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Zhongzhi Pharmaceutical Holdings Limited

中 智 藥 業 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3737)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

	For the year ended 31 December		
	2019	2018	Year-on-Year
	RMB'000	RMB'000	Change*
Revenue	**1,342,182**	1,142,150	17.5%
Gross profit	**834,689**	708,272	17.8%
Gross margin of the Group (%)	**62.2%**	62.0%	
Profit attributable to equity holders of the Company	**114,694**	85,069	34.8%
Earnings per share (expressed in RMB per share)			
Basic	**RMB0.14**	RMB0.10	34.8%
Diluted	**RMB0.14**	RMB0.10	34.6%
Interim dividend per share	**HK3.15 cents**	HK2.65 cents	18.9%
Final dividend per share	**HK2.90 cents**	HK2.00 cents	45.0%
Special dividend per share	**HK2.90 cents**	HK3.30 cents	(12.1%)
Total dividend per share	**HK8.95 cents**	HK7.95 cents	12.6%

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

ANNUAL RESULTS

The board (the "Board") of directors ("Directors") of Zhongzhi Pharmaceutical Holdings Limited (the "Company") is pleased to announce the consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
REVENUE	4	**1,342,182**	1,142,150
Cost of sales		**(507,493)**	(433,878)
Gross profit		**834,689**	708,272
Other income and gains	4	**23,206**	24,208
Selling and distribution expenses		**(569,685)**	(492,781)
Administrative expenses		**(78,068)**	(77,808)
Other expenses		**(50,194)**	(59,829)
Finance costs		**(4,007)**	(239)
PROFIT BEFORE TAX	5	**155,941**	101,823
Income tax expense	6	**(41,247)**	(16,754)
PROFIT FOR THE YEAR		**114,694**	85,069
Attributable to owners of the parent		**114,694**	85,069
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic			
– For profit for the year		**RMB0.14**	RMB0.10
Diluted			
– For profit for the year		**RMB0.14**	RMB0.10

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**114,694**	85,069
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,282**	2,787
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**115,976**	87,856
Attributable to owners of the parent	**115,976**	87,856

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	**2019 RMB'000**	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**279,361**	256,464
Right-of-use assets	9(b)	**109,537**	–
Prepayments for property, plant and equipment		**1,593**	813
Prepaid land lease payments	9(a)	**–**	12,956
Goodwill		**1,628**	1,628
Other intangible assets	10	**18,559**	8,877
Investment in a joint venture		**417**	421
Equity investments at fair value through profit or loss	11	**10,396**	11,724
Deferred tax assets		**13,377**	11,199
Other non-current assets		**7,112**	10,772
Total non-current assets		**441,980**	314,854
CURRENT ASSETS			
Prepaid land lease payments	9(a)	**–**	470
Inventories	12	**199,039**	178,992
Trade and notes receivables	13	**242,764**	162,033
Prepayments, deposits and other receivables		**16,423**	22,439
Cash and bank balances		**380,333**	332,698
Total current assets		**838,559**	696,632
CURRENT LIABILITIES			
Trade payables	14	**104,300**	85,418
Other payables and accruals		**196,389**	161,052
Interest-bearing bank and other borrowings		**31,352**	–
Lease liabilities	9(c)	**32,187**	–
Amounts due to related parties		**8,786**	8,786
Deferred income		**19,353**	7,531
Amount due to a joint venture		**70**	70
Tax payable		**29,712**	20,642
Total current liabilities		**422,149**	283,499
NET CURRENT ASSETS		**416,410**	413,133
TOTAL ASSETS LESS CURRENT LIABILITIES		**858,390**	727,987

	Note	**2019** **RMB'000**	2018 RMB'000
NON-CURRENT LIABILITIES			
Deferred income		**17,768**	20,004
Lease liabilities	9(c)	**63,966**	–
Deferred tax liabilities		**13,273**	1,391
Total non-current liabilities		**95,007**	21,395
Net assets		**763,383**	706,592
Equity			
Equity attributable to owners of the parent			
Issued capital		**6,650**	6,650
Reserves		**756,733**	699,942
Total equity		**763,383**	706,592

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Zhongzhi Pharmaceutical Holdings Limited was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2015 (the "Listing Date").

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under a historical cost convention, except for certain financial assets which have been measured at fair value. These financial statements are presented in Renminbi ("RMB"), and all values are rounded to the nearest thousand except other wise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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 to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the 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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations. 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.

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 property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease 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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact 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.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics, relying 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 excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application

Accordingly, the Group recognised right-of-use assets of RMB118,078,000 and lease liabilities of RMB111,494,000 as at 1 January 2019. Prepaid land lease payments of RMB13,426,000 and accrued rental expenses of RMB6,843,000 were derecognised, resulting in a decrease in prepaid land lease payments and a decrease in other payables and accruals of RMB13,426,000 and RMB6,843,000, 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 are as follows:

	RMB'000
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	111,494
Lease liabilities as at 1 January 2019	111,494

(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 continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(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 impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

[1] Effective for annual periods beginning on or after 1 January 2020

The Group does not anticipate that the application of these new and revised IFRSs and Interpretations will have material impact on the consolidated financial statements of the Group.

3. OPERATING SEGMENT INFORMATION

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

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

(a) Pharmaceutical manufacturing

(b) Operation of chain pharmacies

(c) Operation of on-line pharmacies

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

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

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

Geographical information

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

Information about major customers

During each of the years ended 31 December 2019 and 2018, no revenue from transactions with a single customer amounted to 10% or more of the Group's sales.

Operating segment information for the year ended 31 December 2019:

	Year ended 31 December 2019			
	Pharmaceutical manufacturing RMB'000	**Operation of chain pharmacies RMB'000**	**Operation of on-line pharmacies RMB'000**	**Total RMB'000**
Segment revenue:				
Revenue from external customers *(note 4)*	**753,400**	**535,380**	**53,402**	**1,342,182**
Intersegment sales	**40,335**	**–**	**–**	**40,335**
Elimination of intersegment sales	**(40,335)**	**–**	**–**	**(40,335)**
Revenue	**753,400**	**535,380**	**53,402**	**1,342,182**
Cost of sales	**(195,776)**	**(299,926)**	**(11,791)**	**(507,493)**
Segment results	**557,624**	**235,454**	**41,611**	**834,689**
Reconciliation:				
Other income and gains				**23,206**
Selling and distribution expenses				**(569,685)**
Administrative expenses				**(78,068)**
Other expenses				**(50,194)**
Finance costs				**(4,007)**
Profit before tax				**155,941**

	Year ended 31 December 2018			
	Pharmaceutical manufacturing RMB'000	Operation of chain pharmacies RMB'000	Operation of on-line pharmacies RMB'000	Total RMB'000
Segment revenue:				
Revenue from external customers	633,761	462,231	46,158	1,142,150
Intersegment sales	44,034	–	–	44,034
Elimination of intersegment sales	(44,034)	–	–	(44,034)
Revenue	633,761	462,231	46,158	1,142,150
Cost of sales	(175,287)	(251,367)	(7,224)	(433,878)
Segment results	458,474	210,864	38,934	708,272
Reconciliation:				
Other income and gains				24,208
Selling and distribution expenses				(492,781)
Administrative expenses				(77,808)
Other expenses				(59,829)
Finance costs				(239)
Profit before tax				101,823

4. REVENUE, OTHER INCOME AND GAINS

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

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers Sale of pharmaceutical products	**1,342,182**	1,142,150

(i) Disaggregated revenue information

The Group's revenue is mainly derived from the sale of pharmaceutical products to customers in Mainland China and recognised at a point in time.

Disaggregation of revenue from contracts with customers is disclosed in Note 3.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of pharmaceutical products	**9,559**

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of pharmaceutical products

The performance obligation is satisfied upon delivery of the pharmaceutical products and payment is generally due within 15 to 90 days from delivery, except for the new customers and one-off purchase order customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

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

	Note	**2019** **RMB'000**	2018 RMB'000
Other income			
Bank interest income		**4,728**	1,626
Dividend income		**76**	932
Rental income		**361**	338
Interest income from financial assets at fair value through profit or loss		**3,472**	7,376
		8,637	10,272
Gains, net			
Government grants:			
– Related to assets		**1,308**	978
– Related to income		**3,806**	7,116
Gain on disposal of items of property, plant and equipment		**28**	5
Gain on disposal of an equity investment at fair value through profit or loss	5	**5,376**	6,040
Fair value gains/(losses), net:			
Equity investments at fair value through profit or loss	5	**3,386**	(2,120)
Others		**665**	1,917
		14,569	13,936
		23,206	24,208

5. PROFIT BEFORE TAX

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

	Notes	**2019 RMB'000**	2018 RMB'000
Cost of inventories sold	3	**507,493**	433,878
Depreciation of property, plant and equipment		**29,565**	24,240
Depreciation of right-of-use assets (2018: amortisations of land lease payments)	9(a), 9(b)	**32,147**	470
Research and development costs		**47,448**	52,464
Advertising, marketing and promotion expenses		**126,358**	130,032
Amortisation of other intangible assets*	10	**1,822**	1,244
Write-down of inventories to net realisable value		**451**	4,851
Minimum lease payments under operating leases		**–**	40,481
Lease payments not included in the measurement of lease liabilities	9(d)	**6,343**	–
Auditor's remuneration		**2,908**	2,790
Impairment losses on trade receivables	13	**1,246**	1,467
Gain on disposal of an equity investment at fair value through profit or loss	4	**(5,376)**	(6,040)
Fair value (gains)/losses, net:			
Equity investments at fair value through profit or loss	4	**(3,386)**	2,120
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**279,138**	246,652
Pension scheme contributions (defined contribution scheme)		**15,402**	15,702
Staff welfare expenses		**23,722**	20,351
Equity-settled share award expense		**1,638**	–
Others		**267**	267
		320,167	282,972

* The amortisation of other intangible assets for the reporting period is included in "Administrative expenses" in the consolidated statement of profit or loss.

6. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits 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.

The Hong Kong profits tax rate is 16.5% (2018: 16.5%) of assessable profits derived from Hong Kong during the year. Since the Group had no such profits during the reporting period, no provision for Hong Kong profits tax has been made.

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

Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the Group's subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income.

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

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

	2019	2018
	RMB'000	RMB'000
Mainland China		
Current income tax	**31,543**	23,420
Deferred income tax credit	**9,704**	(6,666)
Total income tax expense	**41,247**	16,754

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

	2019		2018	
	RMB'000	**%**	RMB'000	%
Profit before tax	**155,941**		101,823	
Tax at the PRC statutory tax rate	**38,985**	**25.0**	25,456	25.0
Effect of different applicable tax rates for certain subsidiaries	**(10,394)**	**(6.7)**	(7,309)	(7.2)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**9,501**	**6.1**	–	–
Additional deduction for research and development expenses	**(866)**	**(0.5)**	(3,716)	(3.6)
Adjustment in respect of current tax of previous years	**3,026**	**1.9**	–	–
Income not subject to tax	**(57)**	**(0.0)**	(386)	(0.4)
Tax losses utilised from previous periods	**(1,995)**	**(1.2)**	(182)	(0.2)
Tax losses not recognised	**534**	**0.3**	388	0.4
Expenses not deductible for tax	**2,513**	**1.6**	2,503	2.5
Tax charge at the Group's effective tax rate	**41,247**	**26.5**	16,754	16.5

The effective tax rate of the Group was 26.5% in 2019 (2018: 16.5%).

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 those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. As at 31 December 2019, the Group recognised a deferred tax liability of RMB9,501,000 (31 December 2018: Nil) in respect of the withholding tax on future dividend.

7. DIVIDENDS

	2019 **RMB'000**	2018 RMB'000
Interim – HK3.15 cents (2018: HK2.65 cents) per ordinary share	**23,782**	19,716
Special interim – HK1.45 cents (2018: HK1.7 cents) per ordinary share	**10,947**	12,649
Proposed final – HK2.9 cents (2018: HK2.0 cents) per ordinary share	**21,821**	14,720
Proposed special – HK1.45 cents (2018: HK1.6 cents) per ordinary share	**10,911**	11,776
	67,461	58,861

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

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 833,348,152 (2018: 833,221,500) in issue during the year.

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

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

	2019 **RMB'000**	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**114,694**	85,069

	2019	2018
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	**(6,651,848)**	(6,778,500)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**833,348,152**	833,221,500
Effect of dilution – weighted average number of ordinary shares:		
Share award plan	**1,200,000**	–
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**834,548,152**	833,221,500

9. LEASES

The Group as a lessee

The Group has lease contracts for various items of land, pharmacies and office premises used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 43 years, and no ongoing payments will be made under the terms of these land leases. Leases of pharmacies and office premises generally have lease terms between 3 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	13,896
Recognised in profit or loss during the year	(470)
Carrying amount at 31 December 2018	13,426
Current portion	(470)
Non-current portion	12,956

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Pharmacies and office premises RMB'000	**Land use rights RMB'000**	**Total RMB'000**
As at 1 January 2019	**104,652**	**13,426**	**118,078**
Additions	**14,739**	**8,867**	**23,606**
Depreciation charge	**(31,677)**	**(470)**	**(32,147)**
As at 31 December 2019	**87,714**	**21,823**	**109,537**

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities RMB'000
Carrying amount at 1 January	**111,494**
New leases	**14,739**
Accretion of interest recognised during the year	**3,930**
Payments	**(34,010)**
Carrying amount at 31 December 2019	**96,153**
Analysed into:	
Current portion	**32,187**
Non-current portion	**63,966**

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019
	RMB'000
Interest on lease liabilities	**3,930**
Depreciation charge of right-of-use assets	**32,147**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	**6,343**
Total amount recognised in profit or loss	**42,420**

The Group as a lessor

The Group leases its leased properties under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB361,000 (2018: RMB338,000), details of which are included in note 4 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019	2018
	RMB'000	RMB'000
Within one year	**218**	350
After one year but within two years	**91**	195
	309	545

10. OTHER INTANGIBLE ASSETS

	Software RMB'000	**Patents and licences** RMB'000	**Total** RMB'000
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	**8,877**	**–**	**8,877**
Additions	**8,875**	**–**	**8,875**
Acquisition of a subsidiary	**–**	**2,697**	**2,697**
Disposals	**(68)**	**–**	**(68)**
Amortisation provided during the year *(note 5)*	**(1,664)**	**(158)**	**(1,822)**
At 31 December 2019	**16,020**	**2,539**	**18,559**
At 31 December 2019:			
Cost	**20,956**	**2,697**	**23,653**
Accumulated amortisation	**(4,936)**	**(158)**	**(5,094)**
Net carrying amount	**16,020**	**2,539**	**18,559**
31 December 2018			
At 1 January 2018:			
Cost	12,577	–	12,577
Accumulated amortisation	(2,164)	–	(2,164)
Net carrying amount	10,413	–	10,413
Cost at 1 January 2018, net of accumulated amortisation	10,413	–	10,413
Additions	849	–	849
Disposals	(1,141)	–	(1,141)
Amortisation provided during the year	(1,244)	–	(1,244)
At 31 December 2018	8,877	–	8,877
At 31 December 2018 and at 1 January 2019:			
Cost	12,166	–	12,166
Accumulated amortisation	(3,289)	–	(3,289)
Net carrying amount	8,877	–	8,877

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Equity investments at fair value through profit or loss		
Listed equity investment, at fair value	**9,890**	10,556
Unlisted equity investment, at fair value	**506**	1,168
	10,396	11,724

The above listed equity investment was classified as equity investment at fair value through profit or loss as it was held for trading. In 2019, the Group disposed of part of the shares. The total gain on disposal from this investment amounted to RMB5,376,000.

The above unlisted equity investment was classified as equity investment 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

	2019 RMB'000	2018 RMB'000
Raw materials	**47,043**	30,483
Work in progress	**6,841**	7,684
Finished goods	**145,155**	140,825
	199,039	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.

13. TRADE AND NOTES RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**166,046**	117,850
Less: Impairment of trade receivables	**(2,713)**	(1,467)
Trade receivables, net	**163,333**	116,383
Notes receivable	**79,431**	45,650
	242,764	162,033

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 and one-off purchase order customers, payment in advance is normally required. Each customer has a maximum credit limit. The Group seeks to enforce 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 and notes receivables relate to customers with good track records, there is no significant concentration of credit risk. Trade and notes receivables are non-interest-bearing. The fair value of trade and notes receivables approximates to their carrying amount.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019	2018
	RMB'000	RMB'000
Within 1 month	**99,705**	45,923
1 to 3 months	**31,467**	36,699
3 to 6 months	**16,763**	14,281
6 to 12 months	**11,007**	16,155
Over 12 months	**4,391**	3,325
	163,333	116,383

The movement in the loss allowance for impairment of trade receivables is as follows:

	2019	2018
	RMB'000	RMB'000
At beginning of year	**1,467**	–
Impairment losses, net	**1,246**	1,467
At end of year	**2,713**	1,467

The Group manages its notes receivable using the business model whose objective is achieved by both collecting contractual cash flows and selling such financial assets and hence, they are categorised as financial assets measured at fair value through other comprehensive income after the adoption of IFRS 9.

The notes receivable are settled within 180 days. No notes receivable were discounted as at 31 December 2019 and 2018. As at 31 December 2019, the Group continued to recognise endorsed notes receivable and associated liabilities amounting to RMB18,360,000 (2018: RMB23,405,000). The directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining endorsed notes.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the ageing analysis for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two years and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

	Less than 1 year	**1 to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	**0.74%**	**19.77%**	**100.00%**	**1.63%**
Gross carrying amount (RMB'000)	**160,129**	**5,473**	**444**	**166,046**
Expected credit losses (RMB'000)	**1,187**	**1,082**	**444**	**2,713**

As at 31 December 2018

	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.48%	15.83%	100.00%	1.24%
Gross carrying amount (RMB'000)	113,602	3,950	298	117,850
Expected credit losses (RMB'000)	544	625	298	1,467

14. TRADE PAYABLES

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

	2019 RMB'000	2018 RMB'000
Within 3 months	**90,813**	74,778
3 to 6 months	**3,686**	5,105
6 to 12 months	**1,082**	3,282
over 12 months	**8,719**	2,253
	104,300	85,418

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

MANAGEMENT DISCUSSION AND ANALYSES

BUSINESS REVIEW

Riding on its clear strategic positioning, in 2019, Zhongzhi Pharmaceutical continued to leverage on the strong strategic development trend with its unique brand, marketing model and organisational transformation, which resulted in high synergy and enabled it to continue to stay at the top of the industry.

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 RMB1,342.2 million (corresponding period in 2018: RMB1,142.2 million), representing an increase of approximately 17.5% over the corresponding period in last year.

- The Group recorded a profit for the period of approximately RMB114.7 million (corresponding period in 2018: RMB85.1 million), representing an increase of 34.8% over the corresponding period in last year.

- The basic earnings per share is RMB13.8 cents (corresponding period in 2018: RMB10.2 cents), representing an increase of approximately 34.8% over the corresponding period in last year.

FUTURE PLAN AND OUTLOOK

In 2020, the epidemic of coronavirus pneumonia has brought huge difficulties to our society and economy, which had a certain impact on the development of the pharmaceutical industry. For pharmaceutical manufacturing, the shortage of materials, increasing costs of medicine and related packaging materials and logistics and transportation under the supply chain resulted in the increase in operating costs of many pharmaceutical enterprises. For chain pharmacies, the pressure on the operation of stores has increased due to the sharp decline in customer flow, the sluggish work resumption and the reduction in consumer purchasing power.

Chinese medicine has played a key role in the diagnosis and treatment of this pneumonia epidemic. At present, despite the epidemic is rapidly being contained and the patients being recovered quickly as a result of the stringent and efficient measures implemented by the government in the PRC, the epidemic has been spreading rapidly around the world, which gives Chinese medicine a unique opportunity to exert its unique advantages. In addition to the existing capability of Chinese medicine in diagnosis and treatment, the increased application of Chinese medicine by the international community will promote Chinese medicine to be further recognised by more countries and people. As an innovative Chinese medicine enterprise in Guangdong Province, Zhongzhi Pharmaceutical has its own research platform and extensive resources of various experts and talents, which shall play a stronger role in the society in the "post-epidemic" era. In the pharmaceutical segment, we are confident to outperform our peers. In the chain pharmacies segment, we also believe that with the enhancement of service brands and the driving force of the pharmaceutical business, pioneering and innovative, pragmatic and enterprising, and winning new battles will also become a reality.

During the outbreak of the epidemic, Zhongzhi Pharmaceutical made every effort to ensure the resumption of production. Not only the chain pharmacies remained operational and provided professional services to Zhongshan citizens, the production line also conducted advance planning to organise the full production of preventive and protective Chinese medicines in response to the epidemic. During the year, the Company promoted intensive humanitarian spirit and devotion to love as we actively organised the preparation of medical supplies including but not limited to medical masks, disinfectants, our own Milkvetch root modern decoction pieces (黃芪破壁飲片), Houttuynia cordatacell wall broken decoction pieces (魚腥草破壁飲片) during the severe epidemic period. In addition, we donated materials of RMB6.8 million to the Red Cross Society of Zhongshan in three batches. Among them, the first batch of medical masks, disinfectants, anti-flu Chinese medicine ShiqiWaigan Granules (石岐外感顆粒) and other materials, valued at RMB1.07 million, was donated to the city's designated treatment hospitals; the second batch of products including but not limited to Milkvetch root modern decoction pieces (黃芪破壁飲片), Houttuynia cordatacell wall broken decoction pieces (魚腥草破壁飲片), valued at RMB5 million, was donated to the medical staff of Wuhan Medical Institution; and the third batch of ShiqiWaigan Granules (石岐外感顆粒), valued at RMB0.73 million, was donated to police and police assistants in Zhongshan City.

We believe that after the epidemic, the entire industry and the resurgence of social vitality will be recovered in the near future which will increase the recognition of Chinese medicine amongst consumers, and attract more consumers to focus on Chinese medicine-based health care, thereby driving the market that will lead to better financial results for the Group.

Digital Management

In 2019, the Group strengthened and improved the internal management processes which enhanced the overall management efficiency. With our effort in the second half of 2019, the business intelligence data system of the Group has been successfully launched, allowing management to have real time operating analytics at anytime and anywhere; improving the efficiency of decision makings. The Group will continue to invest in its information systems in 2020 to improve work efficiency and to increase employees' awareness to data. Meanwhile, the Group will continue to stride towards the digital era, driving data-based decision making.

Research and Development

The Group continues to focus on the development of Caojinghua Cell-broken Herb (Zhongzhi Cell-broken Pieces) (草晶華破壁草本（中藥破壁飲片）) as its core development direction. In 2019, Caojinghua Cell-broken Herb has obtained international certification which received the regulatory approvals for three types of products in Canada. In the future, we will continue our effort in research and development focusing on the breakthrough of new decoction pieces, Chinese medicines, health supplements and SC Food Product Permit labelled products. We will echo the demands of the leaders in our government and continue to globalise Chinese Medicine.

BUSINESS OVERVIEW

During the Reporting Period, the Group continued to engage principally in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong Province, the PRC. Revenue of the Group rose by approximately 17.5% to approximately RMB1,342.2 million.

Profit attributable to owners of the parent increased by approximately 34.8% to RMB114.7 million due to the strong growth momentum of the modern decoction pieces (Caojinghua Cell-broken Herb) (草晶華破壁草本), stricter controls over sales and management costs as well as from slight adjustments in sales modes.

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 year ended 31 December			**% of total revenue for the year ended 31 December**		
	2019	2018	Change	**2019**	2018	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**753,400**	633,761	+18.9	**56.1**	55.5	+0.6
Operation of chain pharmacies	**535,380**	462,231	+15.8	**39.9**	40.5	-0.6
Operation of on-line pharmacies	**53,402**	46,158	+15.7	**4.0**	4.0	-0.0
	1,342,182	1,142,150	+17.5	**100.0**	100.0	

Pharmaceutical manufacturing

The Group is engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (consisting of traditional decoction pieces and modern decoction pieces) under the Group's brands in the PRC. The Group's brand include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

Revenue derived from pharmaceutical manufacturing increased by approximately 18.9% to RMB753.4 million for the year ended 31 December 2019 (2018: RMB633.8 million) and accounted for 56.1% of the total revenue during the year (2018: 55.5%). The increase in revenue is primarily attributable to the sales of the modern decoction piece (Caojinghua Cell-broken Herb) (草晶華破壁草本) driven by the Group's continuing efforts in marketing and expansion of new sales channels around the brand.

Operation of chain pharmacies

The Group has been operating chain pharmacies in Zhongshan under the brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at 31 December 2019, the Group has 328 self-operated chain pharmacies in Zhongshan (2018: 316), of which 298 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies increased by approximately 15.8% to approximately RMB535.4 million for the year ended 31 December 2019 (2018: RMB462.2 million) and accounted for 39.9% of the total revenue during the year (2018: 40.5%), which were a result of (i) increased incentives for member customers and increased membership stickiness; and (ii) new pharmacies opened throughout 2018 taking full year effect in 2019.

Operation of on-line pharmacies

Revenue derived from operation of on-line pharmacies increased by approximately 15.7% to RMB53.4 million for the year ended 31 December 2019 (2018: RMB46.2 million) and accounted for 4.0% of the total revenue during the Reporting Period (2018: 4.0%). The increase in sales is due to continuing efforts devoted into exploring new sales opportunities in new e-commerce platforms. As well, the increase is primarily attributable to the increase in the sales of the Group's Caojinghua branded products.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year was RMB834.7 million, representing an increase of RMB126.4 million or 17.8% as compared with RMB708.3 million for the year ended 31 December 2018. The analysis of gross profit by segment is as below:

	Gross profit for the year ended 31 December			**Gross profit margin for the year ended 31 December**		
	2019	2018	Change	**2019**	2018	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**557,624**	458,474	+21.6	**74.0**	72.3	+1.7
Operation of chain pharmacies	**235,454**	210,864	+11.7	**44.0**	45.6	-1.6
Operation of on-line pharmacies	**41,611**	38,934	+6.9	**77.9**	84.3	-6.4
	834,689	708,272	+17.8	**62.2**	62.0	+0.2

Pharmaceutical manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 21.6% to RMB557.6 million for the year ended 31 December 2019 (2018: RMB458.5 million). The gross profit margin increased to 74.0% for the year ended 31 December 2019 (2018: 72.3%), primarily resulted from the increase in the revenue of modern decoction pieces (Caojinghua Cell-broken Herb) (草晶華破壁草本) with higher gross profit margin.

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by approximately 11.7% to RMB235.5 million for the year ended 31 December 2019 (2018: RMB210.9 million). The gross profit margin of the chain pharmacies segment decreased to 44.0% for the year ended 31 December 2019 (2018: 45.6%). The decrease was due to greater discounts and promotions provided in the Group's loyalty programme to its members.

Operation of on-line pharmacies

The gross profit of on-line pharmacies segment increased by approximately 6.9% to RMB41.6 million for the year ended 31 December 2019 (2018: RMB38.9 million). The gross profit margin decreased to 77.9% for the year ended 31 December 2019 (2018: 84.3%), which is primarily attributable to the increase in sales promotion related to the Caojinghua products, resulting in overall lower margin.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, interest income from bank financial products and government grants. For the year ended 31 December 2019, other income and gains of the Group were approximately RMB23.2 million (2018: RMB24.2 million), representing an decrease of approximately RMB1.0 million as compared to last year, no significant changes were noted from prior year.

Selling and Distribution Expenses

Selling and distribution expenses mainly represent staff costs, advertisement and promotional costs and rental expenses of the Group's chain pharmacies. For the year ended 31 December 2019, selling and distribution expenses amounted to approximately RMB569.7 million (2018: RMB492.8 million), representing an increase of approximately 15.6% as compared to last year. Selling and distribution expense ratio decreased to approximately 42.4% (2018: 43.1%) against revenue for the year ended 31 December 2019, which was mainly due to (i) the increase of marketing and promotion activities on the Company's Caojinghua Cell-broken Herb (草晶華破壁飲片) through various channels and platforms; and (ii) the increase in salaries for retaining and attracting outstanding business talents.

Administrative Expenses

Administrative expenses mainly represent salaries and benefits of the administrative and management staff as well as legal and professional fees. For the year ended 31 December 2019, administrative expenses amounted to approximately RMB78.1 million (2018: RMB77.8 million), representing an increase of approximately 0.3% as compared to last year. The Group had higher salaries expense throughout the year, which was offseted by stricter cost controls including but not limited to travel expenses.

Other Expenses

Other expenses mainly represented research and development expenses, which mainly represent various expenses incurred in the course of research and development of products, technologies, materials, crafts and standards. For the year ended 31 December 2019, research and development expenses amounted to approximately RMB47.4 million (2018: RMB52.5 million), representing a decrease of approximately 9.6% compared to that for the same period of last year. The decrease was due to the fact that some projects are in the research and development period, and most of the costs were invested in the previous period, resulting in a decrease in costs in the current period. However, the Group expects this cost to go up in the coming years as clinical trials begin.

Finance Costs

Finance costs represented interest on bank borrowings and interest on lease liabilities, which amounted to RMB4.0 million for the year ended 31 December 2019 (2018: RMB0.2 million). The increase is due to the adoption of IFRS 16.

Income Tax Expense

Income tax expense amounted to RMB41.2 million for the year ended 31 December 2019 (2018: RMB16.8 million). The increase was primarily due to (i) the increase in corporate income tax as a result of the increase in profit before tax from approximately RMB101.8 million for the year ended 31 December 2018 to approximately RMB155.9 million; and (ii) the recognition of deferred tax liability of approximately RMB9.5 million in relation to withholding tax at 10% on the distributable profits of the Group's subsidiaries in the PRC for the year ended 31 December 2019.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent increased by 34.8% to RMB114.7 million for the year ended 31 December 2019 (2018: RMB85.1 million). The Group's net profit margin amounted to 8.5% for the year ended 31 December 2019 (2018: 7.4%).

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB416.4 million as at 31 December 2019 (2018: RMB413.1 million). The Group's cash and bank balances increased from RMB332.7 million as at 31 December 2018 to RMB380.3 million (of which RMB377.3 million and HK$3.0 million) as at 31 December 2019. The current ratio of the Group decreased from approximately 2.5 as at 31 December 2018 to 2.0 as at 31 December 2019.

Borrowing and the Pledge of Assets

The Group had outstanding unsecured borrowings of HK$35 million as at 31 December 2019 (2018: nil).

As at 31 December 2019, the Group had available unutilised banking facilities of RMB30 million (2018: RMB30 million) and HK$5 million (2018: HK$20 million).

Gearing Ratio

The Group's gearing ratio as at 31 December 2019 is 4.1% (2018: nil).

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 31 December 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 for the year of 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.

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 and Shares to be granted under the share award plan.

As at 31 December 2019, the Group had 3,243 employees (2018: 3,398) with a total remuneration of RMB320.2 million during the Reporting Period (2018: RMB283.0 million) (including wages and salaries, pension scheme contributions, staff welfare expenses, equity-settled share award expenses and others). The salaries of the employees are determined with reference to individual performance, work experience, qualification and current industry practices.

SIGNIFICANT INVESTMENTS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

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**	**The Reallocation**	**Use of net proceeds subsequent to the Reallocation**	**Utilised up to 31 December 2019**	**Unutilised balance up to 31 December 2019**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Expansion of pharmaceutical chain in the Guangdong province	135,870	(72,360)	63,510	63,510	—
Expansion of distribution network	90,580	72,360	162,940	162,940	—
Providing funding for research and development activities	90,580	—	90,580	90,580	—
Expansion of production capacity	90,580	—	90,580	90,580	—
General working capital purposes	45,290	—	45,290	45,290	—
	452,900	—	452,900	452,900	—

As at 31 December 2019, all net proceeds raised from the Global Offering have been fully utilised as intended.

EVENT AFTER THE REPORTING PERIOD

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

CAPITAL COMMITMENT

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. As at 31 December 2019, the Group's capital commitment amounted to RMB55.5 million (2018: RMB10.0 million).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Apart from strengthening the Group's current business and the future plans as disclosed in the Prospectus, the Group will devote its best effort and resources to cope with the increasing market demand in the Group's own-branded products, in order to enhance shareholder's value. The Group will also consider any potential investment opportunities which may benefit its shareholders as and when these opportunities arise.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 31 December 2019 (2018: nil).

CORPORATE GOVERNANCE PRACTICES

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

Code Provision A.2.1

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

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

AUDIT COMMITTEE

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

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

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by Ernst & Young in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor on the preliminary announcement.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the year ended 31 December 2019.

DIVIDEND

The Board is recommending a final dividend of HK2.9 cents per share and a special dividend of HK1.45 cents per share for 2019 for approval by the shareholders. Together with the interim dividend of HK3.15 cents per share and a special interim dividend of HK1.45 cents per share, the total dividend for 2019 would be approximately HK8.95 cents per share, compared with HK7.95 cents per share in 2018. The final dividend and special dividend will be payable on or around 10 June 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 12 May 2020 to Monday, 18 May 2020, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrar 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 Monday, 11 May 2020.

To determine the entitlement of the proposed final dividend and special dividend, the register of members of the Company will be closed from Monday, 25 May 2020 to Wednesday, 27 May 2020, both days inclusive, during which period no transfers of shares shall be effected. In order to be eligible for receiving the final dividend and special dividend, all completed transfers forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrar 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 Friday, 22 May 2020.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement will be published on the websites of the Stock Exchange (www. hkex.com.hk) and the Company (http://www.zeus.cn). The annual report of the Company for the year ended 31 December 2019 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 25 March 2020

As at the date of this announcement, the Board comprises nine Directors. The executive Directors are Mr. Lai Zhi Tian, Mr. Lai Ying Feng, Mr. Cao Xiao Jun and Mr. Cheng Jin Le. The non – executive Directors are Ms. Jiang Li Xia and Mr. Yang Ai Xing. The independent non-executive Directors are Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han.