a profit for the period of approximately RMB38.5 million (corresponding period in 2016: RMB32.0 million), representing an increase of 20.4% over the corresponding period in last year. The basic earnings per share is RMB4.9 cents (corresponding period in 2016: RMB4.0 cents), representing an increase of approximately 20.8% over the corresponding period in last year.

### Dividend

The Board is recommending an interim dividend of HK1.875 cent per share for 2017 for approval by the Shareholders. The dividend of the corresponding period in last year was HK1.6 cent per share, representing an increase of 17.2% as compared with corresponding period in last year.

# Business Review and Prospects

## Outlook & Strategy

Following the promulgation and implementation of the “Law on Chinese Medicines”, we will record a more extensive growth in the foreseeable future. We will have our work done in the following aspects:

- (I) We will continue to develop our Caojinghua brand as our core mission and proactively promote the development of cell wall broken herbs business, focusing on three major aspects:
  - 1. Continue to lead the development of cell wall broken herbs in the Chinese medicine field with technological innovation;
  - 2. Continue to create high level of synergy by organizing functional reforms;
  - 3. Continue to establish a complementary channel value chain to build a three ways driven (business driven+sales driven+channel driven) marketing model;
  - 4. Through capital advantages and product advantages and various forms (acquisition, equity participation, cooperation, joint development and so on) to expand the sales channels.
  
- (II) Orderly business development:
  - 1. Strategic development of cell wall broken herbs: striving to expand to 200 offices from over 100 existing offices;
  - 2. Developing Zhongzhi Chain Pharmacies, and the Chinese patent medicines business of “Zeus (中智)” and “Liumian (六棉)” by leveraging on our resources.

In view of the above, for the second half of 2017 and the future, we have clear strategic positioning and precise tactics, coupled with efficient synergy and perfect supervision mechanism. We are very confident for the future development.

# Business Review and Prospects

## **ACKNOWLEDGEMENT**

On behalf of the Company, I would like to express my sincere gratitude to our partners such as employees, customers, clients, suppliers, Shareholders for their continuous trust and support to our Group. We will strive as always to create greater value for our customers, society, Shareholders and investors.

By order of the Board

**Lai Zhi Tian**

*Chairman & Executive Director*

Hong Kong, 29 August 2017

# Management Discussion and Analysis

## BUSINESS OVERVIEW

During the Reporting Period, the Group continued to engage principally in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong Province, the PRC.

The Group recorded a total revenue of approximately RMB431.5 million for the six months ended 30 June 2017, representing a 20.2% increase from the corresponding period in 2016 (six months ended 30 June 2016: RMB359.0 million).

The Group recorded a total profit of approximately RMB38.5 million for the six months ended 30 June 2017, representing a 20.4% increase from the corresponding period in 2016 (six months ended 30 June 2016: RMB32.0 million).

## FINANCIAL ANALYSIS

### Revenue

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

	Revenue for the six months ended 30 June			% of total revenue for the six months ended 30 June		
	2017 RMB' 000	2016 RMB' 000	Change (%)	2017 (%)	2016 (%)	Change (%)
Pharmaceutical manufacturing	<b>225,060</b>	164,685	+36.7	<b>52.2</b>	45.9	+6.3
Operation of chain pharmacies	<b>206,470</b>	194,283	+6.3	<b>47.8</b>	54.1	-6.3
	<b>431,530</b>	358,968	+20.2	<b>100.0</b>	100.0	

### Pharmaceutical Manufacturing

The Group is engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (consisting of traditional decoction pieces and Caojinghua cell wall broken herbs (cell wall broken decoction pieces (草晶華破壁草本(破壁飲片))) under the Group's brands in the PRC. The Group's brand include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

Revenue derived from pharmaceutical manufacturing increased by approximately 36.7% to RMB225.1 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB164.7 million) and accounted for 52.2% of the total revenue during the Reporting Period (six months ended 30 June 2016: 45.9%), attributable to the growth in sales as a result of the Group's effort to expand the distribution and marketing network of Caojinghua cell wall broken herbs (cell wall broken decoction pieces (草晶華破壁草本(破壁飲片))), with a view to further increase the Group's market share and deepen market penetration.



# Management Discussion and Analysis

## Operation of chain pharmacies

The Group has been operating chain pharmacies in Zhongshan under the brand “Zeus (中智)” for the sale of pharmaceutical products since 2001. As at 30 June 2017, the Group has 247 self-operated chain pharmacies in Zhongshan (as at 30 June 2016: 233), of which 233 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies increased by approximately 6.3% to RMB206.5 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB194.3 million) and accounted for 47.8% of the total revenue during the Reporting Period (six months ended 30 June 2016: 54.1%). The increase in segment revenue was a result of the organic growth of the Group’s chain pharmacies, driven by the increase in the overall market demand on pharmaceutical and healthcare products.

## Gross Profit and Gross Profit Margin

Gross profit of the Group for the Reporting Period was RMB253.1 million, representing an increase of RMB55.3 million or 28.0% as compared with RMB197.8 million for the six months ended 30 June 2016. The analysis of gross profit by segment is as below:

	Gross profit for the six months ended 30 June			Gross profit margin for the six months ended 30 June		
	2017 RMB' 000	2016 RMB' 000	Change (%)	2017 (%)	2016 (%)	Change (%)
Pharmaceutical manufacturing	155,875	109,081	+42.9	69.3	66.2	+3.1
Operation of chain pharmacies	97,199	88,682	+9.6	47.1	45.6	+1.5
	253,074	197,763	+28.0	58.6	55.1	+3.5

## Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 42.9% to RMB155.9 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB109.1 million). The gross profit margin increased to 69.3% for the six months ended 30 June 2017 (six months ended 30 June 2016: 66.2%), primarily resulted from the increase in sales of own branded products, Caojinghua cell wall broken herbs (cell wall broken decoction pieces) (草晶華破壁草本(破壁飲片)) with higher profit than the non-own branded products.

## Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by 9.6% to RMB97.2 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB88.7 million). The gross profit margin of the chain pharmacies segment increased to 47.1% for the six months ended 30 June 2017 (six months ended 30 June 2016: 45.6%). The increase was mainly due to the increase in the sales of own branded products with higher profit, Caojinghua cell wall broken herbs (cell wall broken decoction pieces) (草晶華破壁草本(破壁飲片)) and non-own branded healthcare products.

# Management Discussion and Analysis

## Other Income and Gains

Other income and gains mainly comprise of bank interest income, interest income from available-for-sale investments and government grants. For the six months ended 30 June 2017, other income and gains of the Group were approximately RMB8.1 million (six months ended 30 June 2016: RMB10.7 million), representing an decrease of approximately RMB2.6 million as compared to corresponding period in last year which was mainly attributable to the decrease in (i) interest income of approximately RMB0.8 million from available-for-sale investments; and (ii) government grants of approximately RMB2.4 million.

## Selling and Distribution Expenses

Selling and distribution expenses mainly represent staff costs, advertisement and promotional costs and rental expenses of the Group's chain pharmacies. Selling and distribution expenses for the six months ended 30 June 2017 amounted to approximately RMB167.6 million (six months ended 30 June 2016: RMB134.4 million), representing an increase of approximately 24.7% as compared to corresponding period in last year. Selling and distribution expense ratio increased to approximately 38.8% (six months ended 30 June 2016: 37.4%) against revenue for the six months ended 30 June 2017. The Group's selling and distribution expenses increased during the Reporting Period mainly due to (i) the increase in advertising expenses for promoting Caojinghua cell wall broken (cell wall broken decoction pieces (草晶華破壁草本(破壁飲片))) 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 e-commerce, hospital and internet channels; and (iii) the increase in salary of RMB22.0 million for retaining high caliber business talents, thus ensuring smooth business operation to meet business expansion plans of the Group.

## Administrative Expenses

Administrative expenses mainly represent salaries and benefits of the administrative office and management staff as well as legal and professional fees. Administrative expenses amounted to approximately RMB30.4 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB26.2 million), representing an increase of approximately 16.1% as compared to corresponding period in last year. The increase was mainly attributable to (i) the increase in office and meeting fee of the Group, and (ii) the increase in employees' salary and introduction of high caliber talents in order to ensure the smooth operation and cater for the talent training plan and business expansion plan of the Group.

## Income Tax Expense

Income tax expense amounted to approximately RMB11.4 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB9.1 million). Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) ("Zhongzhi Pharmaceutical") and Zhongshan Honeson Pharmaceutical Co., Ltd. (中山市恒生藥業有限公司) ("Zhongshan Honeson") 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 increased by 20.4% to RMB38.5 million for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB32.0 million). The Group's net profit margin maintained at 8.9% for the six months ended 30 June 2017 (six months ended 30 June 2016: 8.9%).

# Management Discussion and Analysis

## LIQUIDITY AND CAPITAL RESOURCES

### Net Current Assets

As at 30 June 2017, the Group had net current assets of approximately RMB386.3 million (31 December 2016: RMB361.9 million). As at 30 June 2017, the Group's total cash and bank balances amounted to approximately RMB215.1 million (31 December 2016: RMB326.1 million). The current ratio of the Group maintained at approximately 3.1 as at 30 June 2017 (30 June 2016: 3.1).

The equity attributable to shareholders of the Company as at 30 June 2017 amounted to approximately RMB600.7 million (31 December 2016: RMB568.4 million). As at 30 June 2017, the Group had no outstanding bank borrowings (31 December 2016: nil). Therefore there was no gross debt gearing ratio (borrowings over total equity) as at 30 June 2017 (31 December 2016: nil).

As at 30 June 2017, the Group had available unutilized banking facilities of RMB30.0 million (31 December 2016: 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 favorable terms.

## CAPITAL STRUCTURE

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

## FOREIGN EXCHANGE EXPOSURE AND EXCHANGE RATE RISK

The Group's transactions are mainly denominated in RMB. Certain of the Group's cash and bank deposits are denominated in Hong Kong dollars. In addition, the Company will pay dividend in Hong Kong dollars in the future. Any significant exchange rate fluctuations of Hong Kong dollars against RMB may have financial impacts on the Group. The Group did not use any forward contracts, currency borrowings or other means to hedge its foreign currency exposure as at 30 June 2017. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies based on the RMB and Hong Kong dollars exchange rate movement.

# Management Discussion and Analysis

## CHARGE ON GROUP ASSETS

As at 30 June 2017 and 31 December 2016, the Group did not have any charges on its assets.

## CAPITAL EXPENDITURE

For the six months ended 30 June 2017, the Group had capital expenditure of approximately RMB17.9 million (six months ended 30 June 2016: RMB19.8 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 of the Company (the "Shareholders"), the Board has recommended the distribution of an interim dividend of HK1.875 cents per ordinary share for the six months ended 30 June 2017 (six months ended 30 June 2016: HK1.6 cents) to Shareholders on the register of members of the Company on 19 October 2017, amounting to approximately HK\$15.0 million which will be subject to the approval of the Company's shareholders in an extraordinary general meeting to be held on 13 October 2017 (the "EGM"). The interim dividend will be payable on or around 15 November 2017.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 October 2017 to 13 October 2017, both days inclusive, during which period no transfers of shares shall be effected. The record date will be 6 October 2017. 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 4 October 2017.

To determine the entitlement of the proposed interim dividend, the register of members of the Company will be closed from 19 October 2017 to 24 October 2017, both days inclusive, during which period no transfers of shares shall be effected. The record date will be 19 October 2017. 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 18 October 2017.

## EMPLOYEES AND EMOLUMENTS POLICY

As at 30 June 2017, the Group had 2,949 employees with a total remuneration of RMB117.9 million during the Reporting Period (six months ended 30 June 2016: RMB84.2 million) (including pension scheme contributions, staff welfare expenses and equity-settled share award expense). The salaries of the employees are determined with reference to individual performance, work experience, qualification and current industry practices.

# Management Discussion and Analysis

## MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

### Wealth Management Products

In order to maximize the utilization of the idle proceeds from the fund raised 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 Reporting Period.

Zhongzhi Pharmaceutical an indirectly wholly owned subsidiary of the Company, made subscriptions for wealth management products offered by Agricultural Bank of China ("ABC") under wealth management product master agreement with ABC on 16 January 2017 ("C1010314006708").

(i)	Name of the wealth management product:	Agricultural Bank of China "Benlifeng" 181-day RMB Wealth Management Product
(ii)	Type of return:	Wealth management product with principal-preservation and guaranteed return
(iii)	Valid period of product:	181 days
(iv)	Expected rate of return:	2.85%
(v)	Redemption of principal and return:	The principal and return of the wealth management product will be paid in a lump sum within 1 bank business day after the maturity date.
(vi)	Full redemption:	No early redemption of the product shall be opened for investors within the agreed holding period.
(vii)	Right of early termination:	No rights of early termination is offered to investors, except that Agricultural Bank of China can exercise its rights of early termination before the maturity date to terminate this product.  Agricultural Bank of China will publish the early termination announcement to the investors 2 working days before the date of termination, and will transfer the principal and revenue (if any) of the wealth management product to the original account of the investors within 1 working day after the date of early termination.

# Management Discussion and Analysis

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by Industrial and Commercial Bank of China (“ICBC”) under wealth management product master agreement with ICBC on 16 January 2017 (“WL63BBX”).

(viii)	Name of the wealth management product:	ICBC Principal Guaranteed Corporate 63-day Fixed Rate RMB Wealth Management Product
(ix)	Type of return:	Principal-guaranteed and floating income
(x)	Valid period of product:	every 63-day an investment cycle (6 cycles)
(xi)	Expected rate of return:	2.65%
(xii)	Redemption of principal and return:	The next day of the last day of investment cycle is the fund payment date. If the fund payment date is statutory holiday, the investment cycle would be extended accordingly and the fund payment date will be the establishment day of the latest product (working day).
(xiii)	Full redemption:	No early redemption of the product shall be opened for investors within the agreed holding period.
(xiv)	Right of early termination:	ICBC has the rights to terminate the wealth management product according to its operating situation and disclose the information at least 3 working days before date of termination. The customer funds will be transferred to the designated account of the customers within 3 working days after the date of termination. No interests will be incurred on the customer funds for the period between the date of termination and exact fund payment date.

# Management Discussion and Analysis

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by Bank of China (“BOC”) under wealth management product master agreement with BOC on 16 January 2017 (“CNYAQKFTP1”).

(xv)	Name of the wealth management product:	Principal-guaranteed Wealth Management product of BOC – RMB Open-ended Wealth Management Product with due dates
(xvi)	Type of return:	guaranteed return
(xvii)	Valid period of product:	344 days
(xviii)	Expected rate of return:	3.1%
(xix)	Redemption of principal and return:	The fund will be received within 2 working days after the date of revenue payment or the date of returning principal of wealth management, No interest will be incurred during this period.
(xx)	Full redemption:	Investors have the right to redeem the wealth management product on opening days, which is subject to full redemption only.
(xxi)	Right of early termination:	Investors have no unilateral rights to make automatic decision of early termination during the effective period of this wealth management product and can only redeem on respective opening days. Bank of China has the unilateral rights to early terminate on its own initiative according to the actual situation of capital functioning of this wealth management product.  Announcement will be made by Bank of China at least 2 working days (inclusive) in advance if it needs to early terminate this wealth management product.

# Management Discussion and Analysis

## USE OF PROCEEDS

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 (the "Global Offering") were approximately HK\$452.9 million. During the period from the Listing Date to the date of this report, the net proceeds from the Global Offering had been applied as follows:

<b>Business objectives as stated in the Prospectus</b>	<b>Actual net proceeds</b> HK\$'000	<b>Amount utilized up to 30 June 2017</b> HK\$'000	<b>Balance as at 30 June 2017</b> HK\$'000
Expansion of pharmaceutical chain in the Guangdong province	135,870	(40,755)	95,115
Expansion of distribution network	90,580	(90,580)	–
Providing funding for research and development activities	90,580	(29,579)	61,001
Expansion of production capacity	90,580	(28,552)	62,028
General working capital purposes	45,290	(45,290)	–
	452,900	(234,756)	218,144

The unused net proceeds have been placed as (i) interest bearing deposits with licensed banks in Hong Kong and PRC; and (ii) principal-guaranteed wealth management products issued by ABC, ICBC and BOC pursuant to the Board intention as disclosed in the Prospectus.

## COMMITMENT

As at 30 June 2017, the Group's capital commitment amounted to RMB16.5 million (31 December 2016: RMB31.8 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 and the Business Review and Outlook in this report, the Group will devote its best effort and resources to cope with the increasing market demand in the Group's own-branded products, in order to enhance Shareholder's value. The Group will also consider any potential investment opportunities which may benefit its Shareholders as and when these opportunities arise.

## CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 30 June 2017 (31 December 2016: nil).



# Report on Review of Interim Condensed Consolidated Financial Statements



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 17 to 40, which comprises the consolidated statement of financial position of Zhongzhi Pharmaceutical Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 30 June 2017 and the related consolidated statement of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The 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 2017

# Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Unaudited)
<b>REVENUE</b>	5	<b>431,530</b>	358,968
Cost of sales		<b>(178,456)</b>	(161,205)
<b>Gross profit</b>		<b>253,074</b>	197,763
Other income and gains	5	<b>8,119</b>	10,705
Selling and distribution expenses		<b>(167,642)</b>	(134,428)
Administrative expenses		<b>(30,405)</b>	(26,180)
Other expenses		<b>(13,208)</b>	(6,732)
Finance costs	6	<b>–</b>	(3)
<b>PROFIT BEFORE TAX</b>	7	<b>49,938</b>	41,125
Income tax expense	8	<b>(11,444)</b>	(9,147)
<b>PROFIT FOR THE PERIOD</b>		<b>38,494</b>	31,978
Attributable to owners of the parent		<b>38,494</b>	31,978
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic			
– For profit for the period		<b>RMB 0.049</b>	RMB 0.040
Diluted			
– For profit for the period		<b>RMB 0.048</b>	RMB 0.040

# Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	<b>Six months ended 30 June</b>	
	<b>2017</b> <b>RMB' 000</b> <b>(Unaudited)</b>	<b>2016</b> <b>RMB' 000</b> <b>(Unaudited)</b>
<b>PROFIT FOR THE PERIOD</b>	<b>38,494</b>	31,978
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<b>(885)</b>	1,719
Change in fair value of available-for-sale investments, net of tax	–	1,933
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b>(885)</b>	3,652
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>37,609</b>	35,630
Attributable to owners of the parent	<b>37,609</b>	35,630

# Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	30 June 2017 RMB' 000 (Unaudited)	31 December 2016 RMB' 000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	184,340	180,053
Prepayment for property, plant and equipment		1,820	2,345
Prepaid land lease payments	12	13,662	13,896
Goodwill		1,628	1,628
Other intangible assets	13	7,243	1,709
Investment in a joint venture	14	419	430
Available-for-sale investments	15	8,650	8,650
Deferred tax assets		4,724	5,758
Other non-current assets		4,593	8,516
<b>Total non-current assets</b>		<b>227,079</b>	222,985
<b>CURRENT ASSETS</b>			
Prepaid land lease payments	12	470	470
Inventories	16	141,801	121,081
Trade and notes receivables	17	101,946	63,863
Prepayments, deposits and other receivables	18	16,059	20,694
Bank financial products	20	90,871	–
Cash and bank balances	21	215,111	326,135
<b>Total current assets</b>		<b>566,258</b>	532,243
<b>CURRENT LIABILITIES</b>			
Trade payables	22	71,131	57,531
Other payables and accruals	23	80,489	81,482
Amounts due to related parties		8,786	8,786
Deferred income	24	8,493	6,493
Amount due to a joint venture	14	389	430
Tax payable		10,659	15,589
<b>Total current liabilities</b>		<b>179,947</b>	170,311
<b>NET CURRENT ASSETS</b>		<b>386,311</b>	361,932
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>613,390</b>	584,917

# Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	30 June 2017 RMB' 000 (Unaudited)	31 December 2016 RMB' 000 (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Deferred income	24	11,091	14,693
Deferred tax liabilities		1,614	1,843
<b>Total non-current liabilities</b>		<b>12,705</b>	16,536
<b>Net assets</b>		<b>600,685</b>	568,381
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	25	6,309	6,309
Reserves		594,376	562,072
<b>Total equity</b>		<b>600,685</b>	568,381

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Attributable to owners of the parent										
	Issued capital	Shares held for the share award plan	Share premium	Merger reserve	Statutory surplus reserve	Share-based payment	Share award reserve	Exchange fluctuation reserve	Retained profits	Available-for-sale investments revaluation reserve	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>At 1 January 2017</b>	6,309	(15,359)	330,776	31,200	32,015	5,680	11	21,336	156,413	-	568,381
Profit for the period	-	-	-	-	-	-	-	-	38,494	-	38,494
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(885)	-	-	(885)
Total comprehensive income for the period	-	-	-	-	-	-	-	(885)	38,494	-	37,609
Equity-settled share award expense (note 26)	-	-	-	-	-	-	1,618	-	-	-	1,618
Dividends declared (note 9)	-	-	(6,923)	-	-	-	-	-	-	-	(6,923)
<b>At 30 June 2017 (unaudited)</b>	6,309	(15,359)*	323,853*	31,200*	32,015*	5,680*	1,629*	20,451*	194,907*	-*	600,685

\* These reserve accounts comprise the consolidated reserve of RMB594,376,000 in the consolidated statement of financial position.

	Attributable to owners of the parent										
	Issued capital	Shares held for the share award plan*	Share premium*	Merger reserve*	Statutory surplus reserve*	Share-based payment*	Share award reserve*	Exchange fluctuation reserve*	Retained profits*	Available-for-sale investments revaluation reserve*	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
At 1 January 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 26)	-	(15,651)	-	-	-	-	-	-	-	-	(15,651)
Equity-settled share award expense	-	292	-	-	-	-	11	-	-	-	303
Dividends declared	-	-	(23,691) <sup>#</sup>	-	-	-	-	-	-	-	(23,691)
<b>At 30 June 2016 (unaudited)</b>	6,309	(15,359)*	341,306*	31,200*	30,239*	5,680*	11*	21,665*	136,295*	1,933*	559,279

\* These reserve accounts comprise the consolidated reserve of RMB 552,970,000 in the consolidated statement of financial position.

# 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).

# Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>49,938</b>	41,125
Adjustments for:			
Finance costs	6	–	3
Interest income	5	<b>(1,377)</b>	(2,457)
Gain on disposal of items of property, plant and equipment	5/7	<b>(55)</b>	(1)
Depreciation	11	<b>11,578</b>	8,127
Recognition of prepaid land lease payments	12	<b>234</b>	234
Amortisation of other intangible assets	13	<b>155</b>	146
Government grants released	24	<b>(4,869)</b>	(7,291)
Equity-settled share award expense	26	<b>1,618</b>	303
Write-down of inventories to net realisable value		<b>91</b>	–
		<b>57,313</b>	40,189
Increase in inventories		<b>(20,811)</b>	(10,281)
Increase in trade and notes receivables		<b>(38,083)</b>	(17,725)
Decrease/(Increase) in prepayments, deposits and other receivables		<b>4,635</b>	(24,331)
Increase in non-current assets		<b>(190)</b>	(518)
Increase in trade payables		<b>13,600</b>	6,116
Increase in other payables and accruals		<b>105</b>	6,387
Increase in deferred income		<b>3,267</b>	7,250
<b>Cash generated from operations</b>		<b>19,836</b>	7,087
Income tax paid		<b>(15,699)</b>	(6,476)
<b>Net cash flows from operating activities</b>		<b>4,137</b>	611

# Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of items of property, plant and equipment		(17,940)	(19,829)
Change in deposits for purchase of property, plant and equipment		525	(5,047)
Proceeds from disposal of items of property, plant and equipment		1,033	1,114
Purchase of other intangible assets		(1,576)	–
Purchases of available-for-sale investment		–	(253,000)
Purchases of bank financial products		(90,000)	–
Proceeds upon maturity of available-for-sale investments		–	15,000
Interest received		1,377	2,457
Increase in non-pledged time deposits with original maturity of more than three months when acquired		(107,940)	–
<b>Net cash flows used in investing activities</b>		<b>(214,521)</b>	<b>(259,305)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid	9	(6,925)	(23,929)
Interest paid		–	(3)
Purchase of shares held under the Share Award Plan	26	–	(15,651)
<b>Net cash flows used in financing activities</b>		<b>(6,923)</b>	<b>(39,583)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of period		326,135	426,637
Exchange of foreign exchange rate changes, net		(1,657)	1,719
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>107,171</b>	<b>130,079</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	21	82,171	59,764
Non-pledged time deposits	21	132,940	70,315
Cash and bank balances as stated in the statement of financial position		215,111	130,079
Non-pledged time deposits with original maturity of more than three months when acquired		(107,940)	–
<b>Cash and cash equivalents at end of the period</b>		<b>107,171</b>	<b>130,079</b>



# 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 shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 13 July 2015 (the “Listing Date”).

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacture and sale of pharmaceutical products and operation of chain pharmacies in the People’s Republic of China (the “PRC”). There has been no significant change in the Group’s principal activities during the period.

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 2017 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), including compliance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial 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 2016.

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

# Notes to the Interim Condensed Consolidated Financial Statements

## 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 2016, except for the adoption of the new or revised standards, interpretation and amendments as of 1 January 2017, noted below:

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 included in <i>Annual Improvements 2014–2016 Cycle</i>	<i>Disclosure of Interests in Other Entities</i>

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.

## 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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# Notes to the Interim Condensed Consolidated Financial Statements

## 4. OPERATING SEGMENT INFORMATION (Continued)

### Geographical information

Since over 90% of the Group's revenue and operating profit were generated in the PRC and over 90% of the Group's non-current assets were located in the PRC, no geographical segment information in accordance with IFRS 8 *Operating Segments* is presented.

### Information about major customers

During each of the six months ended 30 June 2016 and 2017, 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 2016 and 2017 are as follows:

	Six months ended 30 June 2017		
	Operation of chain pharmacies RMB' 000 (unaudited)	Pharmaceutical manufacturing RMB' 000 (unaudited)	Total RMB' 000 (unaudited)
<b>Segment revenue:</b>			
Revenue from external customers	206,470	225,060	431,530
Intersegment sales	–	20,620	20,620
Elimination of intersegment sales	–	(20,620)	(20,620)
Revenue	206,470	225,060	431,530
Cost of sales	(109,271)	(69,185)	(178,456)
<b>Segment results</b>	<b>97,199</b>	<b>155,875</b>	<b>253,074</b>
<b>Reconciliation:</b>			
Other income and gains			8,119
Selling and distribution expenses			(167,642)
Administrative expenses			(30,405)
Other expenses			(13,208)
Finance costs			–
Profit before tax			<b>49,938</b>

# Notes to the Interim Condensed Consolidated Financial Statements

## 4. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2016

	Operation of chain pharmacies RMB' 000 (unaudited)	Pharmaceutical manufacturing RMB' 000 (unaudited)	Total RMB' 000 (unaudited)
<b>Segment revenue</b>			
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)
<b>Segment results</b>	<b>88,682</b>	<b>109,081</b>	<b>197,763</b>
<b>Reconciliation:</b>			
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

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after allowances for returns and trade discounts, for the six months ended 30 June 2017.

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

	Six months ended 30 June	
	2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Unaudited)
<b>Revenue</b>		
Sale of pharmaceutical products	431,530	358,968
<b>Other income</b>		
Interest income	585	912
Interest income from available-for-sale investments	792	1,545
	<b>1,377</b>	2,457
<b>Gains</b>		
Government grants:		
– Related to assets	282	65
– Related to income	4,587	7,226
Gain on disposal of items of property, plant and equipment	56	2
Others	1,817	955
	<b>6,742</b>	8,248
	<b>8,119</b>	10,705

## 6. FINANCE COSTS

	Six months ended 30 June	
	2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Unaudited)
Other finance costs	–	3
	–	3

# Notes to the Interim Condensed Consolidated Financial Statements

## 7. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Unaudited)
Cost of inventories sold		178,456	161,205
Depreciation	11	11,578	8,127
Recognition of prepaid land lease payments*	12	234	234
Amortisation of other intangible assets*	13	155	146
Write-down of inventories to net realisable value		91	-
Minimum lease payments under operating leases		15,352	14,711
Auditor's remuneration		1,452	1,258
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		102,640	74,719
Pension scheme contributions (defined contribution scheme)		6,527	4,499
Staff welfare expenses		7,074	4,679
Equity-settled share award expense		1,618	303
		117,859	84,200
Other expenses:			
Research and development costs		13,313	6,558
Loss on disposal of items of property, plant and equipment		1	1
Others		(106)	173
		13,208	6,732

\* The recognition of prepaid land lease payments and the amortisation of other intangible assets for the reporting period is included in "Administrative expenses" in the consolidated statement of profit or loss.

## 8. INCOME TAX EXPENSE

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

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

Hong Kong profits tax rate is 16.5% (2016:16.5%) 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.

# Notes to the Interim Condensed Consolidated Financial Statements

## 8. INCOME TAX EXPENSE (Continued)

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in Mainland China during the reporting period was 25% of their taxable profits.

Zhongshan Honeson Pharmaceutical Co.,Ltd. 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 2016 and 2017, respectively.

Zhongzhi Pharmaceutical applied for the high and new technology enterprise accreditation in 2016. The notice of Zhongzhi Pharmaceutical being qualified as high and new technology enterprise was announced in November 2016 by Guangdong Provincial Government. As the result of national evaluation has not yet been announced in 2016, for prudent consideration management still adopts the income tax rate of 25% for calculating the tax provision of Zhongzhi Pharmaceutical for the year ended 31 December 2016. However, management adopts the income tax rate of 15% for calculating the tax provision for the period ended 30 June 2017 since the national evaluation has been announced in 2017.

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

	Six months ended 30 June	
	2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Unaudited)
<b>Mainland China</b>		
Current income tax	10,639	9,523
Deferred income tax charge/(credit)	805	(376)
Total income tax expense	11,444	9,147

## 9. DIVIDEND

During the six months ended 30 June 2017, the Company declared and paid a final dividend in respect of the previous financial year, of HK1.0 cent per ordinary share, amounting to HK\$7,921,000 (equivalent to approximately RMB6,923,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK\$79,000 (equivalent to approximately RMB69,000).

Subsequent to 30 June 2017, the board of directors determined that an interim dividend of HK1.875 cents per share be payable on or around 15 November 2017 to the shareholders on the register of members of the Company on 19 October 2017. The interim dividend has not been recognised as a liability at the end of the reporting period.

# Notes to the Interim Condensed Consolidated Financial Statements

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

The calculation of basic earnings per share for the period is based on the profit for the period attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 792,149,000 in issue during the period.

The calculation of the diluted earnings per share amount for the period is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares under the share award plan.

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

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Unaudited)
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<b>38,494</b>	31,978

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>(Unaudited)</b>	(Unaudited)
<u>Shares</u>		
Weighted average number of ordinary shares in issue	<b>800,000,000</b>	800,000,000
Weighted average number of shares held for the share award plan (note 26)	<b>(7,851,000)</b>	(4,885,264)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<b>792,149,000</b>	795,114,736
Effect of dilution-weighted average number of ordinary shares held for the share awarded plan	<b>7,851,000</b>	4,885,264
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<b>800,000,000</b>	800,000,000



# Notes to the Interim Condensed Consolidated Financial Statements

## 11. PROPERTY, PLANT AND EQUIPMENT

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
Carrying amount at 1 January	<b>180,053</b>	89,133
Additions	<b>16,842</b>	112,790
Depreciation provided during the period/year	<b>(11,578)</b>	(21,651)
Disposals	<b>(977)</b>	(219)
Carrying amount at 30 June/31 December	<b>184,340</b>	180,053

The Group's buildings are located in Mainland China.

As at 31 December 2016 and 30 June 2017, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB568,000 and RMB532,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

## 12. PREPAID LAND LEASE PAYMENTS

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
Carrying amount at 1 January	<b>14,366</b>	14,836
Recognised during the period/year	<b>(234)</b>	(470)
Carrying amount at 30 June/31 December	<b>14,132</b>	14,366
Current portion	<b>(470)</b>	(470)
Non-current portion	<b>13,662</b>	13,896

# Notes to the Interim Condensed Consolidated Financial Statements

## 13. OTHER INTANGIBLE ASSETS

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
Carrying amount at 1 January	<b>1,709</b>	1,808
Additions – software	<b>5,689</b>	197
Amortisation provided during the period/year	<b>(155)</b>	(296)
Carrying amount at 30 June/31 December	<b>7,243</b>	1,709

## 14. INVESTMENT IN A JOINT VENTURE

	<b>2017 RMB' 000 (Unaudited)</b>	2016 RMB' 000 (Audited)
Share of net assets	<b>419</b>	430

Particulars of the joint venture are as follows:

<b>Name</b>	<b>Particulars of issued shares held</b>	<b>Place of registration and business</b>	<b>Percentage of ownership interest</b>	<b>Principal activity</b>
Scienwi Pharmaceutical Technology Company Limited	Ordinary shares	Macao	48%	Sale of pharmaceutical products

The above investment is held through the wholly-owned subsidiaries of the Company.

The capital injection of the joint venture has not been completed as at 30 June 2017 due to administrative process.

# Notes to the Interim Condensed Consolidated Financial Statements

## 15. AVAILABLE-FOR-SALE INVESTMENTS

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
<b>Non-current</b>		
Unlisted investment, at cost	<b>8,650</b>	8,650

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.

## 16. INVENTORIES

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
Raw materials	<b>28,596</b>	17,613
Work in progress	<b>9,384</b>	8,272
Finished goods	<b>103,821</b>	95,196
	<b>141,801</b>	121,081

# Notes to the Interim Condensed Consolidated Financial Statements

## 17. TRADE AND NOTES RECEIVABLES

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

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

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
Within 1 month	47,807	25,325
1 to 3 months	21,085	6,619
3 to 6 months	13,434	3,836
6 to 12 months	4,293	1,417
Over 12 months	316	1,019
	<b>86,935</b>	38,216
Notes receivable	<b>15,011</b>	25,647
	<b>101,946</b>	63,863

The notes receivable are settled within 180 days. No notes receivable are discounted as at 31 December 2016 and 30 June 2017, respectively. As at 31 December 2016 and 30 June 2017, the Group has endorsed notes receivable of RMB12,651,000 and RMB11,967,000 to settle trade payables, respectively.

## 18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
Prepayments	7,322	14,682
Tax recoverable	956	1,935
Deposits and other receivables	7,781	4,077
	<b>16,059</b>	20,694

# Notes to the Interim Condensed Consolidated Financial Statements

## 19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

During the reporting period, the Group and the Company had no financial instruments, other than those with carrying amounts that reasonably approximate to fair values.

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, bank financial products, trade payables, financial liabilities included in other payables and accruals and amount due to a joint venture approximate to their carrying amounts largely due to the short term maturities of these instruments.

## 20. BANK FINANCIAL PRODUCTS

Bank financial products are consisted of three bank financial products issued by certain banks in the PRC. These bank financial products are principal guaranteed, have annual target return rates ranged from 2.65% to 3.1%, and have fixed maturity date which will due within the period from 17 July 2017 to 29 January 2018. Bank financial products measured at amortised costs.

## 21. CASH AND BANK BALANCES

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
Cash and bank balances	<b>82,171</b>	276,348
Time deposits	<b>132,940</b>	49,787
	<b>215,111</b>	326,135
Denominated in:		
– RMB	<b>174,182</b>	273,816
– HK\$	<b>40,929</b>	52,319
	<b>215,111</b>	326,135

# Notes to the Interim Condensed Consolidated Financial Statements

## 22. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2016 and 30 June 2017, based on the invoice date, is as follows:

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
Within 3 months	<b>62,337</b>	48,817
3 to 6 months	<b>4,398</b>	4,541
6 to 12 months	<b>2,765</b>	2,603
over 12 months	<b>1,631</b>	1,570
	<b>71,131</b>	57,531

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

## 23. OTHER PAYABLES AND ACCRUALS

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
Accruals and other payables	<b>15,642</b>	10,173
Accrued salaries and welfare	<b>20,842</b>	27,789
Advances from customers	<b>4,910</b>	7,433
Endorsed notes	<b>11,967</b>	12,651
Deposits received	<b>15,250</b>	13,450
Payables for purchases of property and equipment	<b>3,569</b>	4,667
Other tax payables	<b>8,309</b>	5,319
	<b>80,489</b>	81,482

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

# Notes to the Interim Condensed Consolidated Financial Statements

## 24. DEFERRED INCOME

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
At 1 January	<b>21,186</b>	19,454
Received amounts	<b>3,267</b>	13,631
Released amounts	<b>(4,869)</b>	(11,899)
At 30 June/31 December	<b>19,584</b>	21,186
Current	<b>8,493</b>	6,493
Non-current	<b>11,091</b>	14,693
	<b>19,584</b>	21,186

## 25. ISSUED CAPITAL

### Issued Capital

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

	<b>30 June 2017 (Unaudited)</b>	31 December 2016 (Audited)
Issued and fully paid: 800,000,000 (2016: 800,000,000) ordinary shares of HK\$0.01 each (HK\$'000)	<b>8,000</b>	8,000
Equivalent to RMB' 000	<b>6,309</b>	6,309

# Notes to the Interim Condensed Consolidated Financial Statements

## 26. 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 share award plan will be valid and effective for a term of 10 years commencing on the date of the trust deed.

In 2016, the Company purchased 8,000,000 of its ordinary shares through the Trustee at prices ranging from HK\$2.15 to HK\$2.40 per share at a total consideration of approximately HK\$18,313,000 (equivalent to approximately RMB15,651,000).

The Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares is 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.70) on the day of the grant, amounting to HK\$ 1,823,000 (equivalent to approximately RMB 1,618,000). At the end of 30 June 2017, these shares granted has not been transferred.

At the date of approval of these interim condensed consolidated financial statements, 6,778,500 shares of the Company are held by the trustee and have yet to be rewarded.



# Notes to the Interim Condensed Consolidated Financial Statements

## 27. COMMITMENTS

### Capital commitments

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

	<b>30 June 2017 RMB' 000 (Unaudited)</b>	31 December 2016 RMB' 000 (Audited)
Contracted, but not provided for:		
Leasehold improvement	975	3,817
Plant and machinery	15,519	27,936
	<b>16,494</b>	31,753

At the end of 31 December 2016 and 30 June 2017, the Group had significant authorised but not contracted capital commitment of RMB Nil and RMB4,989,000, respectively.

## 28. RELATED PARTY TRANSACTIONS

### (a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2016 and 30 June 2017 represent consideration received from the 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:

	<b>Six months ended 30 June</b>	
	<b>2017 RMB' 000 (Unaudited)</b>	2016 RMB' 000 (Unaudited)
Salaries, allowances and benefits in kind	2,621	1,887
Pension scheme contributions	140	120
Equity-settled share award expense	250	–
	<b>3,011</b>	2,007

## 29. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved and authorised for issue in accordance with a resolution of the board of directors on 29 August 2017.

## Other Information

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

As at 30 June 2017, the interests and short positions of the Directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction By Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

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

Name of Director	Beneficial interest Number of ordinary Shares	Interest in a controlled corporation Number of ordinary shares	Family interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of the issued share capital of the Company
Mr. Lai Zhi Tian ("Mr. Lai") (Note 1)	1,176,000	483,120,000 (Note 2)	42,240,000 (Note 3)	526,536,000	65.82%
Ms. Jiang Li Xia ("Mrs. Lai")	–	42,240,000 (Note 3)	484,296,000 (Note 2)	526,536,000	65.82%

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

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

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

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

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

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

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

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective associates had registered any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at 30 June 2017, 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 2017, 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.

# Other Information

## Long positions in the ordinary shares of the Company

Name	Beneficial interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of issued share capital of the Company
Crystal Talent (Note 1)	483,120,000	483,120,000	60.39%
Cheer Lik (Note 2)	42,240,000	42,240,000	5.28%
Advance Keypath Global Investment Limited (Note 3)	60,000,000	60,000,000	7.5%

Notes:

1. These 483,120,000 shares are held by Crystal Talent, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Lai.
2. These 42,240,000 shares are held by Cheer Lik, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mrs. Lai.
3. These 60,000,000 shares are held by Advance Keypath Global Investment Limited, a company incorporated in the British Virgin Islands with limited liability.

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 2017 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. There are 80,000,000 ordinary shares available for issue under the Share Option Scheme, representing approximately 10% of the issued share capital of the Company as at the date of this report.

## Other Information

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. There is no option outstanding, granted, exercised, cancelled and lapsed under the Share Option Scheme during the six months ended 30 June 2017.

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

In 2016, the Company purchased 8,000,000 of its ordinary shares through the Trustee at prices ranging from HK\$2.15 to HK\$2.40 per share at a total consideration of approximately HK\$18,313,000 (equivalent to approximately RMB15,651,000).

The Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares is 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.70) on the day of the grant, amounting to HK\$ 1,823,000 (equivalent to approximately RMB 1,618,000). At the end of 30 June 2017, these shares granted has not been transferred.

At the date of approval of these interim condensed consolidated financial statements, 6,778,500 shares of the Company are held by the trustee and have yet to be rewarded.

### Directors' Rights to Acquire Shares or Debentures

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

# Other Information

## **Directors' Interest in Contracts**

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

## **Directors' Interest in a Competing Business**

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

## **Purchase, Sale or Redemption of Listed Securities**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period and up to the date of this report.

## **Audit Committee**

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

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the unaudited interim condensed consolidated financial statements matters of the Group for the six months ended 30 June 2017 and recommended its adoption by the Board.

## **Remuneration Committee**

The remuneration committee of the Company (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 Remuneration Committee comprises three independent non-executive Directors, namely, Mr. Wong Kam Wah (Chairman), Mr. Ng Kwun Wan and Mr. Zhou Dai Han and two executive Directors, namely, Mr. Lai Zhi Tian and Ms. Mou Li. Accordingly, the majority of the members of Remuneration Committee are independent non-executive Directors.

## **Nomination Committee**

The nomination committee of the Company (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 Nomination Committee comprises three independent non-executive Directors, namely, Mr. Wong Kam Wah (Chairman), Mr. Ng Kwun Wan and Mr. Zhou Dai Han and two executive Directors, namely, Mr. Lai Zhi Tian and Ms. Mou Li. Accordingly, the majority of the members of Nomination Committee are independent non-executive Directors.

# Other Information

## 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 Reporting 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 Reporting Period.

By order of the Board

**Mr. Lai Zhi Tian**

*Chairman & Executive Director*

Hong Kong

29 August 2017