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 2018

Content

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lai Zhi Tian *(Chairman)*
Mr. Lai Ying Feng
Mr. Cao Xiao Jun
Mr. Cheng Jin Le

Non-executive Directors

Ms. Jiang Li Xia
Mr. Yang Ai Xing

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
Mr. Lai Ying Feng
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

Nomination Committee

Mr. Wong Kam Wah *(Chairman)*
Mr. Lai Zhi Tian
Mr. Lai Ying Feng
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

AUTHORIZED REPRESENTATIVES

Mr. Lai Ying Feng
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

AUDITOR

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

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 2018 (the "Reporting Period") to the shareholders of the Company (the "Shareholders").

BUSINESS REVIEW

By virtue of the clear strategic positioning, in 2018, Zhongzhi Pharmaceutical grasped the best strategic pulse of development, successfully formed its unique brand and marketing mode, and conducted organizational transformation, which resulted in high synergy and enabled it to stay at the top of the industry.

During the Reporting Period, the Group recorded a total revenue of approximately RMB556.7 million (corresponding period in 2017: RMB431.5 million), representing an increase of approximately 29.0 % over the corresponding period in last year. The Group recorded a profit for the period of approximately RMB47.0 million (corresponding period in 2017: RMB38.5 million), representing an increase of 22.1% over the corresponding period in last year. The basic earnings per share is RMB5.6 cents (corresponding period in 2017: RMB4.9 cents), representing an increase of approximately 14.3% over the corresponding period in last year.

DIVIDEND

The Board is recommending an interim dividend of HK$2.65 cents per share for 2018 and a special dividend of HK$1.70 cents per share, for a total dividend of HK$4.35 cents per share for approval by the Shareholders. The dividend of the corresponding period in last year was HK$1.875 cents per share, representing an increase of 132% as compared with corresponding period in last year.

OUTLOOK & STRATEGY

Traditional Chinese medicine industry is an important component of the national strategy, and the development of Chinese medicine is supported by the best policy dividends right now. According to estimates by authoritative departments and based on market demand, current economic development and health sector demand, by 2020, the scale of the Chinese medicine industry will reach 3 trillion yuan. The whole industry of Chinese medicine decoction pieces will maintain a leading high growth rate, whereas the sub-category of Chinese medicine decoction pieces, Caojinghua Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (草晶華破壁草本(中藥破壁飲片)), will be benefited from this trend.

Caojinghua Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (草晶華破壁草本(中藥破壁飲片)), the innovative Chinese medicine decoction pieces developed by Zhongzhi Pharmaceutical, closely matches the national strategic development goals of Chinese medicine, conforms to the general trend of development and fully enjoys the development momentum brought to enterprises by the policy dividends. From 2012 to 2017, the compound growth rate of Caojinghua Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (草晶華破壁草本(中藥破壁飲片)) was higher than that of traditional Chinese medicine decoction pieces. It also started well in 2018, maintaining the momentum of continued rapid growth.

Business Review and Prospects

Zhongzhi Pharmaceutical takes the development of Caojinghua Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (草晶華破壁草本(中藥破壁飲片)), the innovative Chinese medicine decoction pieces, as its core development direction. The Company has established a national key research department, which attracted three former academicians of the Chinese Academy of Engineering and two former national medical masters, totaling 18 top experts in the medical science field.

"CaoJinghua (草晶華)" brand and the innovative category of "Cell-broken Herb (破壁草本)" are brand strategies cooperatively established by Zhongzhi Pharmaceutical and Trout & Partners China (特勞特中國公司), a global strategic consulting company. Under the escort of the Trout team, Zhongzhi Pharmaceutical successfully set up and underpinned its pathfinder's status in the category of Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (破壁草本(中藥破壁飲片)) and the market sales has been leaping forward vigorously. With the continuous hot-selling momentum in mainstream pharmacy chain channel, it becomes a new engine that leads the innovation and development of Chinese medicine as well as economic growth.

In compliance with the sales momentum of mainstream pharmacy chains, in 2018, the Company set up an entrepreneurial business division to explore the channels of small and medium-sized pharmacy chains, and introduced the distributor sales model to rapidly replicate the successful experience of mainstream pharmacy chains to small and medium pharmacy chain channels. Under the influence of national strategy and various market dividends, it is expected that the sales of Caojinghua Cell-broken Herb (Chinese medicine cell wall broken decoction pieces) (草晶華破壁草本(中藥破壁飲片)) will continue to grow rapidly and become a benchmark for creating the new Chinese medicine economy.

In order to be in line with the general trend faster, exploit the market and occupy the commanding heights of the industry, Zhongzhi Pharmaceutical accelerated its expansion in new business. Hospital customers and the performance of e-commerce platform have successfully achieved qualitative changes from small to large, which further opened up product sales opportunities, accumulating stronger momentum for sales of the company. In the first half of 2018, the sales of new business and e-commerce platform of Zhongzhi Pharmaceuticals doubled rapidly, becoming a phenomenon brand of Chinese medicine sales.

GRATITUDE

On behalf of the Company, I would like to express my sincere gratitude to our valued shareholders, customers, suppliers, banks and to our management and employees for their continuous trust and support to our Group. We expect the year ahead to be full of opportunities and challenges. As always, we strive to create greater value for our shareholders and investors.

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

Hong Kong, 29 August 2018

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 RMB556.7 million for the six months ended 30 June 2018, representing a 29.0% increase from the corresponding period in 2017 (six months ended 30 June 2017: RMB431.5 million).

The Group recorded a total profit of approximately RMB47.0 million for the six months ended 30 June 2018, representing a 22.1% increase from the corresponding period in 2017 (six months ended 30 June 2017: RMB38.5 million).

FINANCIAL ANALYSIS

Revenue

The Group's operations can be divided into three segments in the PRC pharmaceutical industry, namely (i) pharmaceutical manufacturing; (ii) operation of on-line pharmacies; and (iii) 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		
	2018	2017	Change	**2018**	2017	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**316,909**	225,060	40.8	**56.9**	52.2	+4.7
Operation of chain pharmacies	**221,196**	202,937	9.0	**39.7**	47.0	-7.3
Operation of on-line pharmacies	**18,563**	3,533	425.4	**3.4**	0.8	+2.5
	556,668	431,530	29.0	**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 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 brands include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

Revenue derived from pharmaceutical manufacturing increased by approximately 40.8% to RMB316.9 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB225.1 million) and accounted for 56.9% of the total revenue during the Reporting Period (six months ended 30 June 2017: 52.2%), 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 increasing the Group's market share and deepening market penetration.

Management Discussion and Analysis

Operation of On-line Pharmacies

Revenue derived from operation of on-line pharmacies increased by approximately 425.4% to RMB18.6 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB3.5 million) and accounted for 3.4% of the total revenue during the Reporting Period (six months ended 30 June 2017: 0.8%), which was attributable to the establishment of the subsidiary, Guangzhou Yunzhi Health Technology Co., Ltd.* (廣州雲智健康科技有限公司), at the end of 2017. The subsidiary provided customer flow to the official website of Caojinghua through marketing channels such as online advertising, and its revenue increased by RMB12.0 million as compared to corresponding period in last year.

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 2018, the Group has 284 self-operated chain pharmacies in Zhongshan (as at 30 June 2017: 247), 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 9.0% to RMB221.2 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB202.9 million) and accounted for 39.7% of the total revenue during the Reporting Period (six months ended 30 June 2017: 47.0%). 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 RMB342.8 million, representing an increase of RMB89.7 million or 35.4% as compared with RMB253.1 million for the six months ended 30 June 2017. 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**		
	2018	2017	Change	**2018**	2017	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**228,724**	155,875	46.7	**72.2**	69.3	+2.9
Operation of chain pharmacies	**104,350**	95,424	9.4	**47.2**	47.0	+0.2
Operation of on-line pharmacies	**9,679**	1,775	445.3	**52.1**	50.2	+1.9
	342,753	253,074	35.4	**61.6**	58.6	+3.0

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 46.7% to RMB228.7 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB155.9 million). The gross profit margin increased to 72.2% for the six months ended 30 June 2018 (six months ended 30 June 2017: 69.3%), primarily attributable to 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 margin.

Management Discussion and Analysis

Operation of On-line Pharmacies

The gross profit of segment of operation of on-line pharmacies increased by approximately 445.3% to RMB9.7 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB1.8 million). The gross profit margin increased to 52.1% for the six months ended 30 June 2018 (six months ended 30 June 2017: 50.2%), primarily attributable to 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 margin.

Operation of chain Pharmacies

The gross profit of chain pharmacies segment increased by 9.4% to RMB104.4 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB95.4 million). The gross profit margin of the chain pharmacies segment increased by 0.2% to 47.2% for the six months ended 30 June 2018 (six months ended 30 June 2017: 47.0%).The increase was mainly due to the increase in the sales of own branded products with higher profit margin, 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.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, changes in the fair value of financial assets and government grants. For the six months ended 30 June 2018, other income and gains of the Group were approximately RMB11.3 million (six months ended 30 June 2017: RMB8.1 million), representing an increase of approximately RMB3.2 million as compared to corresponding period in last year, which was mainly attributable to (i) the increase in bank interest income of approximately RMB1.3 million, (ii) the increase in changes in the fair value of financial assets of RMB4.8 million; and (iii) the decrease in government grants of approximately RMB2.6 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 2018 amounted to approximately RMB 234.1 million (six months ended 30 June 2017: RMB 167.6 million), representing an increase of approximately 39.7% as compared to corresponding period in last year. Selling and distribution expense ratio increased to approximately 42.1% (six months ended 30 June 2017: 38.8%) against revenue for the six months ended 30 June 2018. The increase in the Group's selling and distribution expenses during the Reporting Period was mainly due to (i) the increase in the business promotion expenses, and intensification of cooperation with consulting companies for the purpose of carrying out marketing activities across the PRC, with a view to 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 increased resources devoted by the Group 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 RMB6.4 million for retaining high caliber business talents, thus ensuring smooth business operation to meet business expansion plans of the Group.

Management Discussion and Analysis

Research and Development Expenses

Research and development expenses mainly represent various expenses incurred in the course of research and development of products, technologies, materials, crafts and standards. For the six months ended 30 June 2018, research and development expenses amounted to approximately RMB21.7 million (for the six months ended 30 June 2017: RMB13.3 million), representing an increase of approximately 63.2% compared to that for the same period of last year. Such increase was mainly due to (i) the increase in manpower input used to strengthen the research on the scientific essence of Caojinghua Cell-broken Herb (cell wall broken decoction pieces)草晶華破壁草本(破壁飲片), aiming to demonstrating its security, effectiveness and controllable quality with more research information.

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 RMB34.4 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB30.4 million), representing an increase of approximately 13.2% 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 as a result of 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 RMB12.5 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB11.4 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") each 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 22.1% to RMB47.0 million for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB38.5 million). The Group's net profit margin maintained at 8.4% for the six months ended 30 June 2018 (six months ended 30 June 2017: 8.9%).

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

As at 30 June 2018, the Group had net current assets of approximately RMB432.6 million (31 December 2017: RMB428.0 million). As at 30 June 2018, the Group's total cash and bank balances amounted to approximately RMB101.7 million (31 December 2017: RMB359.5 million). The current ratio of the Group maintained at approximately 2.8 as at 30 June 2018 (30 June 2017: 3.1).

The equity attributable to shareholders of the Company as at 30 June 2018 amounted to approximately RMB697.9 million (31 December 2017: RMB668.3 million). As at 30 June 2018, total interest-bearing debts of the Group amounted to RMB12.6 million (31 December 2017: nil).

The Group's gearing ratio (borrowings over total equity) as at 30 June 2018 was 1.8% (31 December 2017: nil)

As at 30 June 2018, the Group had available unutilized banking facilities of RMB35.0 million and HK$5.0 million (31 December 2017: 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"). The capital of the Company comprises ordinary shares and other reserves. As at 30 June 2018, 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 of HK$0.01 each at the subscription price of HK$1.53 per Share (the "Subscription"). In respect of the Subscription Shares, there is a 2 years lock-up restrictions undertook by Novich.

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 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 during the Reporting Period are set out below:

	Intended use of net proceeds from Subscription (Approximate)	Actual use of net proceeds from Subscription as of 31 December 2017 (Approximate)	Utilised net proceeds from Subscription for the six months ended 30 June 2018 (Approximate)	Unutilised net proceeds from Subscription as at 30 June 2018 (Approximate)
For expanding the distribution network of the Company and applying on the research and development activities	HK$60,800,000	HK$27,785,000 for distribution network of the Company	HK$33,015,000 for distribution network of the Company	—

As at 30 June 2018, all net proceeds raised from Subscription have been fully utilised.

Management Discussion and Analysis

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 2018. 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.

CHARGE ON GROUP ASSETS

As at 30 June 2018 and 31 December 2017, the Group did not have any charges on its assets.

CAPITAL EXPENDITURE

For the six months ended 30 June 2018, the Group had capital expenditure of approximately RMB29.2 million (six months ended 30 June 2017: RMB17.9 million). The capital expenditure was mainly related to the purchasing of fixed assets for research and development activities and production of the Group's own-branded products.

INTERIM DIVIDEND

As a token of the Group's gratitude for the support of our shareholders, the Board has recommended the distribution of an interim dividend of HK$2.65 cents per ordinary share and a special dividend of HK$1.70 cents per ordinary share for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$1.875 cents) to shareholders on the register of members of the Company on 22 October 2018, amounting to approximately HK$36.5 million which will be subject to the approval of the Company's shareholders in an extraordinary general meeting to be held on 12 October 2018 (the "EGM"). The interim dividend and special dividend will be payable on or around 20 November 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 October 2018 to 12 October 2018, both days inclusive, during which period no transfers of shares shall be effected. The record date will be 12 October 2018. 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 5 October 2018.

To determine the entitlement of the proposed interim dividend and special dividend, the register of members of the Company will be closed from 19 October 2018 to 22 October 2018, both days inclusive, during which period no transfers of shares shall be effected. The record date will be 22 October 2018. In order to be eligible for receiving the interim 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 18 October 2018.

Management Discussion and Analysis

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 30 June 2018, the Group had 3,434 employees with a total remuneration of RMB135.1 million during the Reporting Period (six months ended 30 June 2017: RMB117.9 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.

SIGNIFICANT INVESTMENTS

The Group had no significant investments held during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Reporting Period.

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. On 4 April 2018, the Board resolved to change the use of the remaining unutilised proceeds from Global Offering (the "Proposed Change"). For details of the Proposed Change, please refer to the announcement of the Company dated 4 April 2018. The following table sets forth the status of use of net proceeds from Global Offering:

Business objectives as stated in the Prospectus	Use of net proceeds from Global Offering prior to the Proposed Change HK$'000	The Proposed Change HK$'000	Use of net proceeds subsequent to the Proposed Change HK$'000	Utilized up to 30 June 2018 HK$'000	Unused balance up to 30 June 2018 HK$'000	Expected timeline for unused net proceeds subsequent to the Proposed Change
Expansion of pharmaceutical chain in the Guangdong province	135,870	(72,360)	63,510	51,600	11,910	by 2018
Expansion of distribution network	90,580	72,360	162,940	145,018	17,922	by 2018
Providing funding for research and development activities	90,580	—	90,580	49,523	41,057	by 2019
Expansion of production capacity	90,580	—	90,580	51,498	39,082	by 2019
General working capital purposes	45,290	—	45,290	45,290	—	N/A
	452,900	—	452,900	342,929	109,971	

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

COMMITMENT

As at 30 June 2018, the Group's capital commitment amounted to RMB17.2 million (31 December 2017: RMB29.3 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 2018 (31 December 2017: nil).

Report on Review of Interim Financial Information

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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 45, 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 2018 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 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") issued by the International Accounting Standards Board.

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 2018

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	 2017 RMB'000 (Unaudited)
REVENUE	4	**556,668**	431,530
Cost of sales		**(213,915)**	(178,456)
Gross profit		**342,753**	253,074
Other income and gains	4	**11,266**	8,119
Selling and distribution expenses		**(234,089)**	(167,642)
Administrative expenses		**(34,408)**	(30,405)
Other expenses		**(26,016)**	(13,208)
PROFIT BEFORE TAX	5	**59,506**	49,938
Income tax expense	6	**(12,498)**	(11,444)
PROFIT FOR THE PERIOD		**47,008**	38,494
Attributable to owners of the parent		**47,008**	38,494
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
— For profit for the period		**RMB 0.056**	RMB 0.049
Diluted			
— For profit for the period		**RMB 0.056**	RMB 0.048

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**47,008**	38,494
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**73**	(885)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**73**	(885)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**47,081**	37,609
Attributable to owners of the parent	**47,081**	37,609

Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**217,569**	203,198
Prepayment for property, plant and equipment		**1,735**	3,206
Prepaid land lease payments	10	**13,191**	13,426
Goodwill		**1,628**	1,628
Other intangible assets	11	**10,189**	10,413
Investment in a joint venture	12	**405**	405
Equity instruments at fair value through profit or loss	13	**23,642**	—
Available-for-sale investments	13	**—**	8,650
Deferred tax assets		**8,838**	7,681
Other non-current assets		**4,980**	4,787
Total non-current assets		**282,177**	253,394
CURRENT ASSETS			
Prepaid land lease payment	10	**470**	470
Inventories	14	**152,818**	137,924
Trade and notes receivables	15	**185,616**	118,318
Prepayments, deposits and other receivables	16	**26,353**	42,388
Financial assets at fair value through profit or loss	18	**163,086**	—
Bank financial products	18	**39,722**	—
Cash and cash equivalents	17	**101,726**	359,458
Total current assets		**669,791**	658,558
CURRENT LIABILITIES			
Trade payables	19	**79,777**	71,623
Interest-bearing loans and borrowings	20	**12,647**	—
Other payables and accruals	21	**110,703**	123,211
Amounts due to related parties		**8,786**	8,786
Deferred income	22	**11,400**	11,314
Amount due to a joint venture		**376**	376
Tax payable		**13,531**	15,272
Total current liabilities		**237,220**	230,582
NET CURRENT ASSETS		**432,571**	427,976
TOTAL ASSETS LESS CURRENT LIABILITIES		**714,748**	681,370

Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income	22	**11,386**	11,628
Deferred tax liabilities		**5,439**	1,467
Total non-current liabilities		**16,825**	13,095
Net assets		**697,923**	668,275
EQUITY			
Equity attributable to owners of the parent			
Issued capital	23	**6,650**	6,650
Reserves		**691,273**	661,625
Total equity		**697,923**	668,275

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to owners of the parent									
	Issued capital RMB'000	Shares held for the share award plan RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory surplus reserve RMB'000	Share-based payment RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018	6,650	(13,181)	363,014	31,200	34,837	5,680	(549)	16,977	223,647	668,275
Adoption of IFRS9	–	–	–	–	–	–	–	–	9,212	9,212
At 1 January 2018 (Restated)	6,650	(13,181)	363,014	31,200	34,837	5,680	(549)	16,977	232,859	677,487
Profit for the period	–	–	–	–	–	–	–	–	47,008	47,008
Other comprehensive income for the period										
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	73	–	73
Total comprehensive income for the period	–	–	–	–	–	–	–	73	47,008	47,081
Transfer from retained profits	–	–	–	–	2,428	–	–	–	(2,428)	–
Dividends declared (note 7)	–	–	(26,645)#	–	–	–	–	–	–	(26,645)
At 30 June 2018 (unaudited)	6,650	(13,181)*	336,369*	31,200*	37,265*	5,680*	(549)*	17,050*	277,439*	697,923

* These reserve accounts comprise the consolidated reserve of RMB691,273,000 in the consolidated statement of financial position.

During the six months ended 30 June 2018, the Company declared and paid a final dividend (HK2.21 cents per ordinary share) and a special dividend (HK1.709 cents per ordinary share) in respect of the previous financial year amounting to HK$32,920,000 (equivalent to approximately RMB26,859,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK$266,000 (equivalent to approximately RMB214,000).

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Attributable to owners of the parent									
	Issued capital RMB'000	Shares held for the share award plan RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory surplus reserve RMB'000	Share-based payment RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	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										
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	–	–	–	–	–	–	1,618	–	–	1,618
Dividends declared	–	–	(6,923)	–	–	–	–	–	–	(6,923)
At 30 June 2017 (unaudited)	6,309	(15,359)	323,853	31,200	32,015	5,680	1,629	20,451	194,907	600,685

Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**59,506**	49,938
Adjustments for:			
Interest income	4	**(2,187)**	(880)
Dividend income from financial instruments at fair value through profit or loss		**(932)**	—
Dividend income from available-for-sale investments		**—**	(497)
Loss/(gain) on disposal of items of property, plant and equipment		**115**	(55)
Depreciation	9	**12,002**	11,578
Recognition of prepaid land lease payments	10	**235**	234
Amortisation of other intangible assets	11	**639**	155
Government grants released	22	**(2,287)**	(4,869)
Fair value gain on equity instrument and financial assets at fair value through profit or loss	4	**(4,794)**	—
Impairment losses on trade receivables	5	**582**	—
Equity-settled share award expense		**—**	1,618
Write-down of inventories to net realisable value	5	**3,235**	91
		66,114	57,313
Increase in inventories		**(18,129)**	(20,811)
Increase in trade and notes receivables		**(67,880)**	(38,083)
Decrease in prepayments, deposits and other receivables		**16,035**	4,635
Increase in non-current assets		**(193)**	(190)
Increase in trade payables		**8,154**	13,600
(Decrease)/increase in other payables and accruals		**(9,527)**	105
Increase in deferred income		**2,131**	3,267
Cash generated from operations		**(3,295)**	19,836
Income tax paid		**(14,495)**	(15,699)
Net cash flows (used in)/from operating activities		**(17,790)**	4,137

Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Notes	Six months ended 30 June **2018** **RMB'000** **(Unaudited)**	 2017 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(29,156)**	(17,940)
Change in deposits for purchase of property, plant and equipment		**1,471**	525
Proceeds from disposal of items of property, plant and equipment		**50**	1,033
Purchase of other intangible assets		**(780)**	(1,576)
Purchases of bank financial products		**(39,000)**	(90,000)
Purchases of financial assets at fair value through profit or loss		**(161,000)**	—
Interest received		**2,398**	1,377
Decreases/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**16,083**	(107,940)
Net cash flows used in investing activities		**(209,934)**	(214,521)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	7	**(26,645)**	(6,923)
Proceeds from borrowings		**12,647**	—
Net cash flows used in financing activities		**(13,998)**	(6,923)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(241,722)**	(217,307)
Cash and cash equivalents at beginning of period		**300,128**	326,135
Exchange of foreign exchange rate changes, net		**73**	(1,657)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**58,479**	107,171
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	**58,479**	82,171
Non-pledged time deposits	17	**43,247**	132,940
Cash and bank balances as stated in the statement of financial position		**101,726**	215,111
Non-pledged time deposits with original maturity of more than three months when acquired		**(43,247)**	(107,940)
Cash and cash equivalents at end of the period		**58,479**	107,171

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

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 year.

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 AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 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 2017.

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.

2.2 New standards, interpretations and amendments adopted by the Group

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 consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretations and amendments adopted by the Group (Continued)

The Group applies, for the first time, the following new and amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for the period.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Other than as further explained below, the directors do not anticipate that the application of the new and revised IFRSs above will have a material effect on the Group's consolidated financial statements and the disclosure.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group's principal activities consist of the manufacture and sale of pharmaceutical products. The application of IFRS 15 does not have material impact on the timing and amounts of revenue recognized on the Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group adopted IFRS 9 retrospectively with the initial application date of 1 January 2018. The Group selected not to adjust the comparative information for the period beginning 1 January 2017.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretations and amendments adopted by the Group (Continued)

IFRS 9 Financial Instruments (Continued)

(a) Classification and measurement

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available-for-sale.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

— Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, deposits and other receivables, and bank financial products with fixed interest rate.

— Financial assets at FVPL comprise unquoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Group's debt instruments were classified as bank financial products and available-for-sale investments.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The statement of financial position as at 1 January 2018 was restated, resulting in a decrease in available-for-sale investments of RMB8,650,000 and an increase in financial assets at fair value through profit or loss, retained earnings and deferred tax liability of RMB20,934,000, RMB9,212,000 and RMB3,072,000 respectively.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretations and amendments adopted by the Group (Continued)

IFRS 9 Financial Instruments (Continued)

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

There is no material impact on the Group to the opening balance of retained earnings as at 1 January 2018 for the adoption of the ECL requirements of IFRS 9.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

2.2 New standards, interpretations and amendments adopted by the Group (Continued)

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

3. OPERATING SEGMENT INFORMATION

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

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

(a) Operation of chain pharmacies

(b) Pharmaceutical manufacturing

(c) Operation of online pharmacies

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

3. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

During each of the six months ended 30 June 2017 and 2018, 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 2017 and 2018 are as follows:

	Six months ended 30 June 2018			
	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of chain pharmacies RMB'000 (unaudited)	Operation of online pharmacies RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue:				
Revenue from external customers	316,909	221,196	18,563	556,668
Intersegment sales	20,897	—	—	20,897
Elimination of intersegment sales	(20,897)	—	—	(20,897)
Revenue	316,909	221,196	18,563	556,668
Cost of sales	(88,185)	(116,846)	(8,884)	(213,915)
Segment results	228,724	104,350	9,679	342,753
Reconciliation:				
Other income and gains				11,266
Selling and distribution expenses				(234,089)
Administrative expenses				(34,408)
Other expenses				(26,016)
Profit before tax				59,506

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

3. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers (Continued)

	Six months ended 30 June 2017			
	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of chain pharmacies RMB'000 (unaudited)	Operation of online pharmacies RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue				
Revenue from external customers	225,060	202,937	3,533	431,530
Intersegment sales	20,620	—	—	20,620
Elimination of intersegment sales	(20,620)	—	—	(20,620)
Revenue	225,060	202,937	3,533	431,530
Cost of sales	(69,185)	(107,513)	(1,758)	(178,456)
Segment results	155,875	95,424	1,775	253,074
Reconciliation:				
Other income and gains				8,119
Selling and distribution expenses				(167,642)
Administrative expenses				(30,405)
Other expenses				(13,208)
Profit before tax				49,938

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

4. 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 2018.

For the six months ended 30 June 2018, the revenue from contracts with customers is recognised at a point in time.

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of pharmaceutical products	**556,668**	431,530
Other income		
Interest income	**2,187**	880
Dividend income from equity instruments at fair value through profit or loss	**932**	—
Dividend income from available-for-sale investments	**—**	497
	3,119	1,377
Gains		
Government grants:		
— Related to assets	**146**	282
— Related to income	**2,141**	4,587
Fair value gain on equity instruments and financial assets at fair value through profit or loss	**4,794**	—
Gain on disposal of items of property, plant and equipment	**—**	56
Others	**1,066**	1,817
	8,147	6,742
	11,266	8,119

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June **2018** **RMB'000** **(Unaudited)**	2017 RMB'000 (Unaudited)
Cost of inventories sold		**213,915**	178,456
Depreciation	9	**12,002**	11,578
Recognition of prepaid land lease payments*	10	**235**	234
Amortisation of other intangible assets*	11	**639**	155
Research and development costs		**21,698**	13,313
Advertising, marketing and promotion expenses		**82,661**	42,676
Write-down of inventories to net realisable value		**3,235**	91
Impairment losses on trade receivables		**582**	—
Fair value gain on equity instruments and financial assets at fair value through profit or loss		**4,794**	—
Minimum lease payments under operating leases		**19,038**	15,352
Auditor's remuneration		**1,785**	1,452
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**118,655**	102,640
Pension scheme contributions (defined contribution scheme)		**6,962**	6,527
Staff welfare expenses		**9,514**	7,074
Equity-settled share award expense		**—**	1,618
		135,131	117,859

* 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.

6. 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 operated.

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

6. INCOME TAX EXPENSE (Continued)

Hong Kong profits tax rate is 16.5% (2017:16.5%) of the Group's assembled profit derived from Hong Kong. Since the Group had no such profit during the reporting period, no provision for Hong Kong profits tax has been made.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

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

Zhongshan Honeson Pharmaceutical Co.,Ltd. and Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. are qualified as high and new technology enterprises and are subject to a preferential income tax rate of 15% for the six months ended 30 June 2017 and 2018, respectively.

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China		
Current income tax	**12,754**	10,639
Deferred income tax (credit)/charge	**(256)**	805
Total income tax expense	**12,498**	11,444

7. DIVIDEND

During the six months ended 30 June 2018, the Company declared and paid a final dividend(HK2.21 cents per ordinary share) and a special dividend(HK1.709 cents per ordinary share) in respect of the previous financial year amounting to HK$32,920,000 (equivalent to approximately RMB26,859,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK$266,000 (equivalent to approximately RMB214,000).

Subsequent to 30 June 2018, the board of directors recommended that an interim dividend of HK2.65 cents per share and a special dividend of HK1.70 cents per share will be payable on or around 20 November 2018 to the shareholders on the register of members of the Company on 22 October 2018. 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

For the six months ended 30 June 2018

8. 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 833,221,500 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:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**47,008**	38,494

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue	**840,000,000**	800,000,000
Weighted average number of shares held for the share award plan (note 24)	**(6,778,500)**	(7,851,000)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**833,221,500**	792,149,000
Effect of dilution–weighted average number of ordinary shares held for the share award plan	**—**	7,851,000
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**833,221,500**	800,000,000

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

9. PROPERTY, PLANT AND EQUIPMENT

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Carrying amount at 1 January	**203,198**	180,053
Additions	**26,538**	47,446
Depreciation provided during the period/year	**(12,002)**	(22,368)
Disposals	**(165)**	(1,933)
Carrying amount at 30 June/31 December	**217,569**	203,198

The Group's buildings are located in Mainland China.

As at 31 December 2017 and 30 June 2018, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB496,000 and RMB460,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

10. PREPAID LAND LEASE PAYMENTS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Carrying amount at 1 January	**13,896**	14,366
Recognised during the period/year	**(235)**	(470)
Carrying amount at 30 June/31 December	**13,661**	13,896
Current portion	**(470)**	(470)
Non-current portion	**13,191**	13,426

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

11. OTHER INTANGIBLE ASSETS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Carrying amount at 1 January	**10,413**	1,709
Additions — software	**415**	9,481
Amortisation provided during the period/year	**(639)**	(777)
Carrying amount at 30 June/31 December	**10,189**	10,413

12. INVESTMENT IN A JOINT VENTURE

	2018 RMB'000 (Unaudited)	2017 RMB'000 (Audited)
Share of net assets	**405**	405

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

13. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017 RMB'000 (Audited)	**Impact of transition to IFRS 9** RMB'000	**1 January 2018** RMB'000	**30 June 2018** RMB'000 (Unaudited)
Available-for-sale instruments:				
Unlisted equity investment	8,650	(8,650)	—	—
Equity instrument at fair value through profit or loss:				
Unlisted equity investment	—	20,934	20,934	23,642

During the six months ended 30 June 2018, the net profit in respect of the Group's equity investments at fair value through profit or loss amounted to RMB2,708,000 (six months ended 30 June 2017: nil).

14. INVENTORIES

	30 June 2018 **RMB'000** **(Unaudited)**	31 December 2017 RMB'000 (Audited)
Raw materials	**35,696**	27,698
Work in progress	**12,806**	10,739
Finished goods	**104,316**	99,487
	152,818	137,924

Inventories with a value of RMB13,647,000 (2017: RMB13,647,000) are carried at net realisable value, this being lower than cost.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

15. 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 the balances of notes receivable is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade receivables:		
Within 1 month	**49,262**	50,520
1 to 3 months	**39,959**	18,433
3 to 6 months	**51,002**	11,634
6 to 12 months	**18,747**	6,745
Over 12 months	**2,934**	742
	161,904	88,074
Less: Impairment of trade receivables	**(582)**	—
	161,322	88,074
Notes receivable	**24,294**	30,244
	185,616	118,318

The notes receivable are settled within 180 days. No notes receivable are discounted as at 31 December 2017 and 30 June 2018, respectively. As at 31 December 2017 and 30 June 2018, the Group has endorsed notes receivable of RMB19,800,000 and RMB14,840,000 to settle trade payables, respectively.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Prepayments	**16,270**	33,219
Tax recoverable	**56**	2
Deposits and other receivables	**10,027**	9,167
	26,353	42,388

17. CASH AND BANK BALANCES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Cash and bank balances	**58,479**	180,120
Non-pledged time deposits	**43,247**	179,338
	101,726	359,458
Denominated in:		
— RMB	**50,564**	293,203
— HK$	**51,162**	66,255
	101,726	359,458

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND BANK FINANCIAL PRODUCTS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Financial assets at fair value through profit or loss:		
Bank financial products with floating rate	**163,086**	—
Bank financial products:		
With fixed rate, at amortised cost	**39,722**	—

Bank financial products is issued by certain bank in the PRC with fixed rate and is measured at amortised cost.

Financial assets at fair value through profit or loss are consisted of five bank financial products with floating rate issued by certain banks in the PRC. These bank financial products are principal guaranteed, have annual target return rates ranged from 3.9% to 4.6%, and have fixed maturity date which will due within the period from 12 July 2018 to 28 December 2018.

19. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2017 and 30 June 2018, based on the invoice date, is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 3 months	**68,926**	61,813
3 to 6 months	**5,130**	6,070
6 to 12 months	**4,266**	1,884
over 12 months	**1,455**	1,856
	79,777	71,623

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

20. INTEREST-BEARING LOANS AND BORROWINGS

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000
Bank borrowings, unsecured	**3.70%**	**28 Nov 2018**	**12,647**	—	—	—

21. OTHER PAYABLES AND ACCRUALS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Accruals and other payables	**22,106**	25,834
Accrued salaries and welfare	**25,319**	30,353
Advances from customers	**11,071**	8,037
Endorsed notes	**14,843**	19,804
Deposits received	**24,573**	23,523
Payables for purchases of property and equipment	**5,914**	8,894
Other tax payables	**6,877**	6,766
	110,703	123,211

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

22. DEFERRED INCOME

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
At 1 January	**22,942**	21,186
Received amounts	**2,131**	10,417
Released amounts	**(2,287)**	(8,661)
At 30 June/31 December	**22,786**	22,942
Current	**11,400**	11,314
Non-current	**11,386**	11,628
	22,786	22,942

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

23. ISSUED CAPITAL

Issued Capital

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Issued and fully paid:		
840,000,000 (2017: 840,000,000) ordinary shares of HK$0.01 each (HK$'000)	**8,400**	8,400
Equivalent to RMB'000	**6,650**	6,650

24. SHARE AWARD PLAN

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

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

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

During the six months ended 30 June 2017, the Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 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 RMB1,618,000).

The Group recognised a share award expense of RMB1,618,000 and nil for the six months ended 30 June 2017 and 2018, respectively.

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 awarded.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

25. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group sublets certain of its leased properties under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	**279**	250
In the second to fifth years, inclusive	**585**	293
	864	543

(b) As lessee

The Group leases certain of its land and buildings under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from 1 to 10 years. As at the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	**35,624**	31,562
In the second to fifth years, inclusive	**87,224**	81,133
Beyond five years	**10,153**	9,790
	133,001	122,485

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

26. COMMITMENTS

Capital commitments

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Contracted, but not provided for:		
Leasehold improvement	**4,827**	—
Plant and machinery	**12,388**	29,324
	17,215	29,324

At the end of 31 December 2017 and 30 June 2018, the Group had significant authorised but not contracted capital commitment of nil and RMB100,000, respectively.

27. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2017 and 30 June 2018 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:

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	**2,311**	2,621
Pension scheme contributions	**110**	140
Equity-settled share award expense	**—**	250
	2,421	3,011

28. 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 2018.

Other Information

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

As at 30 June 2018, 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	471,105,000 (Note 2)	42,240,000 (Note 3)	514,521,000	61.25%
Ms. Jiang Li Xia ("Mrs. Lai")	—	42,240,000 (Note 3)	472,281,000 (Note 2)	514,521,000	61.25%
Mr. Lai Ying Feng	5,990,000	—	—	5,990,000	0.71%
Mr. Yang Ai Xing ("Mr. Yang")	—	—	643,000 (Note 4)	643,000	0.08%

Notes:

1. 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.

2. Crystal Talent Investment Group Limited ("Crystal Talent"), which holds 471,105,000 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.

3. 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.

4. Mr. Yang is the spouse of Ms. Wang Qing and is therefore deemed to be interested in the 643,000 shares held by Ms. Wang Qing under the SFO.

Other Information

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

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

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

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

Name of Director	Capital/Nature of Interest	Percentage of the issued share capital of associated corporation
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 2018, 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 2018, 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 shareholders 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 sordinary shares	Total interest Number of ordinary shares	Approximate percentage of issued share capital of the Company
Crystal Talent (Note 1)	471,105,000	471,105,000	56.08%
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	7.50%
Novich Positioning Investment Limited Partnership (Note 4)	51,058,000	51,058,000	6.07%

Notes:

1. These 471,105,000 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.

4. These 51,058,000 shares are held by Novich Positioning Investment Limited Partnership, a company incorporated in the Cayman Islands.

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 2018 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.

Other Information

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 9.52% of the issued share capital of the Company as at the date of this report.

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 2018.

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.

Other Information

Share Award Plan (Continued)

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 RMB1,618,000). At the end of 30 June 2018, 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.

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.

Other Information

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 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 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 2018 and recommended its adoption by the Board.

Corporate Governance Practices

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

Pursuant to CG Code provision A.2.1, the role(s) of a chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lai 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.

Disclosure of change in information on Director

Pursuant to rule 13.51B(1) of the Listing Rules, the change of information on Director is as follows:

Mr. Cao Xiao Jun has been appointed as the chief financial officer of the Group since May 2018.

Other Information

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 2018

* *For identification purpose only*