



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)

For immediate release

Zhongzhi Pharmaceutical Holdings Limited
Strong growth of “Broken Cell Wall Herb” decoction pieces
Drives 1H 2018 net profit up by 22%

Interim dividend of HK2.65 cents and special dividend of HK1.70 cents, yoy increase of 132%

Financial Highlights

	Six months ended 30 June		
	2018	2017	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
	<i>(unaudited)</i>	<i>(unaudited)</i>	
Revenue	556,668	431,530	+29.0%
- Pharmaceutical manufacturing	316,909	225,060	+40.8%
- Online pharmacies	18,563	3,533	+425.4%
- Chain pharmacies	221,196	202,937	+9.0%
Gross profit	342,753	253,074	+35.4%
- Pharmaceutical manufacturing	228,724	155,875	+46.7%
- Online pharmacies	9,679	1,775	+445.3%
- Chain pharmacies	104,350	95,424	+9.4%
Gross profit margin	61.6%	58.6%	+3.0% pts
- Pharmaceutical manufacturing	72.2%	69.3%	+2.9% pts
- Online pharmacies	52.1%	50.2%	+1.9% pts
- Chain pharmacies	47.2%	47.0%	+0.2% pts
Profit for the period	47,008	38,494	+22.1%
Earnings per share			
- Basic	RMB 0.056	RMB 0.049	+14.3%
- Diluted	RMB 0.056	RMB 0.048	+16.7%
Interim dividend per share	HK2.65 cents	HK1.875 cents	
Special dividend per share	HK1.70 cents	-	
Net asset value per share	RMB 0.83	RMB 0.84	
Net gearing	36.4%	36.5%	

Hong Kong, 29 August 2018 – Zhongzhi Pharmaceutical Holdings Limited (03737.HK) (the “Company”) and its subsidiaries (the “Group”), a developer and manufacturer of Chinese patent medicines, innovative decoction pieces, healthcare products and food, and operator of a pharmacies chain, today announces that the Group recorded a revenue of approximately RMB 556.7 million for the six months ended 30 June 2018 (the “Period”) (corresponding period in 2017: RMB431.5 million), a 29.0% increase. Profit for the Period also grew 22.1% to RMB 47.0 million (six months ended 2017: RMB 38.5 million). Increase in earnings was mainly attributable to the strong growth of the “Caojinghua (草晶華)” broken cell wall herbs (破壁草本). During the first six months of 2018, “Caojinghua (草晶華)” achieved a year-on-year sales growth of 57%.

Basic earnings per share rose 14.3% to RMB 5.6 cents (corresponding period in 2017: RMB 4.9 cents). The Board has recommended the distribution of an interim dividend of HK2.65 cents per share which, together with a special dividend of HK1.70 cents per share, aggregate to HK4.35 cents per share (corresponding period in 2017: HK1.875 cents per share) or a 132% increase year on year.

Gross profit increased by 35.4% to RMB 342.8 million (corresponding period in 2017: RMB 253.1 million). Gross profit of the pharmaceutical manufacturing segment increased by 46.7%, primarily driven by the increase in sales of higher-profit own branded “Caojinghua (草晶華)” broken cell wall herbs (broken cell wall decoction pieces). Gross profit of online pharmacies (e-commerce platform for innovative decoction pieces) increased 445.3%, while the chain pharmacies segment delivered a 9.4% growth in gross profit.

Zhongzhi Pharmaceutical Chairman Mr Lai Zhi Tian said: “Capitalizing on the Group’s clear strategic position and positive market trends, we successfully established a unique brand and marketing model in 2018. To support our development at this opportune time, we have also implemented a series of organizational reforms and effectively synergized internal systems. These efforts have helped drive high sales growth and an industry leading performance.”

Pharmaceutical Manufacturing

The Group is engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (including traditional decoction pieces and “Caojinghua (草晶華)” broken cell wall herbs (broken cell wall decoction pieces) under the Group’s brands in the PRC. The Group’s brands include “Zeus (中智)”, “Liumian (六棉)” and “Caojinghua (草晶華)”. Revenue derived from pharmaceutical manufacturing increased by approximately 40.8% to RMB 316.9 million (corresponding period in 2017: RMB 225.1 million), accounting for 56.9% (corresponding period in 2017: 52.2%) of total revenue. The segment’s sales growth was mainly a result of the Group’s efforts to expand the distribution and marketing network of “Caojinghua (草晶華)”, with a view to furthering its market share and penetration.

Mr Lai stated further that traditional Chinese medicine is an important component of the national strategy, and its development is currently supported by highly favorable policies. In 2017, retail sales of herbal decoction pieces amounted to RMB 27.7 billion across the country. It is expected that this product category will maintain high growth in 2018.

“Caojinghua (草晶華)” is an innovative herbal decoction piece developed by Zhongzhi Pharmaceutical. This product of innovation fits well into the state’s strategic direction and allows the Group to enjoy the growth momentum brought by favorable policies. From 2012 to 2017, the compound growth rate of “Caojinghua (草晶華)” was 73.96%, more than four times that of traditional herbal decoction pieces. Dedicated to the development of innovative herbal decoction pieces, the Group has established a state-level key research facility led by three fellows from the Chinese Academy of Engineering and two top experts in Chinese medicine. Together a team of 18 top science experts is currently engaged in research work in this facility.

In 2015, Zhongzhi Pharmaceutical established strategic cooperation with global consulting firm Trout & Partners China for the development of the “Caojinghua (草晶華)” brand, underpinning its pathfinder’s status in the category of broken cell wall herbs and building a new engine in the innovation and growth of the Chinese medicine sector.

The Group utilizes air compression cell wall breaking techniques and patented additive-free formation technology to produce granules from a single herb. The granules are then used to produce the herbal decoction pieces. Decoction pieces have the advantage of stable quality and convenience. Additionally, after breaking the cell wall, “Caojinghua (草晶華)” can achieve a dissolution rate of more than 90%, much higher than the absorption and utilization rate of 20%-30% from traditional decoction of herbs.

In recent years, “Caojinghua (草晶華)” has enjoyed strong sales momentum on mainstream pharmacy channels, which comprise chains such as LBX Pharmacy Chain (老百姓大藥房), Nepstar (海王星辰) and Yifeng Pharmacy (益豐大藥房). In 2017, sales on mainstream channels increased by 84.4% year on year. Zhongzhi Pharmaceutical also accelerated its expansion of the hospital channel and actively developed an e-commerce platform in 2017. Throughout the year, the Group was able to develop 860 hospital accounts. During the first half of 2018, the number of hospital accounts grew to 1,280 generating a 78% growth in sales. The e-commerce platform delivered a sales growth of 425.4% during the Period.

During the first half of 2018, the Group set up an entrepreneurial business division to drive sales from small-to-medium pharmacy chains. A distribution system was also introduced to replicate the success of mainstream pharmacy chains to smaller chains. With a combined sales channel of hospitals, an e-commerce platform, mainstream chains and small-to-medium pharmacies, it is expected that “Caojinghua (草晶華)” will be able to maintain a high rate of growth in the second half of 2018. The Group looks forward to marking a new milestone in the growth of the Chinese medicinal economy.

Operation of Online Pharmacies

Revenue derived from operation of on-line pharmacies increased by 425.4 % to RMB 18.6 million for the six months ended 30 June 2018 (corresponding period in 2017: RMB 3.5 million) and accounted for 3.4% of the total revenue during the Reporting Period (corresponding period in 2017: 0.8%). Revenue growth was mainly driven by a subsidiary established by the end of 2017 to generate traffic flow on the official website of “Caojinghua (草晶華)” through online advertising.

Operation of Chain Pharmacies

The Group has been operating chain pharmacies under the brand of “Zeus (中智)” in Zhongshan since 2001. As at 30 June 2018, the Group owns 284 self-operated chain pharmacies in Zhongshan (as at 30 June 2017: 247). Of these, 241 are medical insurance designated pharmacies. During the Period, the chain pharmacies segment’s revenue increased by 9.0% to RMB 221.2 million (corresponding period in 2017: RMB 202.9 million), accounting for 39.7% of total revenue (corresponding period in 2017: 47.0%).

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About Zhongzhi Pharmaceutical Holdings Limited

Zhongzhi Pharmaceutical Holdings Limited (03737.HK) was founded in 1993, and has since developed into a large pharmaceutical enterprise engaging in the research and development, manufacturing and sale of a spectrum of Chinese patent medicine, innovative decoction pieces, healthcare products and food items, as well as the operation of a pharmacy chain. The Company was listed on the main board of the Stock Exchange of Hong Kong in 2015. Zhongzhi Pharmaceutical is

engaged in the active R&D of proprietary products and has been awarded 19 patents of inventions from international and PRC organizations, with 18 other patents currently under application. It has also published 166 product development standards and 80 procedure specifications for broken cell wall decoction pieces. The Group's core broken cell wall technology is at the forefront of international and domestic standards, and is hailed as a "revolution in herbal decoction pieces". The Group's brands include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

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