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)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2017

	For the year ended 31 December		
	2017	2016	Year-on-Year
	RMB'000	*RMB'000*	*Change**
Revenue	**944,634**	730,472	+29.3%
Gross Profit	**564,253**	399,438	+41.3%
Gross margin of the Group (%)	**59.7%**	54.7%	
Profit attributable to equity holders of the Company	**70,056**	53,872	+30.0%
Earnings per share (expressed in RMB per share)			
Basic	**RMB8.77 cents**	RMB6.79 cents	+29.2%
Diluted	**RMB8.69 cents**	RMB6.73 cents	+29.1%
Interim dividend per share	**HK1.875 cents**	HK1.6 cents	+17.2%
Final dividend per share	**HK2.21 cents**	HK1.0 cent	+121.0%
Special dividend per share	**HK1.709 cents**	—	—
Total dividend per share	**HK5.794 cents**	HK2.6 cents	+122.8%

* *Year-on-Year change represents a comparison between the current reporting period and the corresponding period last year.*

ANNUAL RESULTS

The board (the "Board") of directors ("Directors") of Zhongzhi Pharmaceutical Holdings Limited (the "Company") is pleased to announce the consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	**944,634**	730,472
Cost of sales		**(380,381)**	(331,034)
Gross profit		**564,253**	399,438
Other income and gains	5	**16,019**	22,497
Selling and distribution expenses		**(386,990)**	(277,350)
Administrative expenses		**(64,881)**	(56,534)
Other expenses	6	**(38,526)**	(18,892)
PROFIT BEFORE TAX	6	**89,875**	69,159
Income tax expense	7	**(19,819)**	(15,287)
PROFIT FOR THE YEAR		**70,056**	53,872
Attributable to owners of the parent		**70,056**	53,872
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
— For profit for the year		**RMB8.77 cents**	RMB6.79 cents
Diluted			
— For profit for the year		**RMB8.69 cents**	RMB6.73 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**70,056**	53,872
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(4,359)**	1,390
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**65,697**	55,262
Attributable to owners of the parent	**65,697**	55,262

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**203,198**	180,053
Prepayments for property, plant and equipment		**3,206**	2,345
Prepaid land lease payments	11	**13,426**	13,896
Goodwill		**1,628**	1,628
Other intangible assets	12	**10,413**	1,709
Investment in a joint venture	13	**405**	430
Available-for-sale investments	14	**8,650**	8,650
Deferred tax assets		**7,681**	5,758
Other non-current assets		**4,787**	8,516
Total non-current assets		**253,394**	222,985
CURRENT ASSETS			
Prepaid land lease payments	11	**470**	470
Inventories	15	**137,924**	121,081
Trade and notes receivables	16	**118,318**	63,863
Prepayments, deposits and other receivables		**42,388**	20,694
Cash and bank balances		**359,458**	326,135
Total current assets		**658,558**	532,243
CURRENT LIABILITIES			
Trade payables	17	**71,623**	57,531
Other payables and accruals		**123,211**	81,482
Amounts due to related parties		**8,786**	8,786
Deferred income		**11,314**	6,493
Amount due to a joint venture		**376**	430
Tax payable		**15,272**	15,589
Total current liabilities		**230,582**	170,311
NET CURRENT ASSETS		**427,976**	361,932
TOTAL ASSETS LESS CURRENT LIABILITIES		**681,370**	584,917

	2017	2016
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Deferred income	**11,628**	14,693
Deferred tax liabilities	**1,467**	1,843
Total non-current liabilities	**13,095**	16,536
Net assets	**668,275**	568,381
Equity		
Equity attributable to owners of the parent		
Issued capital	**6,650**	6,309
Reserves	**661,625**	562,072
Total equity	**668,275**	568,381

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Zhongzhi Pharmaceutical Holdings Limited 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 Company is an investment holding company. The Group are principally engaged in the manufacture and sale of pharmaceutical products in the People's Republic of China (the "PRC"). There has been no significant change in the Group's principal activities during the year.

In the opinion of the Directors, as at the date of this announcement, the immediate and ultimate holding company of the Company is Crystal Talent Investment Group Limited, a company incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries:

Particulars of the Company's subsidiaries as at 31 December 2017 are as follows:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Windom Talent Company Limited ("Windom Talent")	BVI 16 September 2014, BVI	US$1	100%	—	Investment holding
Grant Talent Development Limited ("Grant Talent")	Hong Kong 1 August 2014, Hong Kong	HK$1	—	100%	Investment holding
Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("Zhongzhi Pharmaceutical") (a)	PRC 27 September 1999, Mainland China	RMB220,000,000	—	100%	Sale of pharmaceutical drugs
Zeus Medicine Hong Kong Limited	Hong Kong 14 April 2011, Hong Kong	HK$10,000	—	100%	Sale of pharmaceutical drugs
Zhongshan Zhongzhi Chain Pharmacies Company Limited ("Zhongzhi Chain Pharmacies")	PRC 27 July 2001, Mainland China	RMB4,600,000	—	100%	Sale of pharmaceutical drugs

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. ("Zhongzhi Herb Pieces") (b)	PRC 10 July 2001, Mainland China	RMB6,600,000	—	100%	Manufacture and sale of Chinese decoction pieces
Zhongshan Honeson Pharmaceutical Co., Ltd. ("Honeson Pharmaceutical")	PRC 2 March 1986, Mainland China	RMB10,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Guangdong Caojinghua Cell-broken Herb Co., Ltd. ("Guangdong Caojinghua")	PRC 10 December 2014, Mainland China	RMB500,000	—	100%	Manufacture and sale of food
Yulin Yixian Chinese Medicinal Materials Co.,Ltd. ("Yulin Yixian")	PRC 8 August 2016, Mainland China	RMB2,000,000	—	100%	Manufacture and sale of Chinese herb
Shenzhen Caojinghua Electronic Business Co., Ltd. ("Shenzhen Caojinghua")	PRC 10 January 2017, Mainland China	RMB1,000,000	—	100%	Sale of pharmaceutical drugs
Guangzhou Yunzhi Health Technology Co., Ltd. ("Guangzhou Yunzhi")	PRC 1 December 2017, Mainland China	RMB1,000,000	—	100%	Sale of pharmaceutical drugs

(a) Zhongzhi Pharmaceutical was registered as a wholly-foreign-owned enterprise under PRC law.

(b) Zhongzhi Herb Pieces was ultimately controlled by the Company as a result of series of contractual arrangements between Zhongzhi Pharmaceutical with Zhongzhi Herb Pieces and its registered shareholders.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under a historical cost convention. These financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency, and all values are rounded to the nearest thousand except otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements.

The nature and the impact of the amendments are described below:

(a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

(c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale.

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.

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 years ended 31 December 2017 and 2016, no revenue from transactions with a single customer amounted to 10% or more of the Group's sales.

Operating segment information for the year ended 31 December 2017:

	Year ended 31 December 2017		
	Operation of chain pharmacies	**Pharmaceutical manufacturing**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue:			
Revenue from external customers	**437,152**	**507,482**	**944,634**
Intersegment sales	**—**	**45,372**	**45,372**
Elimination of intersegment sales	**—**	**(45,372)**	**(45,372)**
Revenue	**437,152**	**507,482**	**944,634**
Cost of sales	**(226,632)**	**(153,749)**	**(380,381)**
Segment results	**210,520**	**353,733**	**564,253**
Reconciliation:			
Other income and gains			**16,019**
Selling and distribution expenses			**(386,990)**
Administrative expenses			**(64,881)**
Other expenses			**(38,526)**
Profit before tax			**89,875**

Operating segment information for the year ended 31 December 2016:

	Year ended 31 December 2016		
	Operation of chain pharmacies	Pharmaceutical manufacturing	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue:			
Revenue from external customers	389,316	341,156	730,472
Intersegment sales	—	39,352	39,352
Elimination of intersegment sales	—	(39,352)	(39,352)
Revenue	389,316	341,156	730,472
Cost of sales	(208,368)	(122,666)	(331,034)
Segment results	180,948	218,490	399,438
Reconciliation:			
Other income and gains			22,497
Selling and distribution expenses			(277,350)
Administrative expenses			(56,534)
Other expenses			(18,892)
Profit before tax			69,159

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the reporting period.

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

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Sale of pharmaceutical products	**944,634**	730,472
Other income		
Interest income	**2,635**	1,263
Interest income from available-for-sale investments	**2,998**	7,435
	5,633	8,698
Gains		
Government grants:		
— Related to assets	**336**	1,293
— Related to income	**8,325**	10,606
Gain on disposal of items of property, plant and equipment	**67**	49
Others	**1,658**	1,851
	10,386	13,799
	16,019	22,497

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2017** **RMB'000**	2016 RMB'000
Cost of inventories sold	4	**380,381**	331,034
Depreciation	10	**22,368**	21,651
Recognition of prepaid land lease payments*	11	**470**	470
Amortisation of other intangible assets*	12	**777**	296
Write-down of inventories to net realisable value		**2,872**	290
Minimum lease payments under operating leases		**31,986**	31,796
Auditor's remuneration		**2,644**	2,408
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**199,912**	155,331
Pension scheme contributions (defined contribution scheme)		**12,027**	10,153
Staff welfare expenses		**17,052**	12,165
Equity-settled share award expense		**1,618**	303
		230,609	177,952
Other expenses:			
Research and development costs		**34,501**	17,689
Loss on disposal of items of property, plant and equipment		**590**	136
Others		**3,435**	1,067
		38,526	18,892

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

7. INCOME TAX EXPENSE

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

Pursuant to the rules and regulations of the 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 assessable profits derived from Hong Kong during the year. Since the Group had no such profits 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 (the "PRC 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.

Honeson Pharmaceutical and Zhongzhi Pharmaceutical are qualified high and new technology enterprises and were subject to income tax at a preferential tax rate of 15% for the reporting period.

Zhongzhi Pharmaceutical applied for the high and new technology enterprise accreditation in 2016, and acquired the qualification certificate in 2017.

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

	2017	2016
	RMB'000	*RMB'000*
Mainland China		
Current income tax	**22,187**	15,456
Deferred income tax credit	**(2,368)**	(169)
Total income tax expense	**19,819**	15,287

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**89,875**		69,159	
Tax at the PRC statutory tax rate	**22,469**	25.0	17,290	25.0
Effect of different applicable tax rates for certain subsidiaries	**(5,794)**	(6.4)	(3,641)	(5.3)
Effect on opening deferred tax of decrease in rates	**852**	0.9	—	—
Expenses not deductible for tax	**2,292**	2.6	1,638	2.4
Tax charge at the Group's effective tax rate	**19,819**	22.1	15,287	22.1

The effective tax rate of the Group was 22.1% in 2017 (2016: 22.1%).

8. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Interim—HK1.875 cents (2016: HK1.6 cents) per ordinary share	**12,763**	11,020
Proposed final—HK2.21 cents (2016: HK1.0 cent) per ordinary share:	**15,451**	7,167
Proposed special—HK1.709 cents (2016: Nil) per ordinary share:	**11,948**	—
	40,162	18,187

The proposed final dividend and special dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE ATTRIBUTABLE TO 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 adjusted weighted average number of ordinary shares of 799,076,404 (2016: 793,606,296) in issue during the year.

The calculation of the diluted earnings per share amount for the year is based on the profit for the year 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 year, 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:

	2017 *RMB'000*	2016 *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**70,056**	53,872

	2017	2016
Shares		
Weighted average number of ordinary shares in issue	**806,136,986**	800,000,000
Weighted average number of shares held for the share award plan	**(7,060,582)**	(6,393,704)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**799,076,404**	793,606,296
Effect of dilution—weighted average number of ordinary shares: Share awarded shares	**7,060,582**	6,393,704
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**806,136,986**	800,000,000

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *RMB'000*	Buildings *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2017							
At 1 January 2017:							
Cost	77,292	120,588	53,538	4,402	15,728	20,708	292,256
Accumulated depreciation	(48,984)	(32,472)	(18,007)	(3,386)	(9,354)	—	(112,203)
Net carrying amount	28,308	88,116	35,531	1,016	6,374	20,708	180,053
At 1 January 2017, net of accumulated depreciation	28,308	88,116	35,531	1,016	6,374	20,708	180,053
Additions	7,074	—	6,046	507	5,565	28,254	47,446
Disposals	(293)	—	(1,330)	(73)	(237)	—	(1,933)
Depreciation provided during the year (note 6)	(10,251)	(4,183)	(4,182)	(361)	(3,391)	—	(22,368)
Transfers	6,205	—	—	—	—	(6,205)	—
At 31 December 2017, net of accumulated depreciation	31,043	83,933	36,065	1,089	8,311	42,757	203,198
At 31 December 2017:							
Cost	90,278	120,588	57,033	3,621	20,668	42,757	334,945
Accumulated depreciation	(59,235)	(36,655)	(20,968)	(2,532)	(12,357)	—	(131,747)
Net carrying amount	31,043	83,933	36,065	1,089	8,311	42,757	203,198

	Leasehold improvements *RMB'000*	Buildings *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2016							
At 1 January 2016:							
Cost	62,661	57,290	38,612	4,267	14,424	5,130	182,384
Accumulated depreciation	(36,646)	(29,342)	(17,092)	(3,337)	(6,834)	—	(93,251)
Net carrying amount	26,015	27,948	21,520	930	7,590	5,130	89,133
At 1 January 2016, net of accumulated depreciation	26,015	27,948	21,520	930	7,590	5,130	89,133
Additions	14,631	63,339	11,983	440	1,805	20,592	112,790
Disposals	—	(2)	(141)	(15)	(61)	—	(219)
Depreciation provided during the year (note 6)	(12,338)	(3,169)	(2,845)	(339)	(2,960)	—	(21,651)
Transfers	—	—	5,014	—	—	(5,014)	—
At 31 December 2016, net of accumulated depreciation	28,308	88,116	35,531	1,016	6,374	20,708	180,053
At 31 December 2016:							
Cost	77,292	120,588	53,538	4,402	15,728	20,708	292,256
Accumulated depreciation	(48,984)	(32,472)	(18,007)	(3,386)	(9,354)	—	(112,203)
Net carrying amount	28,308	88,116	35,531	1,016	6,374	20,708	180,053

As at 31 December 2017, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB496,000 (2016: RMB568,000). The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

11. PREPAID LAND LEASE PAYMENTS

	2017 *RMB'000*	2016 *RMB'000*
Carrying amount at 1 January	**14,366**	14,836
Recognised during the year	**(470)**	(470)
Carrying amount at 31 December	**13,896**	14,366
Current portion	**(470)**	(470)
Non-current portion	**13,426**	13,896

12. OTHER INTANGIBLE ASSETS

	2017 Software *RMB'000*	2016 Software *RMB'000*
As 1 January		
Cost	**3,096**	2,899
Accumulated amortisation	**(1,387)**	(1,091)
Net carrying amount	**1,709**	1,808
At 1 January, net of accumulated amortisation	**1,709**	1,808
Additions	**9,481**	197
Amortisation provided during the year (note 6)	**(777)**	(296)
At 31 December, net of accumulated amortisation	**10,413**	1,709
At 31 December:		
Cost	**12,577**	3,096
Accumulated amortisation	**(2,164)**	(1,387)
Net carrying amount	**10,413**	1,709

13. INVESTMENT IN A JOINT VENTURE

	2017	2016
	RMB'000	*RMB'000*
Share of net assets	**405**	430

Particulars of the joint venture are as follows:

Name	**Particulars of issued shares held**	**Place of registration and business**	**Percentage of ownership interest**	**Principal activity**
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.

14. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	RMB'000	*RMB'000*
Non-current		
Unlisted equity investments, at cost	**8,650**	8,650

As at 31 December 2017, the fair value of the unlisted equity 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.

15. INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**27,698**	17,613
Work in progress	**10,739**	8,272
Finished goods	**99,487**	95,196
	137,924	121,081

Investories with a value of RMB13,647,000 (2016: RMB290,000) are carried at net realisable value, this being lower than cost.

16. TRADE AND NOTES RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**88,074**	38,216
Notes receivable	**30,244**	25,647
	118,318	63,863
Less: Impairment of trade receivables	**—**	—
	118,318	63,863

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 good track records, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 1 month	**50,520**	25,325
1 to 3 months	**18,433**	6,619
3 to 6 months	**11,634**	3,836
6 to 12 months	**6,745**	1,417
Over 12 months	**742**	1,019
	88,074	38,216

The notes receivable are settled within 180 days. No notes receivable were discounted as at 31 December 2017 and 2016. As at 31 December 2017, the Group has endorsed notes receivable of RMB19,804,000 (2016: RMB12,651,000) to settle trade payables.

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**55,127**	28,600
Less than 3 months past due	**20,471**	4,526
Over 3 months past due	**12,476**	5,090
	88,074	38,216

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

17. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**61,813**	48,817
3 to 6 months	**6,070**	4,541
6 to 12 months	**1,884**	2,603
over 12 months	**1,856**	1,570
	71,623	57,531

The trade payables are non-interest-bearing and are normally settled on terms not exceeding 120 days.

BUSINESS REVIEW

By virtue of the clear strategic positioning, in 2017, we grasped the best strategic pulse of development, successfully established a unique brand and marketing model, established systems for organizational reform and efficient synergy, and also achieved rapid growth in sales results, enabling us to stay at the top of the industry.

During the Reporting Period, the total revenue of the Group amounted to approximately RMB944.6 million, representing an increase of approximately 29.3% compared to the previous year (2016: RMB730.5 million) while the Group's profit for the year amounted to approximately RMB70.1 million, increased by approximately 30.0% compared to the previous year (2016: RMB53.9 million). Basic earnings per share was RMB8.77 cents (2016: RMB6.79 cents), an increase of approximately 29.2% compared to the previous year.

OUTLOOK & STRATEGY

In the macro context of the promulgation and implementation of the Law on Traditional Chinese Medicine, the inclusion of Chinese medicine development in reports of the 19th National Congress and the incorporation of massive health industry into national strategy, the development of Chinese medicine has embraced a promising historical opportunity. In 2018, we will firmly seize the opportunity, adhere to the strategic positioning, promote the strategic layout and continue to lead the development of cell wall broken herbs in the Chinese medicine field with technological innovation.

In view of the above, for the year 2018 and the future, we have clear strategic positioning and precise tactics, coupled with efficient synergy and effective supervision mechanism. We are very confident for the future development.

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. Revenue of the Group rose by approximately 29.3% to approximately RMB944.6 million.

Profit increased by approximately 30.0% to RMB70.1 million due to the strong growth momentum of the modern decoction pieces (Caojinghua Cell-broken Herb).

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 year ended 31 December			**% of total revenue for the year ended 31 December**		
	2017	2016	Change	**2017**	2016	Change
	RMB'000	*RMB'000*	*(%)*	***(%)***	*(%)*	*(%)*
Pharmaceutical manufacturing	**507,482**	341,156	+48.8	**53.7**	46.7	+7.0
Operation of chain pharmacies	**437,152**	389,316	+12.3	**46.3**	53.3	-7.0
	944,634	730,472	+29.3	**100.0**	100.0	

Pharmaceutical Manufacturing

The Group is engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (consisting of traditional decoction pieces and modern decoction pieces) 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 48.8% to RMB507.5 million for the year ended 31 December 2017 (2016: RMB341.2 million) and accounted for 53.7% of the total revenue during the year (2016: 46.7%), attributable to the growth in sales as a result of the Group's effort to expand the distribution and marketing network. The modern decoction pieces (草晶華破壁草本) thereby further increase the Group's market share and deepen market penetration, resulting in an increase in sales.

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 31 December 2017, the Group has 260 self-operated chain pharmacies in Zhongshan (31 December 2016: 245), of which 241 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies increased by approximately 12.3% to approximately RMB437.2 million for the year ended 31 December 2017 (2016: RMB389.3 million) and accounted for 46.3% of the total revenue during the year (2016: 53.3%), which were a result of (i) the better marketing member management of the Group's chain pharmacies, increased member loyalty and higher sales volume; and (ii) the increase in e-commerce sales performance.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year was RMB564.3 million, representing an increase of RMB164.9 million or 41.3% as compared with RMB399.4 million for the year ended 31 December 2016. The analysis of gross profit by segment is as below:

	Gross profit for the year ended 31 December			**Gross profit margin for the year ended 31 December**		
	2017	2016	Change	**2017**	2016	Change
	RMB'000	*RMB'000*	*(%)*	***(%)***	*(%)*	*(%)*
Pharmaceutical manufacturing	**353,733**	218,490	+61.9	**69.7**	64.0	+5.7
Operation of chain pharmacies	**210,520**	180,948	+16.3	**48.2**	46.5	+1.7
	564,253	399,438	+41.3	**59.7**	54.7	+5.0

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 61.9% to RMB353.7 million for the year ended 31 December 2017 (2016: RMB218.5 million). The gross profit margin increased to 69.7% for the year ended 31 December 2017 (2016: 64.0%), primarily resulted from the significant increase in the revenue of modern decoction pieces (Caojinghua Cell-broken Herb) with higher gross profit margin. The income of modern decoction pieces (Caojinghua Cell-broken Herb) increased by RMB156.5 million in the pharmaceutical manufacturing segment.

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by approximately 16.3% to RMB210.5 million for the year ended 31 December 2017 (2016: RMB180.9 million). The gross profit margin of the chain pharmacies segment increased to 48.2% for the year ended 31 December 2017 (2016: 46.5%). The increase was mainly due to the growth in the sales of Chinese medicine products as a result of precision marketing.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, interest income from bank financial products and government grants. For the year ended 31 December 2017, other income and gains of the Group were approximately RMB16.0 million (2016: RMB22.5 million), representing a decrease of approximately RMB6.5 million as compared to last year which was mainly attributable to the government grants of approximately RMB6.0 million for listing on the Main Board of the Stock Exchange in Hong Kong.

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. For the year ended 31 December 2017, selling and distribution expenses amounted to approximately RMB387.0 million (2016: RMB277.4 million), representing an increase of approximately 39.5% as compared to last year. Selling and distribution expense ratio increased to approximately 41.0 % (2016:38.0%) against revenue for the year ended 31 December 2017, which was mainly due to (i) the increase in advertising expenses for promoting the Company's (新型飲片) Caojinghua Cell-broken Herb through various media channels and platforms; (ii) the increase in salaries for retaining and attracting outstanding business talents; and (iii) expanding distribution networks such as e-commerce and hospitals to meet the Group's business expansion plan.

Administrative Expenses

Administrative expenses mainly represent salaries and benefits of the administrative and management staff as well as legal and professional fees. For the year ended 31 December 2017, administrative expenses amounted to approximately RMB64.9 million (2016: RMB56.5 million), representing an increase of approximately 14.9% as compared to last year. The increase was mainly due to (i) the increase in office and meeting expenses of the Group; and (ii) the increase in employees' salary and welfare expenses and the introduction of quality talents, which ensured smooth operations and catered for the Group's talent development and business expansion plans.

Income Tax Expense

Income tax expense amounted to RMB19.8 million for the year ended 31 December 2017 (2016 : RMB15.3 million). The increase in income tax was due to the increase in profits.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent increased by 30.0% to RMB70.1 million for the year ended 31 December 2017 (2016: RMB53.9 million). The Group's net profit margin amounted to 7.4% for the year ended 31 December 2017 (2016: 7.4%).

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB428.0 million as at 31 December 2017 (2016: RMB361.9 million). The Group's cash and bank balances increased from RMB326.1 million as at 31 December 2016 to RMB359.5 million (of which RMB293.2 million and RMB66.3 million are denominated in RMB and HK$ respectively) as at 31 December 2017. The current ratio of the Group decreased from approximately 3.1 as at 31 December 2016 to 2.9 as at 31 December 2017.

Borrowing and the Pledge of Assets

The Group had no outstanding borrowings as at 31 December 2017.

As at 31 December 2017, the Group has available unutilized banking facilities of RMB30.0 million (2016: RMB30.0 million).

Gearing Ratio

The Group had no outstanding borrowings as at 31 December 2017 (2016: Nil).

Capital Structure

The shares of the Company (the "Shares") were listed on the Stock Exchange on 13 July 2015 (the "Listing Date"). The capital of the Company comprises ordinary shares and other reserves. As at 31 December 2017, the number of issued shares of the Company was 840,000,000 ordinary Shares of HK$0.01 each.

Subscription of New Shares

On 27 October 2017, the Company entered into a subscription agreement with Novich Positioning Investment Limited Partnership ("Novich"), an exempted limited partnership registered in Cayman Islands which is an investment fund advised and managed by its general partner Novich Positioning Investment (Cayman) Limited (an indirect wholly-owned subsidiary of Shanghai Novich Positioning Investment Management Co., Limited* (上海諾偉其定位投資管理有限公司)), pursuant to which the Company conditionally agreed to allot and issue a total of 40,000,000 ordinary Shares at the subscription price of HK$1.53 per Share (the "Subscription").

The closing price per ordinary Share as quoted on the Stock Exchange on 27 October 2017, being the date of the subscription agreement was HK$1.79. The gross proceeds from the Subscription were approximately HK$61,200,000 and the net proceeds from the Subscription, after deduction of all relevant cost and expenses, were approximately HK$60,800,000, representing a net issue price of approximately HK$1.52 per subscription Share. The Company intends to use the net proceeds to expand the distribution network of the Company so as to enhance the public awareness of the brand. The net proceeds shall also be applied on the research and development activities.

The Board considers that, while broadening the shareholder base, the Subscription represents a valuable opportunity for the Company to bring in an investment fund as a shareholder which can enhance the corporate image of the Group. Also, the Board believes that the Group may leverage on the network of Novich in the consumer industry to provide synergy or business opportunities to the Group.

Details of the above Subscription were published in the Company's announcement dated 27 October 2017.

The equity fund raising activities conducted by the Company as at the date of this announcement are set out below:

Date of announcement	**Event**	**Net proceeds**	**Intended use of proceeds as announced**	**Actual use of proceeds**
27 October 2017	Subscription of 40,000,000 new ordinary Shares under the General Mandate	HK$60,800,000	For expanding the distribution network of the Company and applying on the research and development activities	HK$27,785,000 was utilized for distribution network of the Company

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 for the year of 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.

EMPLOYEES AND EMOLUMENTS POLICY

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, commission, bonuses and the Group's contribution to mandatory provident funds or state-managed retirement benefits scheme. Other benefits include share options to be granted under the Share Option Schemes and shares to be granted under the Share Award Plan.

As at 31 December 2017, the Group had 3,231 employees (2016: 2,396) with a total remuneration of RMB230.6 million during the Reporting Period (2016: RMB178.0 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.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES 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.

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 (4 cycles)
(xi)	Expected rate of return:	approximately 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.

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. BOC 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 BOC at least 2 working days (inclusive) in advance if it needs to early terminate this wealth management product.

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by ABC under wealth management product master agreement with ABC on 20 July 2017 ("C1010314006707").

(i)	Name of the wealth management product:	Agricultural Bank of China "Benlifeng" 90-day RMB Wealth Management Product
(ii)	Type of return:	Wealth management product with principal-preservation and guaranteed return
(iii)	Valid period of product:	90 days
(iv)	Expected rate of return:	approximately 3.0%
(v)	Redemption of principal and return:	The principal and return of the wealth management product will be paid in a lump sum within 2 bank business days 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 right of early termination is offered to investors, except that ABC can exercise its rights of early termination before the maturity date to terminate this product. ABC 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 2 working days after the date of early termination.

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by ICBC under wealth management product master agreement with ICBC on 29 September 2017 ("WL91BBX").

(i)	Name of the wealth management product:	ICBC Principal Guaranteed Corporate 91-day Fixed Rate RMB Wealth Management Product
(ii)	Type of return:	Principal-guaranteed and floating income
(iii)	Valid period of product:	Open-ended non-fixed term products with a 91-day investment cycle
(iv)	Expected rate of return:	3.3%
(v)	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).
(vi)	Full redemption:	No early redemption of the product shall be opened for investors within the agreed holding period.
(vii)	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.

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by ABC under wealth management product master agreement with ABC on 20 October 2017 ("C1010314006707").

(i)	Name of the wealth management product:	Agricultural Bank of China "Benlifeng" 62-day RMB Wealth Management Product
(ii)	Type of return:	Wealth management product with principal-preservation and guaranteed return
(iii)	Valid period of product:	62 days
(iv)	Expected rate of return:	3.3%
(v)	Redemption of principal and return:	The principal and return of the wealth management product will be paid in a lump sum within 2 bank business days 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 right of early termination is offered to investors, except that ABC can exercise its rights of early termination before the maturity date to terminate this product. ABC 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 2 working days after the date of early termination.

Saved as disclosed herein, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures or significant investments during the Reporting Period.

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 announcement, the net proceeds from the Global Offering had been applied as follows:

Business objectives as stated in the Prospectus	**Actual net proceeds**	**Amount utilized up to 31 December 2017**	**Balance as at 31 December 2017**
	HK$'000	*HK$'000*	*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	(41,808)	48,772
Expansion of production capacity	90,580	(34,137)	56,443
General working capital purposes	45,290	(45,290)	—
	452,900	(252,570)	200,330

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

EVENT AFTER THE REPORTING PERIOD

There were no significant events after the Reporting Period up to the date of this announcement.

COMMITMENT

As at 31 December 2017, the Group's operating lease and capital commitment amounted to RMB122.5 million (2016: RMB100.9 million) and RMB29.3 million (2016: RMB31.8 million), respectively. 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 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 31 December 2017 (2016: Nil).

CORPORATE GOVERNANCE PRACTICES

The Company has adopted and complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Reporting Period except the following deviation:

Code Provision A.2.1.

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

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

Audit Committee

The Audit Committee was established on 8 June 2015 with terms of reference (amended on 31 December 2015) in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the risk management and internal control systems of the Group. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han. The Group's accounting principles and policies, financial statements and related materials for the year had been reviewed by the Audit Committee.

The external auditor was invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on the audit and financial reporting related matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by Ernst & Young in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor on the preliminary announcement.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the year ended 31 December 2017.

DIVIDEND

The Board is recommending a final dividend of HK2.21 cents per share for 2017 for approval by the shareholders. Together with the interim dividend of HK1.875 cents per share, the total dividend for 2017 would be approximately HK4.085 cents per share, compared with HK2.6 cents per share in 2016. Meanwhile, in order to reward the investors of the Company, the Board also proposed to distribute a special dividend of HK1.709 cents per share for shareholders' approval.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 May 2018 to 14 May 2018, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming annual general meeting, 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 7 May 2018.

To determine the entitlement of the proposed final dividend and special dividend, the register of members of the Company will be closed from 18 May 2018 to 21 May 2018, both days inclusive, during which period no transfers of shares shall be effected. In order to eligible for receiving the final dividend and special 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 17 May 2018.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.zeus.cn). The annual report of the Company for the year ended 31 December 2017 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Zhongzhi Pharmaceutical Holdings Limited
Lai Zhi Tian
Chairman & Executive Director

Hong Kong, 26 March 2018

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

* *For identification purposes only*