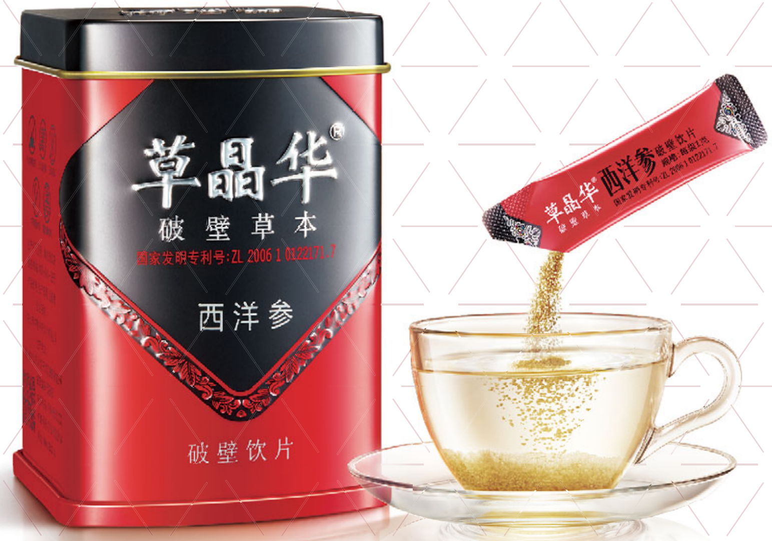

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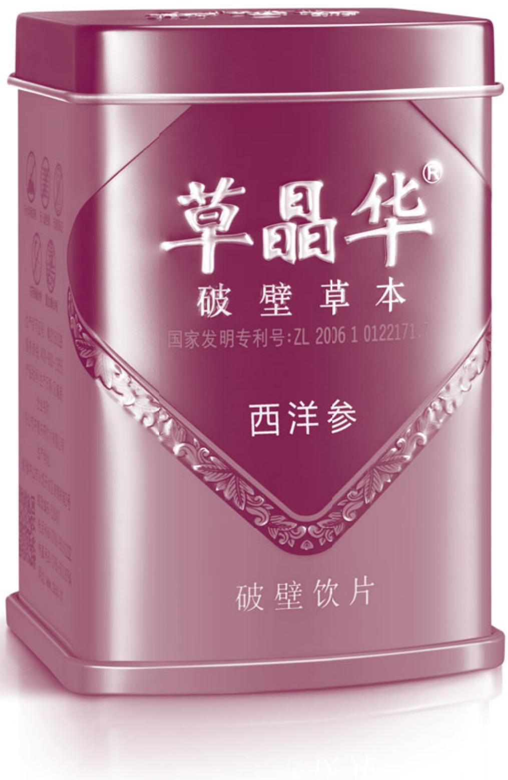
INTERIM REPORT 2019

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

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

Union Registrars Limited
Suites 3301-04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point, Hong Kong

STOCK NAME

ZHONGZHIPHARM

STOCK CODE

3737

COMPANY WEBSITE

www.zeus.cn

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破壁草本

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 ("Zhongzhi Pharmaceutical" or the "Company"), together with its subsidiaries (collectively, the "Group") is pleased to announce the interim report and the unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 (the "Reporting Period") to the shareholders of the Company (the "Shareholders").

BUSINESS REVIEW

By virtue of the clear strategic positioning, in 2019, 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 RMB635.9 million (corresponding period in 2018: RMB556.7 million), representing an increase of approximately 14.2% over the corresponding period in last year. The Group recorded a profit for the period of approximately RMB59.0 million (corresponding period in 2018: RMB47.0 million), representing an increase of 25.5% over the corresponding period in last year. The basic earnings per share is RMB7.1 cents (corresponding period in 2018: RMB5.6 cents), representing an increase of approximately 26.8% over the corresponding period in last year.

DIVIDEND

The Board is recommending an interim dividend of HK3.15 cents per share for 2019 and a special dividend of HK1.45 cents per share, for a total dividend of HK4.6 cents per share for approval by the Shareholders. The dividend of the corresponding period in last year was HK4.35 cents per share, representing an increase of 5.7% as compared with corresponding period in last year.

FUTURE PLAN AND OUTLOOK:

Greater Bay Area, Great Health, Great Brand

2019 is a year full of uncertainties, but we firmly believe that the coming year is also a year full of great opportunities:

- From the preconception of the "Greater Bay Area" plan proposed by the state in 2017 to the official release of the "Development Plan for Guangdong – Hong Kong – Macao Greater Bay Area" on 18 February 2019, the area has experienced substantial economic growth and it is expected to grow significantly more in the coming years. As a listed company in Hong Kong within the Greater Bay Area, and as a company in an industry fully supported by the state, the Company is expected to benefit greatly from the trends in the coming years. We vow to seize this excellent opportunity by effectively utilizing our advantages in technological advancement and sales expertise to further our market share in China, and to expand globally.

- The Traditional Chinese Medicine industry is an important component of the national strategy since 2016, and innovation within the field is supported by policies across many of the government facilitating bodies. According to projections based on the current economic trend and the development pattern of the health sector, the Traditional Chinese Medicine industry will reach a market size of RMB3 trillion by year 2020. The Chinese medicine decoction pieces market will continue to experience leading growth rates in the industry. Meanwhile, the Group's Caojinghua Cell Broken Herb (草晶華破壁草本) (as a sub-category of Chinese medicine cell wall broken decoction pieces (中藥破壁飲片)) is sure to benefit from this trend.

Business Review and Prospects

- The "CaoJinghua (草晶華)" brand and the innovative category of "Cell-broken Herb (破壁草本)" are brand strategies collaboratively established by the Company and Trout & Partners China, a global strategic consulting company. Under the guidance of Trout & Partners team, the Company successfully pioneered the Cell-broken Herb category (Chinese medicine cell wall broken decoction pieces) (破壁草本(中藥破壁飲片)) and market sales have been leaping forward rigorously since. With its growing demand in the mainstream pharmacy chain channel, the Cell-broken Herb (破壁草本) category products have become the fuse to reignite innovation in the Chinese medicine industry and to propel the economy forward.

Management Through Data Analytics

Our business intelligence system is expected to deploy in 2019 and will allow our sales teams to utilize real time analytics to better tailor sales plans for our customers. The Company will enter into a new era of data analytics, which will greatly improve data driven decision making, efficiency management, control/risk management, cost reduction and much more. In the latter half of 2019, the Group will continue to explore new methods and tools that could enhance our operations. The Group will continue to strive to be in the forefront of technologies within the health industry.

Innovation Driving Possibilities

The Group 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)) as its core development direction. In 2019, the Company will continue its effort in registering its products abroad, in countries such as Canada, United States, Germany, Japan and more. Research and development will continue to revolve around the breakthrough in new decoction pieces, health supplements and SC Food Product Permit labelled products.

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, 27 August 2019

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 RMB635.9 million (corresponding period in 2018: RMB556.7 million), representing an increase of approximately 14.2% over the corresponding period in last year.
- The Group recorded a profit for the period of approximately RMB59.0 million (corresponding period in 2018: RMB47.0 million), representing an increase of 25.5% over the corresponding period in last year.
- The basic earnings per share is RMB7.1 cents (corresponding period in 2018: RMB5.6 cents), representing an increase of approximately 26.8% over the corresponding period in last year.

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 chain pharmacies in Zhongshan; and (iii) operation of on-line pharmacies. 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**		
	2019	2018	Change	**2019**	2018	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**354,206**	316,909	+11.8	**55.7**	56.9	-1.2
Operation of chain pharmacies	**259,699**	221,196	+17.4	**40.8**	39.7	+1.1
Operation of on-line pharmacies	**22,008**	18,563	+18.6	**3.5**	3.4	+0.1
	635,913	556,668	+14.2	**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 Broken Herb (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 11.8% to RMB354.2 million for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB316.9 million) and accounted for 55.7% of the total revenue during the Reporting Period (six months ended 30 June 2018: 56.9%), attributable to the growth in sales as a result of the Group's effort in investing its existing and new sales channels, such as the distribution channel.

Management Discussion and Analysis

Operation of Chain Pharmacies

The Group has been operating chain pharmacies in Zhongshan under the brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at 30 June 2019, the Group has 316 self-operated chain pharmacies in Zhongshan (as at 30 June 2018: 284), of which 297 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies increased by approximately 17.4% to RMB259.7 million for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB221.2 million) and accounted for 40.8% of the total revenue during the Reporting Period (six months ended 30 June 2018: 39.7%). The increase was primarily attributable to new sales brought in by the 32 new stores opened at the end of 2018. In addition, same store sales have increased compared to the corresponding period in 2018.

Operation of On-line Pharmacies

Revenue derived from operation of on-line pharmacies increased by approximately 18.6% to RMB22.0 million for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB18.6 million) and accounted for 3.5% of the total revenue during the Reporting Period (six months ended 30 June 2018: 3.4%). The increase was attributable to the continuing efforts in the Group's various e-commerce platforms. The increase in sales was primarily due to the increase in sales of the Group's Caojinghua branded products during the Reporting Period.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the Reporting Period was RMB392.7 million, representing an increase of RMB49.9 million or 14.6% as compared with RMB342.8 million for the six months ended 30 June 2018. 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**		
	2019 RMB'000	2018 RMB'000	Change (%)	**2019 (%)**	2018 (%)	Change (%)
Pharmaceutical manufacturing	**256,178**	228,724	+12.0	**72.3**	72.2	+0.1
Operation of chain pharmacies	**118,358**	99,350	+19.1	**45.6**	44.9	+0.7
Operation of on-line pharmacies	**18,146**	14,679	+23.6	**82.5**	79.1	+3.4
	392,682	342,753	+14.6	**61.8**	61.6	+0.2

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 12.0% to RMB256.2 million for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB228.7 million). The gross profit margin remained stable at 72.3% for the six months ended 30 June 2019 (six months ended 30 June 2018: 72.2%), no significant changes were noted.

Management Discussion and Analysis

Operation of Chain Pharmacies

The gross profit of chain pharmacies segment increased by 19.1% to RMB118.4 million for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB99.4 million). The gross profit margin of the chain pharmacies segment increased by 0.7% to 45.6% for the six months ended 30 June 2019 (six months ended 30 June 2018: 44.9%). The current gross profit margin is consistent with the gross profit margin as at year end 2018. There were no significant changes in product composition during the Reporting Period.

Operation of On-line Pharmacies

The gross profit of segment of operation of on-line pharmacies increased by approximately 23.6% to RMB18.1 million for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB14.7 million). The gross profit margin increased to 82.5% for the six months ended 30 June 2019 (six months ended 30 June 2018: 79.1%), which is consistent with the gross profit margin at year end 2018.

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 2019, other income and gains of the Group were approximately RMB13.5 million (six months ended 30 June 2018: RMB11.3 million), representing an increase of approximately RMB2.2 million as compared to corresponding period in last year, which was mainly attributable to an appreciation of RMB2.4 million in the fair value of financial assets and equity investments at period end.

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 2019 amounted to approximately RMB257.4 million (six months ended 30 June 2018: RMB234.1 million), representing an increase of approximately 10.0% as compared to corresponding period in last year. Selling and distribution expense ratio decreased to approximately 40.5% (six months ended 30 June 2018: 42.1%) against revenue for the six months ended 30 June 2019. 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 Broken Herb (cell wall broken decoction pieces (草晶華破壁草本（破壁飲片）) through different media channels and platforms; and (ii) the increase in salary of RMB14.9 million for retaining high caliber business talents, thus ensuring smooth business operation to meet business expansion plans of the Group.

Administrative Expenses

Administrative expenses mainly represent salaries and benefits of the administrative office and management staff as well as legal and professional fees. Administrative expenses amounted to approximately RMB38.7 million for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB34.4 million), representing an increase of approximately 12.5% as compared to corresponding period in last year. The increase was mainly attributable to the increase in salary expenses as a result of introducing 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 RMB23.7 million for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB12.5 million). The increase was primarily due to a RMB4.4 million provision of withholding taxes for dividends to be distributed by our PRC subsidiaries and an increase in corporate income tax as a result of the increased net profit during the Reporting Period.

Management Discussion and Analysis

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent increased by 25.5% to RMB59.0 million for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB47.0 million). The Group's net profit margin maintained at 9.3% for the six months ended 30 June 2019 (six months ended 30 June 2018: 8.4%).

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

As at 30 June 2019, the Group had net current assets of approximately RMB402.1 million (31 December 2018: RMB413.1 million). As at 30 June 2019, the Group's total cash and bank balances amounted to approximately RMB267.5 million (31 December 2018: RMB332.7 million). The current ratio of the Group maintained at approximately 2.2 as at 30 June 2019 (30 June 2018: 2.8).

The equity attributable to shareholders of the Company as at 30 June 2019 amounted to approximately RMB739.5 million (31 December 2018: RMB706.6 million). As at 30 June 2019, total interest-bearing debts of the Group amounted to nil (31 December 2018: nil).

The Group's gearing ratio (borrowings over total equity) as at 30 June 2019 was nil (31 December 2018: nil).

As at 30 June 2019, the Group had available unutilized banking facilities of RMB30 million (31 December 2018: RMB30 million) and HK$20 million (31 December 2018: HK$20 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 capital of the Company comprises ordinary shares and other reserves. As at 30 June 2019, the number of issued shares of the Company was 840,000,000 ordinary Shares of HK$0.01 each.

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 2019. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies based on the RMB and Hong Kong dollars exchange rate movement.

Management Discussion and Analysis

CHARGE ON GROUP ASSETS

As at 30 June 2019 and 31 December 2018, the Group did not have any charges on its assets.

CAPITAL EXPENDITURE

For the six months ended 30 June 2019, the Group had capital expenditure of approximately RMB30.0 million (six months ended 30 June 2018: RMB29.2 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 HK3.15 cents per ordinary share and a special dividend of HK1.45 cents per ordinary share for the six months ended 30 June 2019 (six months ended 30 June 2018: HK4.35 cents) to shareholders on the register of members of the Company on Monday, 21 October 2019, amounting to approximately HK$38.6 million which will be subject to the approval of the Company's shareholders in an extraordinary general meeting to be held on Thursday, 10 October 2019 (the "EGM"). The interim dividend and special dividend will be payable on or around Friday, 1 November 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 4 October 2019 to Thursday, 10 October 2019, both days inclusive, during which period no transfers of shares shall be effected. The record date will be Thursday, 10 October 2019. 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 and transfer office, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Thursday, 3 October 2019.

To determine the entitlement of the proposed interim dividend and special dividend, the register of members of the Company will be closed from Thursday, 17 October 2019 to Monday, 21 October 2019, both days inclusive, during which period no transfers of shares shall be effected. The record date will be Monday, 21 October 2019. 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 and transfer office, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 16 October 2019.

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 scheme adopted on 8 June 2015, which became effective on the Listing Date, and shares to be granted under the share award plan which was adopted and became effective on 8 January 2016.

As at 30 June 2019, the Group had 3,215 employees with a total remuneration of RMB151.4 million during the Reporting Period (six months ended 30 June 2018: RMB135.1 million) (including pension scheme contributions, staff welfare expenses and equity-settled share award expense). The salaries of the employees are determined with reference to individual performance, work experience, qualification and current industry practices.

Management Discussion and Analysis

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.

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 "Reallocation"). For details of the Reallocation, 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 Reallocation HK$'000	The Reallocation HK$'000	Use of net proceeds subsequent to the Reallocation HK$'000	Utilized up to 30 June 2019 HK$'000	Unused balance up to 30 June 2019 HK$'000	Expected timeline for unused net proceeds subsequent to the Reallocation
Expansion of pharmaceutical chain in the Guangdong province	135,870	(72,360)	63,510	63,510	—	N/A
Expansion of distribution network	90,580	72,360	162,940	151,529	11,411	by 2019
Providing funding for research and development activities	90,580	—	90,580	90,360	220	by 2019
Expansion of production capacity	90,580	—	90,580	89,464	1,116	by 2019
General working capital purposes	45,290	—	45,290	45,290	—	N/A
	452,900	—	452,900	440,153	12,747	

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.

Management Discussion and Analysis

EVENT AFTER THE REPORTING PERIOD

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

COMMITMENT

As at 30 June 2019, the Group's capital commitment amounted to RMB8.5 million (31 December 2018: RMB10.0 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 section headed "Future Plans 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 2019 (31 December 2018: nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Audit Committee 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 information matters of the Group for the six months ended 30 June 2019 and recommended its adoption by the Board.

Management Discussion and Analysis

CORPORATE GOVERNANCE PRACTICES

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

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

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

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors 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.

Report on Review of Interim Condensed Consolidated 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 information set out on pages 15 to 44, 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 2019 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 this interim condensed consolidated financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial information 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 information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

27 August 2019

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
REVENUE	4	**635,913**	556,668
Cost of sales		**(243,231)**	(213,915)
Gross profit		**392,682**	342,753
Other income and gains	4	**13,456**	11,266
Selling and distribution expenses		**(257,445)**	(234,089)
Administrative expenses		**(38,706)**	(34,408)
Other expenses		**(25,217)**	(26,016)
Finance costs		**(2,059)**	—
PROFIT BEFORE TAX	5	**82,711**	59,506
Income tax expense	6	**(23,717)**	(12,498)
PROFIT FOR THE PERIOD		**58,994**	47,008
Attributable to owners of the parent		**58,994**	47,008
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
— For profit for the period		**RMB0.071**	RMB0.056
Diluted			
— For profit for the period		**RMB0.071**	RMB0.056

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**58,994**	47,008
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(555)**	73
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(555)**	73
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**58,439**	47,081
Attributable to owners of the parent	**58,439**	47,081

Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**276,386**	256,464
Prepayment for property, plant and equipment		**788**	813
Right-of-use assets		**106,989**	—
Prepaid land lease payments		**—**	12,956
Goodwill		**1,628**	1,628
Other intangible assets	10	**9,113**	8,877
Investment in a joint venture		**422**	421
Equity instruments at fair value through profit or loss	11	**18,895**	11,724
Deferred tax assets		**8,653**	11,199
Other non-current assets		**13,251**	10,772
Total non-current assets		**436,125**	314,854
CURRENT ASSETS			
Prepaid land lease payment		**—**	470
Inventories	12	**182,327**	178,992
Trade and notes receivables	13	**223,021**	162,033
Prepayments, deposits and other receivables	14	**12,842**	22,439
Financial assets at fair value through profit or loss	16	**50,279**	—
Cash and cash equivalents	15	**267,462**	332,698
Total current assets		**735,931**	696,632
CURRENT LIABILITIES			
Trade payables	17	**88,698**	85,418
Other payables and accruals	18	**181,538**	161,052
Lease Liability		**31,253**	—
Amounts due to related parties		**8,786**	8,786
Deferred income	19	**7,414**	7,531
Amount due to a joint venture		**70**	70
Tax payable		**16,064**	20,642
Total current liabilities		**333,823**	283,499
NET CURRENT ASSETS		**402,108**	413,133
TOTAL ASSETS LESS CURRENT LIABILITIES		**838,233**	727,987

Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	**30 June 2019 RMB'000 (Unaudited)**	31 December 2018 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income	19	**19,802**	20,004
Lease Liability		**70,557**	—
Deferred tax liabilities		**8,338**	1,391
Total non-current liabilities		**98,697**	21,395
Net assets		**739,536**	706,592
EQUITY			
Equity attributable to owners of the parent			
Issued capital	20	**6,650**	6,650
Reserves		**732,886**	699,942
Total equity		**739,536**	706,592

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	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 2019	6,650	(13,181)*	304,263*	31,200*	40,616*	5,680*	(549)*	19,764*	312,149*	706,592
Profit for the period	—	—	—	—	—	—	—	—	58,994	58,994
Other comprehensive income for the period										
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(555)	—	(555)
Total comprehensive income for the period	—	—	—	—	—	—	—	(555)	58,994	58,439
Equity-settled share option	—	254	—	—	—	—	(93)	—	—	161
Transfer from retained profits	—	—	—	—	3,556	—	—	—	(3,556)	—
Dividends declared (note 7)	—	—	(25,656)#	—	—	—	—	—	—	(25,656)
At 30 June 2019 (unaudited)	6,650	(12,927)*	278,607*	31,200*	44,172*	5,680*	(642)*	19,209*	367,587*	739,536

* These reserve accounts comprise the consolidated reserve of RMB732,886,000 (2018: RMB699,942,000) in the consolidated statement of financial position.

\# During the six months ended 30 June 2019, the Company declared and paid a final dividend (HK2.0 cents per ordinary share) and a special dividend (HK1.6 cents per ordinary share) in respect of the previous financial year amounting to HK$30,240,000 (equivalent to approximately RMB25,860,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK$239,000 (equivalent to approximately RMB204,000).

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	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 IFRS 9	—	—	—	—	—	—	—	—	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

Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**82,711**	59,506
Adjustments for:			
Finance costs	5	**2,059**	—
Bank interest income	4	**(837)**	(2,187)
Interest income from financial assets at fair value through profit or loss	4	**(3,159)**	—
Dividend income from an equity investment at fair value through profit or loss	4	**(76)**	(932)
(Gain)/Loss on disposal of items of property, plant and equipment		**(3)**	115
Depreciation of property, plant and equipment	5,9	**12,998**	12,002
Depreciation of right-of-use assets/Recognition of prepaid land lease payments	5	**15,840**	235
Amortisation of other intangible assets	5,10	**646**	639
Government grants released	19	**(1,295)**	(2,287)
Fair value gains, net:			
Equity investments at fair value through profit or loss	5	**(7,239)**	(4,794)
Impairment losses on trade receivables	5	**3,488**	582
Equity-settled share award expense	5	**161**	—
Write-down of inventories to net realisable value	5	**451**	3,235
		105,745	66,114
Increase in inventories		**(3,786)**	(18,129)
Increase in trade and notes receivables		**(65,773)**	(67,880)
Decrease in prepayments, deposits and other receivables		**9,597**	16,035
Increase in non-current assets		**(2,479)**	(193)
Increase in trade payables		**3,280**	8,154
Increase/(Decrease) in other payables and accruals		**25,544**	(9,527)
Increase in deferred income		**976**	2,131
Cash generated from operations		**73,104**	(3,295)
Income tax paid		**(18,802)**	(14,495)
Net cash flows from/(used in) operating activities		**54,302**	(17,790)

Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(29,965)**	(29,156)
Decrease in deposits for purchase of property, plant and equipment		**25**	1,471
Proceeds from disposal of items of property, plant and equipment		**47**	50
Purchase of other intangible assets		**(951)**	(780)
Proceeds from disposal of intangible assets		**67**	—
Purchases of an equity investment at fair value through profit or loss		**(210)**	—
Proceeds upon maturity of financial assets at fair value through profit or loss		**241,925**	(39,000)
Purchases of financial assets at fair value through profit or loss		**(291,925)**	(161,000)
Bank interest received	4	**837**	1,050
Interest received from financial assets at fair value through profit or loss	4	**3,159**	416
Dividend received from an equity investment	4	**76**	932
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		**—**	16,083
Net cash flows used in investing activities		**(76,915)**	(209,934)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		**(14,353)**	—
Interest portion of lease payments		**(2,059)**	—
Dividends paid	7	**(25,656)**	(26,645)
Proceeds from borrowings		**—**	12,647
Net cash flows used in financing activities		**(42,068)**	(13,998)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(64,681)**	(241,722)
Cash and cash equivalents at beginning of period		**332,698**	300,128
Exchange of foreign exchange rate changes, net		**(555)**	73
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**267,462**	58,479
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	15	**257,246**	58,479
Non-pledged time deposits	15	**10,216**	43,247
Cash and bank balances as stated in the statement of financial position		**267,462**	101,726
Non-pledged time deposits with original maturity of more than three months when acquired		**—**	(43,247)
Cash and cash equivalents at end of the period		**267,462**	58,479

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

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 information for the six months ended 30 June 2019 has 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 information does 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 2018.

The interim condensed consolidated financial information has been prepared under a historical cost convention, except for equity investments and financial assets at fair value through profit or loss which have been measured at fair value. This financial information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and revised standards effective as of 1 January 2019. 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 Information

For the six months ended 30 June 2019

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

2.2 Changes in accounting policies and disclosures (Continued)

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17. Since the Group recognised the right-of-use assets in relation to the operating lease that were under IAS 17 at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments on transition date, there was no impact on the retained earning.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

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

2.2 Changes in accounting policies and disclosures (Continued)

(a) (Continued)

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of land, property, vehicles and other equipment. As a lessee, the Group previously classified leases as operating leases based on the assessment of the lease not transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers, printers and vehicles); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to terminate the lease
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics, relied on the entity's assessment of whether leases were onerous by applying IAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review, and excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

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

2.2 Changes in accounting policies and disclosures (Continued)

(a) (Continued)

As a lessee — Leases previously classified as operating leases (Continued)

Impacts on transition (Continued)

Accordingly, the Group recognised right-of-use assets of RMB119,114,000 and lease liabilities of RMB112,448,000 as at 1 January 2019. Prepaid land lease payments of RMB13,427,000 and accrued rental expenses of RMB6,761,000 were derecognised, resulting in a decrease in prepaid land lease payments and a decrease in other payables and accruals of RMB13,427,000 and RMB6,761,000, respectively, as at 1 January 2019.

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	139,670
Weighted average incremental borrowing rate as at 1 January 2019	3.9%
Discounted operating lease commitments as at 1 January 2019	115,568
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(3,120)
Lease liabilities as at 1 January 2019	112,448

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

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

2.2 Changes in accounting policies and disclosures (Continued)

(a) (Continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable. The lease payments also include payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movement during the period are as follow:

	Right-of-use assets		
	Property RMB'000	**Land use rights** RMB'000	**Lease liabilities** RMB'000
As at 1 January 2019	105,687	13,427	112,448
Additions	3,715	—	3,715
Depreciation charge	(15,606)	(234)	—
Interest expense	—	—	2,059
Payments	—	—	(16,412)
As at 30 June 2019	93,796	13,193	101,810

The Group recognised rental expenses from short-term leases of RMB1,640,000 for the six months ended 30 June 2019.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

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

2.2 Changes in accounting policies and disclosures (Continued)

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

(c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

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) Pharmaceutical manufacturing

(b) Operation of chain pharmacies

(c) Operation of on-line pharmacies

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

3. OPERATING SEGMENT INFORMATION (Continued)

Separate individual financial information for different types of channels is presented to the board of directors who reviews the internal reports in order to assess performance and allocate resources.

Segment results are evaluated based on gross profit. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the board of directors.

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

Geographical information

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

Information about major customers

During each of the six months ended 30 June 2018 and 2019, the Group had no revenue from transactions 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 2018 and 2019 are as follows:

	Six months ended 30 June 2019			
	Pharmaceutical manufacturing RMB'000 (unaudited)	**Operation of chain pharmacies RMB'000 (unaudited)**	**Operation of on-line pharmacies RMB'000 (unaudited)**	**Total RMB'000 (unaudited)**
Segment revenue:				
Revenue from external customers (note 4)	**354,206**	**259,699**	**22,008**	**635,913**
Intersegment sales	**17,889**	**—**	**—**	**17,889**
Elimination of intersegment sales	**(17,889)**	**—**	**—**	**(17,889)**
Revenue	**354,206**	**259,699**	**22,008**	**635,913**
Cost of sales	**(98,028)**	**(141,341)**	**(3,862)**	**(243,231)**
Segment results	**256,178**	**118,358**	**18,146**	**392,682**
Reconciliation:				
Other income and gains				**13,456**
Selling and distribution expenses				**(257,445)**
Administrative expenses				**(38,706)**
Other expenses				**(25,217)**
Finance costs				**(2,059)**
Profit before tax				**82,711**

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

3. OPERATING SEGMENT INFORMATION (Continued)

	Six months ended 30 June 2018			
	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of chain pharmacies RMB'000 (unaudited)	Operation of on-line pharmacies RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue				
Revenue from external customers (note 4)	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)	(121,846)	(3,884)	(213,915)
Segment results	228,724	99,350	14,679	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 Information

For the six months ended 30 June 2019

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, trade discounts and volume rebates, for the six months ended 30 June 2019.

For the six months ended 30 June 2019, 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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of pharmaceutical products	**635,913**	556,668
Other income		
Bank interest income	**837**	1,050
Dividend income	**76**	932
Interest income from financial assets at fair value through profit or loss	**3,159**	1,137
	4,072	3,119
Gains		
Government grants:		
— Related to assets	**168**	146
— Related to income	**1,127**	2,141
Fair value gain on equity instrument and financial assets at fair value through profit or loss	**7,239**	4,794
Gain on disposal of items of property, plant and equipment	**16**	—
Others	**834**	1,066
	9,384	8,147
	13,456	11,266

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Cost of inventories sold		**243,231**	213,915
Depreciation	9	**12,998**	12,002
Amortisation of other intangible assets*	10	**646**	639
Research and development costs		**21,123**	21,698
Advertising, marketing and promotion expenses		**99,776**	82,661
Write-down of inventories to net realisable value		**451**	3,235
Impairment losses on trade receivables		**3,488**	582
Fair value gain on equity instrument and financial assets at fair value through profit or loss		**7,239**	4,794
Operating lease rentals and property management fee on buildings		**1,640**	19,038
Depreciation of right-of-use assets/Recognition of prepaid land lease payments*		**15,840**	235
Finance costs		**2,059**	—
Auditor's remuneration		**2,048**	1,785
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**133,827**	118,655
Pension scheme contributions (defined contribution scheme)		**7,804**	6,962
Staff welfare expenses		**9,569**	9,514
Equity-settled share award expense		**161**	—
		151,361	135,131

* The Depreciation of right-of-use assets/Recognition of prepaid land lease payments and the amortisation of other intangible assets for the reporting period is included in "Administrative expenses" and "Selling and distribution expenses" in the consolidated statement of profit or loss.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

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 operate.

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

Hong Kong profits tax rate is 16.5% (2018:16.5%) of the estimated assessable 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 2019 and 2018, respectively.

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China		
Current income tax	**14,224**	12,754
Deferred income tax charge/(credit)	**9,493**	(256)
Total income tax expense	**23,717**	12,498

In accordance with the Enterprise Income Tax Law of the PRC effective on 1 January 2008, a 10% (or a lower rate if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors) withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable to withholding taxes on dividends distributed by the PRC subsidiaries of the Company, in respect of earnings generated from 1 January 2008. As at 30 June 2019, the Group recognised a deferred tax liability of RMB 4,439,000 (31 December 2018: nil) in respect of the withholding tax on future dividend distribution by the PRC entities.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

7. DIVIDEND

During the six months ended 30 June 2019, the Company declared and paid a final dividend (HK2.0 cents per ordinary share) and a special dividend (HK1.6 cents per ordinary share) in respect of the previous financial year amounting to HK$30,240,000 (equivalent to approximately RMB25,860,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK$239,000 (equivalent to approximately RMB204,000).

Subsequent to 30 June 2019, the board of directors recommended that an interim dividend of HK3.15 cents per share and a special dividend of HK1.45 cents per share will be payable on or around 1 November 2019 to the shareholders on the register of members of the Company on 21 October 2019. The interim dividend has not been recognised as a liability at the end of the reporting period.

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 833,347,794 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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**58,994**	47,008

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue	**840,000,000**	840,000,000
Weighted average number of shares held for the share award plan (note 21)	**(6,652,206)**	(6,778,500)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**833,347,794**	833,221,500
Effect of dilution — weighted average number of ordinary shares held for the share award plan	**—**	—
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**833,347,794**	833,221,500

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

9. PROPERTY, PLANT AND EQUIPMENT

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Carrying amount at 1 January	**256,464**	203,198
Additions	**32,967**	78,020
Depreciation provided during the period/year	**(12,998)**	(24,240)
Disposals	**(47)**	(514)
Carrying amount at 30 June/31 December	**276,386**	256,464

The Group's buildings are located in Mainland China.

As at 31 December 2018 and 30 June 2019, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB424,000 and RMB388,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

10. OTHER INTANGIBLE ASSETS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Carrying amount at 1 January	**8,877**	10,413
Additions-software	**950**	849
Amortisation provided during the period/year	**(646)**	(1,244)
Disposal	**(68)**	(1,141)
Carrying amount at 30 June/31 December	**9,113**	8,877

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

11. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Equity investments at fair value through profit or loss		
Listed equity investment, at fair value	**17,718**	10,556
Unlisted equity investments, at fair value	**1,177**	1,168
	18,895	11,724

The above listed equity investment at 30 June 2019 was classified as equity investment at fair value through profit or loss as it was held for trading.

The above unlisted equity investments at 30 June 2019 were classified as equity investments at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

12. INVENTORIES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Raw materials	**46,973**	30,483
Work in progress	**8,748**	7,684
Finished goods	**126,606**	140,825
	182,327	178,992

Inventories with a value of RMB4,851,000 (2018: RMB5,926,000) are carried at net realisable value, which is lower than cost.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

13. 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 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables:		
Within 1 month	**65,623**	46,143
1 to 3 months	**49,404**	36,876
3 to 6 months	**44,295**	14,350
6 to 12 months	**16,843**	16,233
Over 12 months	**6,938**	4,248
	183,103	117,850
Less: Impairment of trade receivables	**(4,955)**	(1,467)
	178,148	116,383
Notes receivable	**44,873**	45,650
	223,021	162,033

The notes receivables are settled within 180 days. No notes receivables were discounted as at 31 December 2018 and 30 June 2019. As at 30 June 2019, the Group continued to recognise endorsed notes receivable and associated liabilities amounting to RMB22,108,000 (2018: RMB23,405,000) respectively. The directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining endorsed notes.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Prepayments	**1,555**	10,094
Tax recoverable	**3,442**	4,675
Deposits and other receivables	**7,845**	7,670
	12,842	22,439

15. CASH AND BANK BALANCES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Cash and bank balances	**257,246**	316,534
Non-pledged time deposits	**10,216**	16,164
	267,462	332,698
Denominated in:		
— RMB	**252,230**	329,258
— HK$	**15,232**	3,440
	267,462	332,698

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Financial assets at fair value through profit or loss:		
Investments in financial products, at fair value	**50,279**	—

The above unlisted investments at 30 June 2019 were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

17. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2018 and 30 June 2019, based on the invoice date, is as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	**77,340**	74,778
3 to 6 months	**5,118**	5,105
6 to 12 months	**4,228**	3,282
over 12 months	**2,012**	2,253
	88,698	85,418

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

18. OTHER PAYABLES AND ACCRUALS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Accruals and other payables	**46,561**	42,226
Accrued salaries and welfare	**32,822**	33,119
Contract liabilities	**13,735**	9,559
Endorsed notes	**22,108**	23,405
Deposits received	**43,307**	37,620
Payables for purchases of property and equipment	**13,697**	10,695
Other tax payables	**9,308**	4,428
	181,538	161,052

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

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

19. DEFERRED INCOME

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
At 1 January	**27,535**	22,942
Received amounts	**976**	12,687
Released amounts	**(1,295)**	(8,094)
At 30 June/31 December	**27,216**	27,535
Current	**7,414**	7,531
Non-current	**19,802**	20,004
	27,216	27,535

20. ISSUED CAPITAL

Issued Capital

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

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Issued and fully paid:		
840,000,000 (2018: 840,000,000) ordinary shares of HK$0.01 each (HK$'000)	**8,400**	8,400
Equivalent to RMB'000	**6,650**	6,650

21. 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 recognise 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.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

21. SHARE AWARD PLAN (Continued)

In order to recognize and reward the contribution of and solidify the relationship with the Eligible Persons, the Board has resolved to increase the limit of the Share Award Plan from 1% of the issued share capital of the Company to 2.5% of the issued share capital of the Company on 25 March 2019.

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).

In 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).

During the six months ended 30 June 2019, the Company granted 127,000 shares to certain employees on 2 January 2019 and the vesting date of the shares was 2 January 2019. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.45) on the day of the grant, amounting to HK$184,000 (equivalent to approximately RMB161,000).

The Group recognised a share award expense of nil and RMB161,000 for the six months ended 30 June 2018 and 2019, respectively.

At the date of approval of this interim condensed consolidated financial information, 6,651,500 shares of the Company are held by the Trustee and have yet to be awarded.

22. COMMITMENTS

Capital commitments

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for:		
Plant and machinery	**8,493**	10,004
	8,493	10,004

At the end of 31 December 2018 and 30 June 2019, the Group had significant authorised but not contracted capital commitment of nil and RMB592,000, respectively.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

23. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2018 and 30 June 2019 represent consideration received from the registered shareholders as part of the historical 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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	**3,417**	2,311
Pension scheme contributions	**135**	110
Equity-settled share award expense	**63**	—
	3,615	2,421

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		**Fair values**	
	30 June	31 December	**30 June**	31 December
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Financial assets				
Equity investments at fair value through profit or loss	**18,895**	11,724	**18,895**	11,724
Financial assets at fair value through profit or loss	**50,279**	—	**50,279**	—
	69,174	11,724	**69,174**	11,724

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through profit or loss have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest and taxes ("EV/EBIT"), for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2019

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	**Significant observable inputs (Level 2) RMB'000 (Unaudited)**	**Significant unobservable inputs (Level 3) RMB'000 (Unaudited)**	**Total RMB'000 (Unaudited)**
Financial assets at fair value through profit or loss	**—**	**50,279**	**—**	**50,279**
Equity investments at fair value through profit or loss	**17,718**	**—**	**1,177**	**18,895**
	17,718	**50,279**	**1,177**	**69,174**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	Total RMB'000 (Audited)
Equity investments at fair value through profit or loss	10,556	—	1,168	11,724

Other Information

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

As at 30 June 2019, 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%

Notes:

1. Mr. Lai is personally interested in 21.518% shareholding interest in Advance Keypath Global Investments Limited which is interested in 7.14% 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.

Other Information

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

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

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

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

(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 2019, 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.

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, 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.

LONG POSITIONS IN THE ORDINARY SHARES OF THE COMPANY

Name	Beneficial interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of issued share capital of the Company
Crystal Talent (Note 1)	471,105,000	471,105,000	56.08%
Cheer Lik (Note 2)	42,240,000	42,240,000	5.03%
Advance Keypath Global Investment Limited (Note 3)	60,000,000	60,000,000	7.14%
Novich Positioning Investment Limited Partnership (Note 4)	51,058,000	51,058,000	6.08%

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 2019 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 of the Company.

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.

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall not be less than the highest of:

(i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option;

(ii) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the relevant option; and

(iii) the nominal value of a Share on the offer date.

An offer for the grant of options shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date).

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 2019.

Other Information

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 announcements on 8 January 2016, 7 December 2018 and 25 March 2019) 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). On 25 March 2019, the Board has resolved to extend the limit of the Share Award Plan to the effect that the shares under the Share Award Plan shall increase from 8,000,000 shares to 20,000,000 shares. Nevertheless, the Board has the power to refresh the maximum limit of 1% of the issued share capital of the Company.

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

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

The Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares 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).

During the six months ended 30 June 2019, the Company granted 127,000 shares to certain employees on 2 January 2019 and the vesting date of the shares was 2 January 2019. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.45) on the day of the grant, amounting to HK$184,000 (equivalent to approximately RMB161,000).

At the date of approval of this interim condensed financial information, 6,651,500 shares of the Company are held by the trustee and have yet to be rewarded.

Other Information

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.

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.

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

Hong Kong
27 August 2019