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 2020

	For the year ended 31 December		
	2020	2019	Year-on-Year
	RMB'000	RMB'000	Change*
Revenue	**1,603,876**	1,342,182	19.5%
Gross profit	**991,203**	834,689	18.8%
Gross margin of the Group (%)	**61.8%**	62.2%	
Profit attributable to equity holders of the Company	**138,532**	114,694	20.8%
Earnings per share (expressed in RMB per share)			
Basic	**RMB0.17**	RMB0.14	21.5%
Diluted	**RMB0.17**	RMB0.14	21.6%
Interim dividend per share	**HK3.70 cents**	HK3.15 cents	17.5%
Final dividend per share	**—**	HK2.90 cents	—
Special dividend per share	**HK1.45 cents**	HK2.90 cents	-50.0%
Total dividend per share	**HK5.15 cents**	HK8.95 cents	-42.5%

* *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 2020 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	**2020** **RMB'000**	2019 RMB'000
REVENUE	4	**1,603,876**	1,342,182
Cost of sales		**(612,673)**	(507,493)
Gross profit		**991,203**	834,689
Other income and gains	4	**31,583**	23,206
Selling and distribution expenses		**(698,799)**	(569,685)
Administrative expenses		**(91,777)**	(78,068)
Other expenses		**(59,770)**	(50,194)
Finance costs		**(5,218)**	(4,007)
PROFIT BEFORE TAX	5	**167,222**	155,941
Income tax expense	6	**(28,603)**	(41,247)
PROFIT FOR THE YEAR		**138,619**	114,694
Attributable to:			
Owners of the parent		**138,532**	114,694
Non-controlling interests		**87**	—
PROFIT FOR THE YEAR		**138,619**	114,694
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic			
– For profit for the year		**RMB0.17**	RMB0.14
Diluted			
– For profit for the year		**RMB0.17**	RMB0.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 **RMB'000**	2019 RMB'000
PROFIT FOR THE YEAR	**138,619**	114,694
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	**(125)**	1,282
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(125)**	1,282
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**138,494**	115,976
Attributable to:		
Owners of the parent	**138,407**	115,976
Non-controlling interests	**87**	—
	138,494	115,976

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2020

	Notes	**2020 RMB'000**	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**303,163**	279,361
Right-of-use assets	9(a)	**128,832**	109,537
Prepayments for property, plant and equipment		**25,924**	1,593
Goodwill		**1,628**	1,628
Other intangible assets	10	**19,560**	18,559
Investment in a joint venture		**392**	417
Equity investments at fair value through profit or loss	11	**17,713**	10,396
Deferred tax assets		**16,208**	13,377
Prepayments		**16,150**	–
Other non-current assets		**7,067**	7,112
Total non-current assets		**536,637**	441,980
CURRENT ASSETS			
Inventories	12	**247,121**	199,039
Trade and notes receivables	13	**283,088**	242,764
Prepayments, deposits and other receivables		**59,063**	16,423
Equity investments at fair value through profit or loss	11	**580**	—
Cash and bank balances		**294,032**	380,333
Total current assets		**883,884**	838,559
CURRENT LIABILITIES			
Trade payables	14	**110,439**	104,300
Other payables and accruals		**201,416**	196,389
Interest-bearing bank borrowings		**78,915**	31,352
Lease liabilities	9(b)	**35,772**	32,187
Amounts due to related parties		**8,786**	8,786
Deferred income		**23,497**	19,353
Amount due to a joint venture		**65**	70
Tax payable		**26,580**	29,712
Total current liabilities		**485,470**	422,149
NET CURRENT ASSETS		**398,414**	416,410
TOTAL ASSETS LESS CURRENT LIABILITIES		**935,051**	858,390

	Note	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Deferred income		**14,215**	17,768
Lease liabilities	9(b)	**73,216**	63,966
Deferred tax liabilities		**25,857**	13,273
Total non-current liabilities		**113,288**	95,007
Net assets		**821,763**	763,383
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**6,650**	6,650
Reserves		**813,526**	756,733
		820,176	763,383
Non-controlling interests		**1,587**	—
Total equity		**821,763**	763,383

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE AND GROUP 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 Company is an investment holding company. The Company and its subsidiaries (collectively referred to as 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 equity investments and financial assets at fair value through profit or loss 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 otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2020. 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 *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to IAS 1 and IAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's plant and machinery have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB698,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

(e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and 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	*Reference to the Conceptual Framework*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]

[1] Effective for annual periods beginning on or after 1 January 2022
[2] No mandatory effective date yet determined but available for adoption

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 2020 and 2019, no revenue from transactions with a single customer accounted for 10% or more of the Group's sales.

Operating segment information for the year ended 31 December 2020:

	Year ended 31 December 2020			
	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)*	**916,076**	**624,874**	**62,926**	**1,603,876**
Intersegment sales	**69,482**	**—**	**—**	**69,482**
Elimination of intersegment sales	**(69,482)**	**—**	**—**	**(69,482)**
Revenue	**916,076**	**624,874**	**62,926**	**1,603,876**
Cost of sales	**(216,039)**	**(372,853)**	**(23,781)**	**(612,673)**
Segment results	**700,037**	**252,021**	**39,145**	**991,203**
Reconciliation:				
Other income and gains				**31,583**
Selling and distribution expenses				**(698,799)**
Administrative expenses				**(91,777)**
Other expenses				**(59,770)**
Finance costs				**(5,218)**
Profit before tax				**167,222**

	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	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

4. REVENUE, OTHER INCOME AND GAINS

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

	2020 **RMB'000**	2019 RMB'000
Revenue from contracts with customers		
Sale of pharmaceutical products	**1,603,876**	1,342,182

(i) Disaggregated revenue information

The Group's revenue is mainly derived from the sale of pharmaceutical products to customers in Mainland China and is 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:

	2020 **RMB'000**
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of pharmaceutical products	**13,229**

(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	2020 RMB'000	2019 RMB'000
Other income			
Bank interest income		**5,271**	4,728
Dividend income		**58**	76
Rental income		**322**	361
Interest income from financial assets at fair value through profit or loss		**4,749**	3,472
		10,400	8,637
Gains, net			
Government grants:			
– Related to assets		**1,342**	1,308
– Related to income		**7,578**	3,806
Gain on disposal of items of property, plant and equipment		**43**	28
Gain on disposal of an equity investment at fair value through profit or loss	5	**—**	5,376
Gain on disposal of financial instruments at fair value through profit or loss	5	**303**	—
Fair value gains, net:			
Equity investments at fair value through profit or loss	5	**7,509**	3,386
Others		**4,408**	665
		21,183	14,569
		31,583	23,206

5. PROFIT BEFORE TAX

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

	Notes	**2020 RMB'000**	2019 RMB'000
Cost of inventories sold	3	**612,673**	507,493
Depreciation of property, plant and equipment		**59,736**	29,565
Depreciation of right-of-use assets	9(a)	**37,173**	32,147
Research and development costs		**50,189**	47,448
Advertising, marketing and promotion expenses		**189,256**	126,358
Amortisation of other intangible assets*	10	**2,840**	1,822
Write-down of inventories to net realisable value		**114**	451
Lease payments not included in the measurement of lease liabilities	9(c)	**3,785**	6,343
Auditor's remuneration		**2,590**	2,908
Impairment losses on trade receivables	13	**394**	1,246
Gain on disposal of an equity investment at fair value through profit or loss	4	**—**	(5,376)
Gain on disposal of financial assets at fair value through profit or loss	4	**(303)**	—
Fair value gains, net:			
Equity investments at fair value through profit or loss	4	**(7,509)**	(3,386)
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**297,070**	279,138
Pension scheme contributions (defined contribution scheme)		**11,163**	15,402
Staff welfare expenses		**20,348**	23,722
Equity-settled share award expense		**1,117**	1,638
Others		**—**	267
		329,698	320,167

* *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% (2019: 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:

	2020	2019
	RMB'000	RMB'000
Current – Mainland China		
Charge for the year	**24,903**	28,517
(Overprovision)/underprovision in prior years	**(6,053)**	3,026
Deferred income tax credit	**9,753**	9,704
Total income tax expense	**28,603**	41,247

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

	2020		2019	
	RMB'000	**%**	RMB'000	%
Profit before tax	**167,222**		155,941	
Tax at the PRC statutory tax rate	**41,806**	**25.0**	38,985	25.0
Effect of different applicable tax rates for certain subsidiaries	**(12,306)**	**(7.4)**	(10,394)	(6.7)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**8,289**	**5.0**	9,501	6.1
Additional deduction for research and development expenses	**(4,298)**	**(2.6)**	(866)	(0.5)
Adjustment in respect of current tax of previous years	**(6,053)**	**(3.6)**	3,026	1.9
Income not subject to tax	**(21)**	**(0.0)**	(57)	(0.0)
Tax losses utilised from previous periods	**(924)**	**(0.6)**	(1,995)	(1.2)
Tax losses not recognised	**626**	**0.4**	534	0.3
Expenses not deductible for tax	**1,484**	**0.9**	2,513	1.6
Tax charge at the Group's effective tax rate	**28,603**	**17.1**	41,247	26.5

The effective tax rate of the Group was 17.1% in 2020 (2019: 26.5%).

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 2020, the Group recognised a deferred tax liability of RMB8,289,000 (31 December 2019: RMB9,501,000) in respect of the withholding tax on future dividends.

7. DIVIDENDS

	2020	2019
	RMB'000	RMB'000
Interim – HK3.7 cents (2019: HK3.15 cents) per ordinary share	**26,878**	23,782
Special interim – HK1.45 cents (2019: HK1.45 cents) per ordinary share	**10,533**	10,947
Proposed final – Nil (2019: HK2.9 cents) per ordinary share	**—**	21,821
Proposed special – Nil (2019: HK1.45 cents) per ordinary share	**—**	10,911
	37,411	67,461

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 828,797,947 (2019: 833,348,152) 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:

	2020	2019
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**138,532**	114,694

	2020	2019
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	**(11,202,053)**	(6,651,848)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**828,797,947**	833,348,152
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	**828,797,947**	834,548,152

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 50 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) 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 and 1 January 2020	**87,714**	**21,823**	**109,537**
Additions	**47,966**	**8,502**	**56,468**
Depreciation charge	**(36,427)**	**(746)**	**(37,173)**
As at 31 December 2020	**99,253**	**29,579**	**128,832**

(b) Lease liabilities

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

	2020 **RMB'000**	2019 RMB'000
Carrying amount at 1 January	**96,153**	111,494
New leases	**47,966**	14,739
Accretion of interest recognised during the year	**3,831**	3,930
Covid-19-related rent concessions from lessors	**(698)**	—
Payments	**(38,264)**	(34,010)
Carrying amount at 31 December	**108,988**	96,153
Analysed into:		
Current portion	**35,772**	32,187
Non-current portion	**73,216**	63,966

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to IFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for certain plant and equipment during the year.

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

	2020	2019
	RMB'000	RMB'000
Interest on lease liabilities	**3,831**	3,930
Depreciation charge of right-of-use assets	**37,173**	32,147
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	**3,785**	6,343
Covid-19-related rent concessions from lessors	**(698)**	—
Total amount recognised in profit or loss	**44,091**	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 RMB322,000 (2019: RMB361,000), details of which are included in note 4 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020	2019
	RMB'000	RMB'000
Within one year	**234**	218
After one year but within two years	**137**	91
After two year but within three years	**64**	—
	435	309

10. OTHER INTANGIBLE ASSETS

	Software RMB'000	Patents and licences RMB'000	Total RMB'000
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	**16,020**	**2,539**	**18,559**
Additions	**3,810**	**31**	**3,841**
Amortisation provided during the year *(note 5)*	**(2,202)**	**(638)**	**(2,840)**
At 31 December 2020	**17,628**	**1,932**	**19,560**
At 31 December 2020:			
Cost	**24,765**	**2,729**	**27,494**
Accumulated amortisation	**(7,137)**	**(797)**	**(7,934)**
Net carrying amount	**17,628**	**1,932**	**19,560**
31 December 2019			
At 1 January 2019:			
Cost	12,166	—	12,166
Accumulated amortisation	(3,289)	—	(3,289)
Net carrying amount	8,877	—	8,877
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	(1,664)	(158)	(1,822)
At 31 December 2019	16,020	2,539	18,559
At 31 December 2019 and at 1 January 2020:			
Cost	20,956	2,697	23,653
Accumulated amortisation	(4,936)	(158)	(5,094)
Net carrying amount	16,020	2,539	18,559

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	RMB'000	RMB'000
Equity investments at fair value through profit or loss		
Listed equity investment, at fair value	**17,635**	9,890
Unlisted equity investment, at fair value	**658**	506
	18,293	10,396

The above listed equity investment at 31 December 2020 was classified as equity investment at fair value through profit or loss as it was held for trading.

The above unlisted equity investment at 31 December 2020 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

	2020	2019
	RMB'000	RMB'000
Raw materials	**46,779**	47,043
Work in progress	**11,599**	6,841
Finished goods	**188,743**	145,155
	247,121	199,039

Inventories with a value of RMB4,711,000 (2019: RMB4,851,000) are carried at net realisable value, which is lower than cost.

13. TRADE AND NOTES RECEIVABLES

	2020	2019
	RMB'000	RMB'000
Trade receivables	**226,034**	166,046
Less: Impairment of trade receivables	**(3,107)**	(2,713)
Trade receivables, net	**222,927**	163,333
Notes receivable	**60,161**	79,431
	283,088	242,764

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:

	2020	2019
	RMB'000	RMB'000
Within 1 month	**117,916**	99,705
1 to 3 months	**64,630**	31,467
3 to 6 months	**26,930**	16,763
6 to 12 months	**8,821**	11,007
Over 12 months	**4,630**	4,391
	222,927	163,333

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

	2020	2019
	RMB'000	RMB'000
At beginning of year	**2,713**	1,467
Impairment losses, net	**394**	1,246
At end of year	**3,107**	2,713

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 2020 and 2019. As at 31 December 2020, the Group continued to recognise endorsed notes receivable and associated liabilities amounting to RMB6,084,000 (2019: RMB18,360,000). 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 2020

	Less than 1 year	**1 to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	**0.82%**	**19.13%**	**100.00%**	**1.37%**
Gross carrying amount (RMB'000)	**220,109**	**5,725**	**200**	**226,034**
Expected credit losses (RMB'000)	**1,812**	**1,095**	**200**	**3,107**

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

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:

	2020 RMB'000	2019 RMB'000
Within 3 months	**96,653**	90,813
3 to 6 months	**4,905**	3,686
6 to 12 months	**6,283**	1,082
Over 12 months	**2,598**	8,719
	110,439	104,300

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

MANAGEMENT DISCUSSION AND ANALYSES

BUSINESS REVIEW

In 2020, Zhongzhi Pharmaceutical continued to use cell wall-broken herbs (cell wall-broken decoction pieces) as its core development strategy. In accordance with the strategy, the Group expanded its business coverage, and continued to make innovative attempts in different product categories and sales channels. The Group continues to be principally engaged in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan city, Guangdong province, the PRC.

- The Group recorded a total revenue of approximately RMB1,603.9 million (corresponding period in 2019: RMB1,342.2 million), representing an increase of approximately 19.5% over the corresponding period in last year.

- The Group recorded a profit for the period of approximately RMB138.6 million (corresponding period in 2019: RMB114.7 million), representing an increase of 20.9% over the corresponding period in last year.

- The basic earnings per share is RMB16.5 cents (corresponding period in 2019: RMB13.8 cents), representing an increase of approximately 21.5% over the corresponding period in last year.

FUTURE PLAN AND OUTLOOK

The COVID-19 pandemic affected the global economy in 2020, at the same time it has changed the people's living style and habits. The Group continued to focus on the expansion of its cell-broken herbs (cell-wall broken decoction pieces) in 2020 and has achieved stronger market performance. The Group's chain pharmacy segment and TCM segment continues to bring steady growth momentum.

In the year, a new product line, Caojinghua cell-broken herbs, Color Box Series, was successfully developed and launched into the market, mainly operating in the e-Commerce channels. The products' convenient portability, ease of administration, unique and enticing packaging along with other key features are what has enabled the series to have a successful launch. The Group will continue to invest in its e-commerce business by developing new products and creating more video contents in order to respond to market needs more quickly. The Group has increased its capital investments in 2020 and will continue in 2021 to increase its capital investments in the construction of new manufacturing facilities and the introduction of new equipment, to expand the production capacity and improve production efficiency. Considering recent increase in capital expenditure investment due to increasing demands from the pharmaceutical manufacturing business segment, the Group wishes to fully utilize a portion of the Company's operating capital to capture this opportunity. As such, the Board proposes to not declare dividends for the year ended 31 December 2020. The Board will consider the declaration of future dividends at a more appropriate time.

Under the catalysis of the COVID-19 pandemic in 2020, the Group accelerated the development of remote office and mobile office platforms, minimizing the impact of the pandemic on working inconvenience. The platforms took working environment from off-line to on-line; from working in a set location to any location of choice; from working 9 to 5 to anytime of the day, thus speeding up the overall reaction time of the Group and improved overall work efficiency. At the same time, the successful launch of the new OA (Office Assistance) system streamlined all of the Group's work processes and procedures, and has established a strong systems foundation for future business expansions. With the new OA system, the Group has achieved substantial cost savings from simplifying processes and minimizing labour intensive tasks. In 2021, the Group will implement a Manufacturing Execution System (MES) and build an automated logistics warehouse to further improve the work efficiency of the enterprise and reduce costs.

In 2020, the National Development of Reform Commission, the Ministry of Science and Technology, the Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation in joint issued a list of the 27th batch of national enterprise technology centers. Among them, the technology center of Zhongzhi Pharmaceutical Group was recognized as a National Technology Center, signifying the achievement of a milestone in the Group's technological domain. The Group continues to take the development of Caojinghua cell-broken herbs (cell wall-broken decoction pieces) as its core development direction, speeding up the research of technology and the development of new products, to respond quickly to the needs of the market. The Group will, as always, respond to the requirements of national leaders and continue to promote the internationalization of 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 19.5% to approximately RMB1,603.9 million.

Profit attributable to owners of the parent increased by approximately 20.8% to RMB138.5 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		
	2020	2019	Change	**2020**	2019	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**916,076**	753,400	+21.6	**57.1**	56.1	+1.0
Operation of chain pharmacies	**624,874**	535,380	+16.7	**39.0**	39.9	-0.9
Operation of on-line pharmacies	**62,926**	53,402	+17.8	**3.9**	4.0	-0.1
	1,603,876	1,342,182	+19.5	**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 21.6% to RMB916.1 million for the year ended 31 December 2020 (2019: RMB753.4 million) and accounted for 57.1% of the total revenue during the year (2019: 56.1%). The increase in revenue was 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 continuous 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 2020, the Group has 366 self-operated chain pharmacies in Zhongshan (2019: 328), of which 325 are medical insurance designated pharmacies (醫保定點藥店). Meanwhile, the Group has started to explore the franchise business model in the year.

Segment revenue of the operation of chain pharmacies increased by approximately 16.7% to approximately RMB624.9 million for the year ended 31 December 2020 (2019: RMB535.4 million) and accounted for 39.0% of the total revenue during the year (2019: 39.9%). The increase was primarily attributable to new sales driven by the 38 new stores opened at the end of 2020. In addition, due to the impact of coronavirus pneumonia pandemic, the sales of anti-pandemic drugs increased as compared with the corresponding period in 2019.

Operation of on-line pharmacies

Revenue derived from operation of on-line pharmacies increased by approximately 17.8% to RMB62.9 million for the year ended 31 December 2020 (2019: RMB53.4 million) and accounted for 3.9% of the total revenue during the Reporting Period (2019: 4.0%). The increase in sales was due to continuous efforts devoted to exploring new sales opportunities in new e-commerce platforms and 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 RMB991.2 million, representing an increase of RMB156.5 million or 18.8% as compared with RMB834.7 million for the year ended 31 December 2019. 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**		
	2020	2019	Change	**2020**	2019	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**700,037**	557,624	+25.5	**76.4**	74.0	+2.4
Operation of chain pharmacies	**252,021**	235,454	+7.0	**40.3**	44.0	-3.7
Operation of on-line pharmacies	**39,145**	41,611	-5.9	**62.2**	77.9	-15.7
	991,203	834,689	18.8	**61.8**	62.2	-0.4

Pharmaceutical manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 25.5% to RMB700.0 million for the year ended 31 December 2020 (2019: RMB557.6 million). The gross profit margin increased to 76.4% for the year ended 31 December 2020 (2019: 74.0%). The increase was mainly attributable to the increase in the sale of Caojinghua.

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by approximately 7.0% to RMB252.0 million for the year ended 31 December 2020 (2019: RMB235.5 million). The gross profit margin of the chain pharmacies segment decreased to 40.3% for the year ended 31 December 2020 (2019: 44.0%). Gross profit margin decreased compared to prior year as there was a temporary increase in the sales of lower margin products related to the pandemic.

Operation of on-line pharmacies

The gross profit of on-line pharmacies segment decreased by approximately 5.9% to RMB39.1 million for the year ended 31 December 2020 (2019: RMB41.6 million). The gross profit margin decreased to 62.2% for the year ended 31 December 2020 (2019: 77.9%), which was primarily attributable to the increase in sales promotion related to the Caojinghua products resulting in 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 2020, other income and gains of the Group were approximately RMB31.6 million (2019: RMB23.2 million), representing an increase of approximately RMB8.4 million as compared to last year, which was mainly attributable to (i) the increase in government grants of approximately RMB3.8 million; and (ii) the increase in changes in fair value of financial assets of RMB4.2 million.

Selling and Distribution Expenses

Selling and distribution expenses mainly represent staff costs, advertisement and promotional costs and rental expenses of the Group's chain pharmacies. For the year ended 31 December 2020, selling and distribution expenses amounted to approximately RMB698.8 million (2019: RMB569.7 million), representing an increase of approximately 22.7% as compared to last year. Selling and distribution expense ratio increased to approximately 43.6% (2019: 42.4%) against revenue for the year ended 31 December 2020, which was mainly due to 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.

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 2020, administrative expenses amounted to approximately RMB91.8 million (2019: RMB78.1 million), representing an increase of approximately 17.6% as compared to last year. The Group had higher salaries expense throughout the year due to increase in headcount, which was offsetted by stricter cost controls including but not limited to travel expenses.

Other Expenses

Other expenses mainly represented research and development expenses and the donation expenses in relation to the coronavirus pneumonia pandemic.

The research and development expenses mainly represented various expenses incurred in the course of research and development of products, technologies, materials, crafts and standards. For the year ended 31 December 2020, research and development expenses amounted to approximately RMB50.2 million (2019: RMB47.4 million), representing an increase of approximately 5.8% compared to that for the same period of last year. The increase in the research and development expenses was due to the increased manpower investment for the clinical research of the science of Caojinghua Cell-broken Herb (cell-broken decoction pieces) to prove its safety, efficacy and controllable qualities.

The donation expenses in relation to the coronavirus pneumonia pandemic amounted to approximately RMB7.1 million (2019: Nil). The increase in the donation expenses in relation to the coronavirus pneumonia pandemic was due to the Group's donation of a total of RMB7.1 million worth of anti-pandemic drugs and materials to various organizations during the outbreak of coronavirus pneumonia pandemic.

Finance Costs

Finance costs represented interest on bank borrowings and interest on lease liabilities, which amounted to RMB5.2 million for the year ended 31 December 2020 (2019: RMB4.0 million). The increase was due to the increase in bank loans.

Income Tax Expense

Income tax expense amounted to RMB28.6 million for the year ended 31 December 2020 (2019: RMB41.2 million). The decrease was primarily due to tax incentives/allowances for research and development activities.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent increased by 20.8% to RMB138.5 million for the year ended 31 December 2020 (2019: RMB114.7 million). The Group's net profit margin amounted to 8.6% for the year ended 31 December 2020 (2019: 8.5%).

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB398.4 million as at 31 December 2020 (2019: RMB416.4 million). The Group's cash and bank balances decreased from RMB380.3 million as at 31 December 2019 to RMB294.0 million (which consisted of cash and bank balances of RMB285.6 million and HK$8.5 million denominated in RMB and HKD respectively) as at 31 December 2020. The current ratio of the Group decreased from approximately 2.0 as at 31 December 2019 to 1.8 as at 31 December 2020.

Borrowing and the Pledge of Assets

The Group had outstanding unsecured borrowings of RMB20 million and HK$70 million as at 31 December 2020 (2019: HK$35 million).

As at 31 December 2020, the Group had available unutilised banking facilities of RMB40 million (2019: RMB30 million) and HK$nil (2019: HK$5 million).

Gearing Ratio

The Group's gearing ratio as at 31 December 2020 was 9.6% (2019: 4.1%).

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 2020, 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 2020. 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 2020, the Group had 3,289 employees (2019: 3,243) with a total remuneration of RMB329.7 million during the Reporting Period (2019: RMB320.2 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

Discloseable Transaction: Subscription of Wealth Management Products – Unit Customer Smart Deposits

On 2 January 2020 and 7 July 2020, Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd.* (中山市中智藥業集團有限公司), as a subscriber and a wholly owned subsidiary of the Company, entered into the first customer smart deposits business agreement and the second customer smart deposits business agreement with Guangdong Huaxing Bank Zhongshan Branch, pursuant to which, Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. subscribed for wealth management products of Guangdong Huaxing Bank Zhongshan Branch in the principal amount of RMB50,000,000 and RMB80,000,000, respectively, totaling RMB130,000,000. For details, please refer to the announcement of the Company dated 7 July 2020.

Save as disclosed above, 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.

EVENT AFTER THE REPORTING PERIOD

On 24 March 2021, the Group entered into construction contracts for the second phase of the new factory premises in Zhongshan and Yunfu at a total consideration of RMB71.0 million.

The Yunfu manufacturing facility is aimed to increase the Group's production capacity in response to increasing sales demands, where the building in Zhongshan will serve as the headquarter of the Group's pharmacy division with improved logistics warehouse systems, aimed to improve overall management of inventory and to improve working condition for its employees.

CAPITAL COMMITMENT

As at 31 December 2020, the Group's capital commitment amounted to RMB65.9 million (2019: RMB55.5 million). The capital commitment is mainly related to the construction of two new buildings and the additions of new fixed assets, which relate to the purchasing of new equipment for research and development activities and to expand the Group's production capacity.

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 of the Company dated 30 June 2015, 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. In particular, the Group has commenced the construction of new factories premises and additional production lines in Zhongshan and Yunfu, Guangdong province, for the expansion of production capacity to cater for the increase in demand of the Group's products. It is expected that the construction of the new factory premises will be completed by the end of 2021.

Save for the above, 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 2020 (2019: nil).

* *The English name is for identification purpose only*

CORPORATE GOVERNANCE PRACTICES

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

Code Provision A.2.1

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

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

AUDIT COMMITTEE

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

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

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2020 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 2020.

DIVIDEND

As the Group has commenced the construction of new factory premises and additional production lines to expand its production capacity, the Board proposed not to distribute any dividend at the end of 2020 in order to maintain a healthy cash flow. The total dividend for fiscal year 2020 was HK5.15 cents per share, consisting of the interim dividend of HK3.70 cents per share and a special dividend of HK1.45 cents per share.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 12 May 2021 to Tuesday, 18 May 2021, 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 Tuesday, 11 May 2021.

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 2020 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, 24 March 2021

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.