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 2021

	For the year ended 31 December		
	2021	2020	Year-on-Year
	RMB'000	RMB'000	Change*
Revenue	**1,746,500**	1,603,876	8.9%
Gross profit	**1,061,439**	991,203	7.1%
Gross margin of the Group (%)	**60.8%**	61.8%	
Profit attributable to equity holders of the Company	**52,128**	138,532	-62.4%
Earnings per share (expressed in RMB per share)			
Basic	**RMB0.06**	RMB0.17	-64.7%
Diluted	**RMB0.06**	RMB0.17	-64.7%
Interim dividend per share	**—**	HK3.70 cents	-100%
Final dividend per share	**—**	—	—
Special dividend per share	**—**	HK1.45 cents	-100%
Total dividend per share	**—**	HK5.15 cents	-100%

* *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 2021 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	**2021 RMB'000**	2020 RMB'000
REVENUE	4	**1,746,500**	1,603,876
Cost of sales		**685,061**	(612,673)
Gross profit		**1,061,439**	991,203
Other income and gains	4	**29,771**	31,583
Selling and distribution expenses		**(829,237)**	(698,799)
Administrative expenses		**(102,899)**	(91,777)
Other expenses		**(90,181)**	(59,770)
Finance costs		**(7,080)**	(5,218)
PROFIT BEFORE TAX	5	**61,813**	167,222
Income tax expense	6	**(9,447)**	(28,603)
PROFIT FOR THE YEAR		**52,366**	138,619
Attributable to:			
Owners of the parent		**52,128**	138,532
Non-controlling interests		**238**	87
		52,366	138,619
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic			
– For profit for the year		**RMB0.06**	RMB0.17
Diluted			
– For profit for the year		**RMB0.06**	RMB0.17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
PROFIT FOR THE YEAR	**52,366**	138,619
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**781**	(125)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**53,147**	138,494
Attributable to:		
Owners of the parent	**52,909**	138,407
Non-controlling interests	**238**	87
	53,147	138,494

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	**2021 RMB'000**	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**410,286**	303,163
Investment properties		**40,778**	—
Right-of-use assets	9(a)	**137,025**	128,832
Prepayments for property, plant and equipment		**3,481**	25,924
Goodwill		**1,628**	1,628
Other intangible assets	10	**18,290**	19,560
Investment in a joint venture		**381**	392
Equity investments at fair value through profit or loss	11	**9,367**	17,713
Deferred tax assets		**31,969**	16,208
Prepayments		**5,950**	16,150
Other non-current assets		**7,513**	7,067
Total non-current assets		**666,668**	536,637
CURRENT ASSETS			
Inventories	12	**268,057**	247,121
Trade and notes receivables	13	**293,559**	283,088
Prepayments, deposits and other receivables		**53,645**	59,063
Equity investments at fair value through profit or loss	11	**8,795**	580
Cash and bank balances		**233,381**	294,032
Total current assets		**857,437**	883,884
CURRENT LIABILITIES			
Trade payables	14	**120,828**	110,439
Other payables and accruals		**229,400**	201,416
Interest-bearing bank borrowings		**57,243**	78,915
Lease liabilities	9(b)	**37,874**	35,772
Amounts due to related parties		**8,786**	8,786
Deferred income		**18,925**	23,497
Amount due to a joint venture		**64**	65
Tax payable		**27,711**	26,580
Total current liabilities		**500,831**	485,470
NET CURRENT ASSETS		**356,606**	398,414
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,023,274**	935,051

	Notes	**2021** **RMB'000**	2020 RMB'000
NON-CURRENT LIABILITIES			
Deferred income		**15,429**	14,215
Lease liabilities	9(b)	**80,624**	73,216
Deferred tax liabilities		**26,056**	25,857
Total non-current liabilities		**122,109**	113,288
Net assets		**901,165**	821,763
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**6,847**	6,650
Reserves		**891,893**	813,526
		898,740	820,176
Non-controlling interests		**2,425**	1,587
Total equity		**901,165**	821,763

NOTES TO THE CONSOLIDATED 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 Windward 3, Regatta Office Park, 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 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 2021. 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 revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform — Phase 2*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

The nature and impact of the revised IFRSs are described below:

(a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any significant impact on the financial position and performance of the Group.

(b) Amendment to IFRS 16 issued in March 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. 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, that 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	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to IAS 8	*Definition of Accounting Estimates*[2]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to IAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[1]
Annual Improvements to IFRS Standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[1]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

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 2021 and 2020, 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 2021:

	Year ended 31 December 2021			
	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)*	**1,053,280**	**622,911**	**70,309**	**1,746,500**
Intersegment sales	**823,961**	**—**	**—**	**823,961**
Elimination of intersegment sales	**(823,961)**	**—**	**—**	**(823,961)**
Revenue	**1,053,280**	**622,911**	**70,309**	**1,746,500**
Cost of sales	**(291,565)**	**(363,981)**	**(29,515)**	**(685,061)**
Segment results	**761,715**	**258,930**	**40,794**	**1,061,439**
Reconciliation:				
Other income and gains				**29,771**
Selling and distribution expenses				**(829,237)**
Administrative expenses				**(102,899)**
Other expenses				**(90,181)**
Finance costs				**(7,080)**
Profit before tax				**61,813**

	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

4. REVENUE, OTHER INCOME AND GAINS

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

	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of pharmaceutical products	**1,746,500**	1,603,876

(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:

	2021
	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of pharmaceutical products	**12,030**

(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 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.

	Note	2021 RMB'000	2020 RMB'000
Other income			
Bank interest income		**4,142**	5,271
Dividend income		**40**	58
Rental income		**2,102**	322
Interest income from financial assets at fair value through profit or loss		**35**	4,749
Sales of raw materials		**2,834**	147
Others		**1,745**	979
		10,898	11,526
Gains, net			
Government grants:			
– Related to assets		**2,830**	1,342
– Related to income		**11,095**	7,578
Gain on disposal of items of property, plant and equipment		**124**	43
Gain on disposal of equity investments at fair value through profit or loss	5	**828**	303
Fair value gains, net:			
Equity investments at fair value through profit or loss	5	**—**	7,509
Others		**3,996**	3,282
		18,873	20,057
		29,771	31,583

5. PROFIT BEFORE TAX

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

	Notes	**2021 RMB'000**	2020 RMB'000
Cost of inventories sold	3	**685,061**	612,673
Depreciation of property, plant and equipment		**39,445**	59,736
Depreciation of right-of-use assets	9(a)	**42,325**	37,173
Research and development costs		**43,834**	50,189
Advertising, marketing and promotion expenses		**227,256**	189,256
Amortisation of other intangible assets*	10	**3,282**	2,840
Write-down of inventories to net realisable value		**91**	114
Lease payments not included in the measurement of lease liabilities	9(c)	**3,518**	3,785
Auditor's remuneration		**2,646**	2,590
Impairment losses on trade receivables	13	**442**	394
Gain on disposal of equity investments at fair value through profit or loss	4	**(828)**	(303)
Fair value losses/(gains), net:			
Equity investments at fair value through profit or loss	4	**3,437**	(7,509)
Financial assets at fair value through profit or loss		**37,000**	—
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**306,867**	297,070
Pension scheme contributions (defined contribution scheme)		**19,595**	11,163
Staff welfare expenses		**16,631**	20,348
Equity-settled share award expense		**—**	1,117
		343,093	329,698

* *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% (2020: 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 as 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:

	2021	2020
	RMB'000	RMB'000
Current — Mainland China		
Charge for the year	**24,904**	24,903
Underprovision/(overprovision) in prior years	**105**	(6,053)
Deferred income tax (credit)/expense	**(15,562)**	9,753
Total income tax expense	**9,447**	28,603

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:

	2021		2020	
	RMB'000	**%**	RMB'000	%
Profit before tax	**61,813**		167,222	
Tax at the PRC statutory tax rate of 25%	**15,453**	**25.0**	41,806	25.0
Effect of different applicable tax rates for specific jurisdictions or enacted by local authority	**(7,312)**	**(11.8)**	(12,306)	(7.4)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**—**	**—**	8,289	5.0
Additional deduction for research and development expenses	**(4,700)**	**(7.6)**	(4,298)	(2.6)
Adjustment in respect of current tax of previous years	**105**	**0.2**	(6,053)	(3.6)
Income not subject to tax	**(25)**	**(0.0)**	(21)	(0.0)
Tax losses utilised from previous periods	**—**	**—**	(924)	(0.6)
Tax losses not recognised	**3,855**	**6.2**	626	0.4
Expenses not deductible for tax	**2,071**	**3.3**	1,484	0.9
Tax charge at the Group's effective tax rate	**9,447**	**15.3**	28,603	17.1

The effective tax rate of the Group was 15.3% in 2021 (2020: 17.1%).

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 2021, the Group recognised a deferred tax liability of RMB17,790,000 (31 December 2020: RMB17,790,000) in respect of the withholding tax on future dividends.

7. DIVIDENDS

	2021 **RMB'000**	2020 RMB'000
Interim — Nil (2020: HK3.7 cents) per ordinary share	**—**	26,878
Special interim — Nil (2020: HK1.45 cents) per ordinary share	**—**	10,533
Proposed final — Nil (2020: Nil) per ordinary share	**—**	—
Proposed special — Nil (2020: Nil) per ordinary share	**—**	—
	—	37,411

The Board of Director ("Board") does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: nil).

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 836,954,291 (2020: 828,797,947) 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:

	2021 **RMB'000**	2020 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**52,128**	138,532

	2021	2020
Shares		
Weighted average number of ordinary shares in issue	**852,026,301**	840,000,000
Weighted average number of shares held for the share award plan	**(15,072,010)**	(11,202,053)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**836,954,291**	828,797,947
Effect of dilution — weighted average number of ordinary shares: Share award plan	**—**	—
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**836,954,291**	828,797,947

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	**Land use rights**	**Total**
	RMB'000	RMB'000	RMB'000
As at 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 and 1 January 2021	**99,253**	**29,579**	**128,832**
Additions	**50,518**	**—**	**50,518**
Depreciation charge	**(41,508)**	**(817)**	**(42,325)**
As at 31 December 2021	**108,263**	**28,762**	**137,025**

(b) Lease liabilities

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

	2021	2020
	RMB'000	RMB'000
Carrying amount at 1 January	**108,988**	96,153
New leases	**50,518**	47,966
Accretion of interest recognised during the year	**4,406**	3,831
Covid-19-related rent concessions from lessors	**—**	(698)
Payments	**(45,414)**	(38,264)
Carrying amount at 31 December	**118,498**	108,988
Analysed into:		
Current portion	**37,874**	35,772
Non-current portion	**80,624**	73,216

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

	2021	2020
	RMB'000	RMB'000
Interest on lease liabilities	**4,406**	3,831
Depreciation charge of right-of-use assets	**42,325**	37,173
Expense relating to short-term leases (included in selling and distribution expenses)	**3,518**	3,785
Covid-19-related rent concessions from lessors	**—**	(698)
Total amount recognised in profit or loss	**50,249**	44,091

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 RMB2,102,000 (2020: RMB322,000), details of which are included in note 4 to the financial statements.

At 31 December 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2021	2020
	RMB'000	RMB'000
Within one year	**2,407**	234
After one year but within two years	**2,284**	137
After two years but within three years	**2,220**	64
After three years but within four years	**1,110**	—
	8,021	435

10. OTHER INTANGIBLE ASSETS

	2021	2020
	RMB'000	RMB'000
Carrying amount at 1 January	**19,560**	18,559
Additions	**2,012**	3,841
Amortisation provided during the year	**(3,282)**	(2,840)
Carrying amount at 31 December	**18,290**	19,560

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	2020
	RMB'000	RMB'000
Equity investments at fair value through profit or loss		
Listed equity investment, at fair value	**17,559**	17,635
Unlisted equity investment, at fair value	**603**	658
	18,162	18,293

The above listed equity investment at 31 December 2021 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 2021 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

	2021	2020
	RMB'000	RMB'000
Raw materials	**45,366**	46,779
Work in progress	**15,150**	11,599
Finished goods	**207,541**	188,743
	268,057	247,121

Inventories with a value of RMB801,000 (2020: RMB4,711,000) are carried at net realisable value, which is lower than cost.

13. TRADE AND NOTES RECEIVABLES

	2021	2020
	RMB'000	RMB'000
Trade receivables	**249,351**	226,034
Less: Impairment of trade receivables	**(3,549)**	(3,107)
Trade receivables, net	**245,802**	222,927
Notes receivable	**47,757**	60,161
	293,559	283,088

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:

	2021	2020
	RMB'000	RMB'000
Within 1 month	**144,642**	117,916
1 to 3 months	**53,590**	64,630
3 to 6 months	**29,847**	26,930
6 to 12 months	**15,332**	8,821
Over 12 months	**2,391**	4,630
	245,802	222,927

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

	2021	2020
	RMB'000	RMB'000
At beginning of year	**3,107**	2,713
Impairment losses, net	**442**	394
At end of year	**3,549**	3,107

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 2021 and 2020. As at 31 December 2021, the Group continued to recognise endorsed notes receivable and the associated liabilities amounting to RMB27,028,000 (2020: RMB6,084,000). 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 2021

	Less than 1 year	**1 to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	**0.75%**	**20.91%**	**100.00%**	**1.42%**
Gross carrying amount (RMB'000)	**245,243**	**3,023**	**1,085**	**249,351**
Expected credit losses (RMB'000)	**1,832**	**632**	**1,085**	**3,549**

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

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:

	2021 RMB'000	2020 RMB'000
Within 3 months	**112,019**	96,653
3 to 6 months	**1,456**	4,905
6 to 12 months	**4,556**	6,283
over 12 months	**2,797**	2,598
	120,828	110,439

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 2021, Zhongzhi Pharmaceutical continued to use cell wall-broken herbs (cell wall-broken decoction pieces) as its core development strategy, expanded its business coverage, and continued to make innovative attempts in multiple sales channels and fields. The Group continues to be principally engaged in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan, Guangdong province, the PRC. During the Reporting Period:

- The Group recorded a total revenue of approximately RMB1,746.5 million (corresponding period in 2020: RMB1,603.9 million), representing an increase of approximately 8.9% over the corresponding period in last year.

- The Group recorded a profit for the year attributable to owners of the parent of approximately RMB83.6 million (corresponding period in 2020: RMB138.5 million), excluding the impact of the fair value loss on unlisted wealth management product of RMB37.0 million, representing a decrease of 39.7% over the corresponding period in last year; and recorded a profit for the year attributable to owners of the parent of approximately RMB52.1 million, including the impact of the fair value loss on unlisted wealth management product of RMB37.0 million, representing a decrease of 62.4% over the corresponding period in last year.

- The basic earnings per share is RMB6.2 cents (corresponding period in 2020: RMB16.5 cents), representing a decrease of approximately 62.4% over the corresponding period in last year.

FUTURE AND OUTLOOK

In 2021, the external environment has been continuously updated, and changes in the environment have become the norm. The Covid-19 pandemic has lasted for more than two years, and the pandemic situation is still repeated with the spreading of the mutated COVID-19 variants, affecting the living habits of the people all the time. The supply chain of the Company faces new challenges due to rising raw material prices. And various environmental factors have gradually affected the consumption level of consumers. However, the Company deals with the existing problems and contradictions by seeking opportunities and adhering to sustainable development in a complex environment. The Company will still firmly adhere to the mission of "promoting Chinese medicine culture and pushing forward the Chinese medicine industry" in the future, and strive to promote the development of the traditional Chinese medicine industry to promote the treasures of China to the world.

Since 2021, the Group has invested in two major construction projects in Zhongshan and Yunfu, respectively, in Guangdong province. Although the recurrence of the pandemic caused certain disruptions to the construction progress, with the concerted efforts of the Group's staff and external parties, both projects were eventually completed on schedule. The construction project of the chain headquarters in Zhongshan is expected to complete the relocation in April 2022. The chain headquarters will fully meet the needs of office space of the headquarters staff upon completion. Adhering to leading design concepts in China to embrace new technologies in all aspects of the logistics industry, and to put in place the most advanced equipment in the market, the new intelligent logistics centre will greatly improve overall work efficiency, reduce the existing workload and meet the demands of the continued rapid expansion of Zhongzhi Chain Pharmacies.

The Group's construction project in Yunfu, the Yunfu Factory, was completed and put into operation in October 2021. The factory will continue to pursue the Company's historical mission of "promoting Chinese medicine culture and pushing forward the Chinese medicine industry", and to meet the market demand for traditional decoction pieces and modern decoction pieces. Following 2021, the Yunfu Factory will continue to develop important areas for the Group, offer a wider range of product lines, actively explore the market and further meet the needs of consumers. At the same time, the factory has an independent third-party testing platform and is equipped with state-of-the-art testing equipment to undertake various raw material testing needs of the community.

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**		
	2021	2020	Change	**2021**	2020	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**1,053,280**	916,076	15.0	**60.3**	57.1	3.2
Operation of chain pharmacies	**622,911**	624,874	-0.3	**35.7**	39.0	-3.3
Operation of on-line pharmacies	**70,309**	62,926	11.7	**4.0**	3.9	0.1
	1,746,500	1,603,876	8.9	**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 15.0% to RMB1,053.3 million for the year ended 31 December 2021 (2020: RMB916.1 million) and accounted for 60.3% of the total revenue during the year (2020: 57.1%). 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 2021, the Group has 398 self-operated chain pharmacies in Zhongshan (2020: 366), of which 361 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies remained stable at approximately RMB622.9 million for the year ended 31 December 2021 (2020: RMB624.9 million) and accounted for 35.7% of the total revenue during the year (2020: 39.0%), which was mainly attributable to the impact of reduced passenger flow resulting from the resurgence of the pandemic currently.

Operation of on-line pharmacies

Revenue derived from operation of on-line pharmacies increased by approximately 11.7% to RMB70.3 million for the year ended 31 December 2021 (2020: RMB62.9 million) and accounted for 4.0% of the total revenue during the Reporting Period (2020: 3.9%). 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 RMB1,061.4 million, representing an increase of RMB70.5 million or 7.1% as compared with RMB991.2 million for the year ended 31 December 2020. 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**		
	2021 RMB'000	2020 RMB'000	Change (%)	**2021 (%)**	2020 (%)	Change (%)
Pharmaceutical manufacturing	**761,715**	700,037	8.8	**72.3**	76.4	-4.1
Operation of chain pharmacies	**258,930**	252,021	2.7	**41.6**	40.3	1.2
Operation of on-line pharmacies	**40,794**	39,145	4.2	**58.0**	62.2	-4.2
	1,061,439	991,203	7.1	**60.8**	61.8	-1.0

Pharmaceutical manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 8.8% to RMB761.7 million for the year ended 31 December 2021 (2020: RMB700.0 million). The gross profit margin decreased to 72.3% for the year ended 31 December 2021 (2020: 76.4%). The increase in gross profit was mainly attributable to the increase in the sale of Caojinghua and the decrease in gross profit margin was mainly attributable to an increase in overall production costs due to the global increase in raw material prices including metals and Chinese medicinal herbs.

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by approximately 2.7% to RMB258.9 million for the year ended 31 December 2021 (2020: RMB252.0 million). The gross profit margin of the chain pharmacies segment increased to 41.6% for the year ended 31 December 2021 (2020: 40.3%). Gross profit margin slightly increased compared to last year.

Operation of on-line pharmacies

The gross profit of on-line pharmacies segment increased by approximately 4.2% to RMB40.8 million for the year ended 31 December 2021 (2020: RMB39.1 million). The gross profit margin decreased to 58.0% for the year ended 31 December 2021 (2020: 62.2%), which was primarily attributable to the increase in sales promotion related to the Caojinghua branded products resulting in lower margin.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, rental income and government grants. For the year ended 31 December 2021, other income and gains of the Group were approximately RMB29.8 million (2020: RMB31.6 million), representing a decrease of approximately RMB1.8 million as compared to previous year, which was mainly attributable to (i) the increase in government grants of approximately RMB5.0 million; and (ii) the decrease in changes in fair value of equity investments of RMB7.5 million.

Selling and Distribution Expenses

Selling and distribution expenses mainly consists of staff costs, advertisement and promotional costs and amortization of right-of-use assets of the Group's chain pharmacies. For the year ended 31 December 2021, selling and distribution expenses amounted to approximately RMB829.2 million (2020: RMB698.8 million), representing an increase of approximately 18.7% as compared to previous year. Selling and distribution expense ratio increased to approximately 47.5% (2020: 43.6%) against revenue for the year ended 31 December 2021, 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 consists of salaries and benefits of the administrative and management staff as well as legal and professional fees. For the year ended 31 December 2021, administrative expenses amounted to approximately RMB102.9 million (2020: RMB91.8 million), representing an increase of approximately 12.1% as compared to previous year. The increase was due to the increase in headcount in the first half of 2021, which resulted in an increase in the Group's salary expenses and depreciation and amortization for the year.

Other Expenses

Other expenses mainly comprises of research and development expenses and fair value changes in financial assets at fair value through profit and loss.

The research and development expenses mainly consists of various expenses incurred in the course of research and development of products, technologies, materials, crafts and standards. For the year ended 31 December 2021, research and development expenses amounted to approximately RMB43.8 million (2020: RMB50.2 million), representing a decrease of approximately 12.7% compared to that for the same period of previous year. The decrease in research and development expenses was due to the delay in the progress of some outsourced research and development projects due to the impact of the pandemic.

The fair value changes in financial assets at fair value through profit and loss mainly represented the fair value adjustment on certain unlisted wealth management products purchased by the Group from a bank with a principal amount of RMB37.0 million, which were overdue for redemption and had high recoverability uncertainties due to the uncertainties surrounding certain bonds issued by property developers in the PRC. The Group provided full provision of these wealth management products, has been actively seeking legal advice and taking necessary legal measures against the relevant issuers to recover any investment losses as far as possible, thus safeguarding the interests of the Company and its shareholders.

Finance Costs

Finance costs consists of interest on bank borrowings and interest on lease liabilities, which amounted to RMB7.1 million for the year ended 31 December 2021 (2020: RMB5.2 million). The increase was mainly due to the increase in lease liabilities and effective interest rate of bank overdrafts.

Income Tax Expense

Income tax expense amounted to RMB9.4 million for the year ended 31 December 2021 (2020: RMB28.6 million). The decrease was primarily due to the impacts of the fair value changes in financial assets at fair value through profit and loss and the deferred income tax.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent decreased by 62.4% to RMB52.1 million for the year ended 31 December 2021 (2020: RMB138.5 million). The Group's net profit margin amounted to 3.0% for the year ended 31 December 2021 (2020: 8.6%).

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB356.6 million as at 31 December 2021 (2020: RMB398.4 million). The Group's cash and bank balances decreased from RMB294.0 million as at 31 December 2020 to RMB233.4 million (which consisted of cash and bank balances of RMB229.6 million and HK$3.8 million denominated in RMB and HKD respectively) as at 31 December 2021. The current ratio of the Group decreased from approximately 1.8 as at 31 December 2020 to 1.7 as at 31 December 2021.

Borrowing and the Pledge of Assets

The Group had outstanding unsecured borrowings of RMB32.7 million and HK$30.0 million as at 31 December 2021 (2020: RMB20 million and HK$70 million).

As at 31 December 2021, the Group had available unutilised banking facilities of RMB87.3 million (2020: RMB40 million) and HK$10.0 million (2020: HK$nil).

Gearing Ratio

The Group's gearing ratio as at 31 December 2021 was 6.4% (2020: 9.6%).

Capital Structure

The shares of the Company (the "Share(s)") 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 2021, the number of issued shares of the Company was 863,600,000 ordinary Shares of HK$0.01 each.

Subscription of New Shares

On 29 June 2021, the Company entered into a subscription agreement with Novich Dingli International Investment Limited ("Novich"), a company incorporated in the British Virgin Islands with limited liability, an independent third party, and advised and managed by its shareholders Novich Positioning Investment (Cayman) Limited, which in turn is indirectly wholly-owned by Shanghai Novich Positioning Investment Management Co., Limited* (上海諾偉其定位投資管理有限公司), pursuant to which Novich has conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue a total of 23,600,000 ordinary Shares of HK$0.01 each at the subscription price of HK$1.53 per Share (the "Subscription").

The closing price per Share as quoted on the Stock Exchange on 29 June 2021, being the date of the subscription agreement, was HK$1.50. The gross proceeds from the Subscription were approximately HK$36,108,000 and the net proceeds from the Subscription, after deduction of all relevant cost and expenses, were approximately HK$36,055,430, representing a net issue price of approximately HK$1.53 per subscription Share. The Company intends to use the net proceeds to enhance the public awareness of the brand and for distribution of shareholders' dividend.

The Board considers that, while broadening the shareholder base, the Subscription represents a valuable opportunity for the Company to bring in an investment fund as a shareholder which can enhance the corporate image of the Group. Also, the Board believes that the Group will continue to grow with Novich and create greater value and explore new business opportunities for the Company through the network and synergy with Novich.

The completion date of the Subscription was 26 August 2021. Details of the Subscription were published in the Company's announcement dated 29 June 2021.

* *for identification purpose only*

USE OF PROCEEDS

As at 31 December 2021, the proceeds from the Subscription were fully utilized.

An analysis of the utilization of the net proceeds from the Subscription up to 31 December 2021 is set out below:

	Percentage to the total amount	Net proceeds HK$ million	Utilized amount up to 31 December 2021 HK$ million	Unutilized amount up to 31 December 2021 HK$ million
Enhancing the distribution network and the public awareness of the Company's brand	50%	18	18	—
Building reputation and dividend distribution	50%	18	18	—
	100%	36	36	—

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 2021. 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 (the "Defined Contribution Schemes"). 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 2021, the Group had 3,152 employees (2020: 3,289) with a total remuneration of RMB343.1 million during the Reporting Period (2020: RMB329.7 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.

The contributions by the Group for the Defined Contribution Schemes are charged to the statement of profit or loss as they become payable in accordance with the relevant rules of the respective schemes.

The Group's contributions to the Defined Contribution Schemes vest fully and immediately with the employees. Accordingly, (i) for each of the two years ended 31 December 2020 and 31 December 2021, there was no forfeiture of contributions under the Defined Contribution Schemes; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the Defined Contribution Schemes as at 31 December 2020 and 31 December 2021.

For each of the two years ended 31 December 2020 and 31 December 2021, the Group did not have any defined benefit plan.

SIGNIFICANT INVESTMENTS

Discloseable Transaction: Construction Contracts

On 10 October 2020, (i) Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd (廣東雲智中藥飲片有限公司) ("Guangdong Yunzhi"), a wholly-owned subsidiary of the Company, entered into the Yunfu Factory First Construction Contract with 廣東省正東建設有限公司 ("Guangdong Zhengdong"), pursuant to which Guangdong Zhengdong shall provide construction services to Guangdong Yunzhi for the construction of the Yunfu Factory at a consideration of RMB27,000,000; and (ii) Zhongshan Zhongzhi Property Management Company Limited (中山中智物業管理有限公司) ("Zhongshan Zhongzhi"), a wholly-owned subsidiary of the Company, entered into the Zhongshan Factory First Construction Contract with Guangdong Zhengdong, pursuant to which Guangdong Zhengdong shall provide construction services to Zhongshan Zhongzhi for the construction of the Zhongshan Factory at a consideration of RMB31,190,000.

On 24 March 2021, (i) Guangdong Yunzhi, a wholly-owned subsidiary of the Company, further entered into the Yunfu Factory Second Construction Contract with Guangdong Zhengdong, pursuant to which Guangdong Zhengdong shall provide further construction services to Guangdong Yunzhi for the construction of the Yunfu Factory at a consideration of RMB46,000,000; and (ii) Zhongshan Zhongzhi, a wholly-owned subsidiary of the Company, further entered into the Zhongshan Factory Second Construction Contract with Guangdong Zhengdong, pursuant to which Guangdong Zhengdong shall provide further construction services to Zhongshan Zhongzhi for the construction of the Zhongshan Factory at a consideration of RMB25,000,000. For details, please refer to the announcement and supplemental announcement of the Company dated 24 March 2021 and 7 April 2021.

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

Save as disclosed under the section headed "SIGNIFICANT INVESTMENTS", there were no significant events after the Reporting Period up to the date of this announcement.

CAPITAL COMMITMENT

As at 31 December 2021, the Group's capital commitment amounted to RMB33.2 million (2020: RMB65.9 million). The capital commitment is mainly related to the construction of two new buildings and the additions of new fixed assets, the rest of 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. Among which, certain floors of the new factories in Yunfu had been put into use in October 2021, and the buildings of the premises in Zhongshan are expected to be put into use in April 2022.

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 2021 (2020: 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 from 1 January 2021 to 24 March 2021:

Code Provision C.2.1

Pursuant to CG Code provision C.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 C.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 2021 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

During the Reporting Period, the trustee of the share award plan (as adopted by the Group on 8 January 2016) (the "Share Award Plan"), pursuant to the rules and trust deed of the Share Award Plan, purchased on the Stock Exchange a total of 3,323,000 Shares of the Company at a total consideration of approximately HK$5.3 million on 18 June 2021. Save as disclosed above, 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 2021.

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 2021 in order to maintain a healthy cash flow.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 17 May 2022 to Friday, 20 May 2022, 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 Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Monday, 16 May 2022.

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 2021 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 2022

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. Lai Ying Sheng and Mr. Cao Xiao Jun. The non-executive Directors are Ms. Jiang Li Xia and Mr. Peng Zhiyun. The independent non-executive Directors are Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han.

* *for identification purposes only*