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Zhongzhi Pharmaceutical Holdings Limited

中智藥業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3737)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS:

The Group's revenue for the six months ended 30 June 2022 amounted to approximately RMB846.4 million, representing a decrease of approximately 4.5% when compared to the six months ended 30 June 2021.

The Group's gross profit for the six months ended 30 June 2022 amounted to approximately RMB505.2 million, representing a decrease of approximately 7.4% when compared to the six months ended 30 June 2021. Gross profit margin decreased by approximately 1.9 percentage point to approximately 59.7%, as compared to the six months ended 30 June 2021.

Profit attributable to owners of the parent amounted to approximately RMB77.0 million, representing an increase of approximately 15.7% as compared to the six months ended 30 June 2021.

Basic earnings per share was approximately RMB9.1 cents for the six months ended 30 June 2022, representing an increase of approximately 12.3% from approximately RMB8.1 cents for the six months ended 30 June 2021.

The Board has recommended not to distribute any interim dividend for the six months ended 30 June 2022 (no dividend was distributed for the six months ended 30 June 2021).

INTERIM RESULTS

The board (the “Board”) of directors (“Directors”) of Zhongzhi Pharmaceutical Holdings Limited (the “Company”) presents the interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2022 (the “Reporting Period”), together with the unaudited comparative figures for the six months ended 30 June 2021. These interim condensed consolidated financial information have not been audited, but have been reviewed by the Company’s audit committee (the “Audit Committee”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

		Six months ended 30 June	
	Notes	2022	2021
		RMB’000	RMB’000
		(Unaudited)	(Unaudited)
REVENUE	4	846,397	886,716
Cost of sales		(341,214)	(340,898)
Gross profit		505,183	545,818
Other income and gains	4	12,520	9,220
Selling and distribution expenses		(349,997)	(398,749)
Administrative expenses		(49,198)	(47,078)
Other expenses		(20,158)	(25,593)
Finance costs		(2,936)	(3,462)
PROFIT BEFORE TAX	5	95,414	80,156
Income tax expense	6	(17,875)	(13,612)
PROFIT FOR THE PERIOD		77,539	66,544
Attributable to:			
Owners of the parent		77,048	66,588
Non-controlling interests		491	(44)
		77,539	66,544
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
— For profit for the period		RMB0.091	RMB0.081
Diluted			
— For profit for the period		RMB0.091	RMB0.081

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>77,539</u>	<u>66,544</u>
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	<u>(919)</u>	<u>601</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	<u>(919)</u>	<u>601</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u>76,620</u>	<u>67,145</u>
Attributable to:		
Owners of the parent	<u>76,129</u>	<u>67,189</u>
Non-controlling interests	<u>491</u>	<u>(44)</u>
	<u>76,620</u>	<u>67,145</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	414,657	410,286
Investment properties	9	45,026	40,778
Prepayment for property, plant and equipment		208	3,481
Right-of-use assets		132,095	137,025
Goodwill		1,628	1,628
Other intangible assets	10	16,551	18,290
Investment in a joint venture		399	381
Equity investments at fair value through profit or loss	11	8,925	9,367
Deferred tax assets		27,242	31,969
Prepayments	14	850	5,950
Other non-current assets		6,558	7,513
Total non-current assets		654,139	666,668
CURRENT ASSETS			
Inventories	12	256,625	268,057
Trade and notes receivables	13	346,411	293,559
Prepayments, deposits and other receivables	14	34,637	53,645
Equity investments at fair value through profit or loss	11	14,078	8,795
Cash and cash equivalents	15	253,533	233,381
Total current assets		905,284	857,437
CURRENT LIABILITIES			
Trade payables	16	113,939	120,828
Interest-bearing bank borrowings		48,151	57,243
Other payables and accruals	17	209,951	229,400
Lease liabilities		35,173	37,874
Amounts due to related parties		8,786	8,786
Deferred income	18	18,819	18,925
Amount due to a joint venture		66	64
Tax payable		26,905	27,711
Total current liabilities		461,790	500,831
NET CURRENT ASSETS		443,494	356,606
TOTAL ASSETS LESS CURRENT LIABILITIES		1,097,633	1,023,274

		30 June 2022	31 December 2021
	Notes	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income	18	14,294	15,429
Lease liabilities		78,915	80,624
Deferred tax liabilities		26,869	26,056
		<hr/>	<hr/>
Total non-current liabilities		120,078	122,109
		<hr/>	<hr/>
Net assets		977,555	901,165
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	19	6,847	6,847
Reserves		968,022	891,893
		<hr/>	<hr/>
		974,869	898,740
		<hr/>	<hr/>
Non-controlling interests		2,686	2,425
		<hr/>	<hr/>
Total equity		977,555	901,165
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the parent											
	Issued capital	Shares held for the share award plan	Share premium	Merger reserve	Statutory surplus reserve	Share-based payment	Share award reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022 (audited)	6,847	(25,600)*	202,871*	31,200*	90,776*	5,680*	(2,079)*	21,702*	567,343*	898,740	2,425	901,165
Profit for the period	—	—	—	—	—	—	—	—	77,048	77,048	491	77,539
Other comprehensive income for the period												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(919)	—	(919)	—	(919)
Total comprehensive income for the period	—	—	—	—	—	—	—	(919)	77,048	76,129	491	76,620
Transfer from retained profits	—	—	—	—	12,542	—	—	—	(12,542)	—	—	—
Dividend declared	—	—	—	—	—	—	—	—	—	—	(230)	(230)
At 30 June 2022 (unaudited)	6,847	(25,600)*	202,871*	31,200*	103,318*	5,680*	(2,079)*	20,783*	631,849*	974,869	2,686	977,555

* These reserve accounts comprise the consolidated reserve of RMB968,022,000 (31 December 2021: RMB891,893,000) in the consolidated statement of financial position.

	Attributable to owners of the parent											
	Issued capital	Shares held for the share award plan	Share premium	Merger reserve	Statutory surplus reserve	Share-based payment	Share award reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021 (audited)	6,650	(21,217)*	173,030*	31,200*	57,698*	5,680*	(2,079)*	20,921*	548,293*	820,176	1,587	821,763
Profit for the period	—	—	—	—	—	—	—	—	66,588	66,588	(44)	66,544
Other comprehensive income for the period												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	601	—	601	—	601
Total comprehensive income for the period	—	—	—	—	—	—	—	601	66,588	67,189	(44)	67,145
Capital contribution by a non-controlling shareholder	—	—	—	—	—	—	—	—	—	—	600	600
Shares repurchased	—	(4,380)	—	—	—	—	—	—	—	(4,380)	—	(4,380)
Transfer from retained profits	—	—	—	—	3,979	—	—	—	(3,979)	—	—	—
At 30 June 2021 (unaudited)	6,650	(25,597)*	173,030*	31,200*	61,677*	5,680*	(2,079)*	21,522*	610,902*	882,985	2,143	885,128

* These reserve accounts comprise the consolidated reserve of RMB876,335,000 (31 December 2020: RMB813,526,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		95,414	80,156
Adjustments for:			
Finance costs	5	2,936	3,462
Bank interest income	4	(1,768)	(249)
Interest income from financial assets at fair value through profit or loss	4	(92)	(1,897)
Dividend income from an equity investment at fair value through profit or loss	4	(48)	(570)
Loss/(Gain) on disposal of items of property, plant and equipment	4	621	(91)
Depreciation of property, plant and equipment and investment properties	5, 9	22,705	18,632
Depreciation of right-of-use assets	5	21,490	20,796
Amortisation of other intangible assets	5, 10	1,739	1,556
Government grants released	18	(5,872)	(2,358)
Fair value losses/(gains), net:			
Equity investments at fair value through loss or profit	5	1,097	2,053
Financial assets at fair value through profit or loss	5	(1,153)	—
Gain on disposal of equity investment at fair value through profit or loss		—	(452)
Impairment losses on trade receivables	5	210	493
Write-down/(Reversal) of inventories to net realisable value	5	504	(47)
		137,783	121,484
Decrease/(Increase) in inventories		10,929	(18,207)
Increase in trade and notes receivables		(67,382)	(55,690)
Decrease in prepayments, deposits and other receivables		24,106	10,251
Decrease/(increase) in non-current assets		955	(685)
(Decrease)/Increase in trade payables		(6,889)	6,460
Increase/(decrease) in other payables and accruals		90	(19,262)
Increase in deferred income		4,631	4,737
Cash generated from operations		104,223	49,088
Interest paid		(706)	(1,318)
Income tax paid		(13,141)	(21,347)
Net cash flows from operating activities		90,376	26,423

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(38,379)	(81,038)
Decrease in prepayments for purchases of property, plant and equipment		3,273	19,010
Proceeds from disposal of items of property, plant and equipment		1,213	262
Purchase of other intangible assets		—	(461)
Purchases of an equity investment at fair value through profit or loss		—	(5)
Proceeds upon maturity of financial assets at fair value through profit or loss		1,153	—
Proceeds from disposal of equity investments at fair value through profit or loss		62	6,670
Purchase of equity investments at fair value through profit or loss		(5,996)	—
Purchases of financial assets at fair value through profit or loss		—	(37,000)
Bank interest received	4	1,768	249
Interest received from financial assets at fair value through profit or loss	4	92	1,897
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		—	63,000
Acquisition of a subsidiary		—	(782)
Dividend received from an equity investment	4	48	570
Net cash flows used in investing activities		<u>(36,766)</u>	<u>(27,628)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		(23,201)	(22,159)
Proceeds from borrowings		4,548	42,471
Repayments of bank borrowings		(13,640)	(20,000)
Purchase of shares held under the Share Award Plan		—	(4,379)
Dividends paid to non-controlling shareholders		(231)	—
Capital contribution from a non-controlling shareholder		—	600
Net cash flows used in financing activities		<u>(32,524)</u>	<u>(3,467)</u>

		Six months ended 30 June	
		2022	2021
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		21,086	(4,672)
Cash and cash equivalents at beginning of period		153,381	151,032
Exchange of foreign exchange rate changes, net		(934)	601
		<u>173,533</u>	<u>146,961</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	15	173,533	140,834
Non-pledged time deposits	15	80,000	86,127
		<u>253,533</u>	<u>226,961</u>
Cash and bank balances as stated in the statement of financial position		253,533	226,961
Non-pledged time deposits with original maturity of more than three months when acquired		(80,000)	(80,000)
		<u>173,533</u>	<u>146,961</u>
Cash and cash equivalents at end of the period		173,533	146,961

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Zhongzhi Pharmaceutical Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is 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 principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacture and sale of pharmaceutical products and operation of chain pharmacies in the People’s Republic of China (the “PRC”). There has been no significant change in the Group’s principal activities during the year.

In the opinion of the Directors, as at the date of this 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. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), including compliance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2021.

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

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS 3
Amendment to IFRS 16
Amendments to IAS 16

Amendments to IAS 37
Annual Improvements to IFRSs 2018-2020

Reference to the Conceptual Framework
Covid-19-Related Rent Concessions beyond 30 June 2021
Property, Plant and Equipment: Proceeds before Intended Use

Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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

- (a) Amendments to IFRS 3 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 June 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 HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or HK(IFRIC)-Int 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 has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendment 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 Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) 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 Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to IFRSs 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are 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. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - 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.

In prior years the Group managed its business based on distribution channels and had three reportable operating segments being pharmaceutical manufacturing, operation of chain pharmacies and operation of on-line pharmacies. In 2022, the Group has changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change. The financial information of operation of chain pharmacies and operation of on-line pharmacies are reported to the chief operating decision maker aggregately. Accordingly, two operating segments are presented as follows:

- (a) Pharmaceutical manufacturing
- (b) Operation of chain 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 six months ended 30 June 2022 and 2021, the Group had no revenue from transaction with a single customer which amounted to 10% or more of the Group's sales.

The revenue and results by operating segments of the Group during each of the six months ended 30 June 2022 and 2021 are as follows:

	Six months ended 30 June 2022		
	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of chain pharmacies RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue:			
Revenue from external customers (note 4)	536,773	309,624	846,397
Intersegment sales	304,161	—	304,161
Elimination of intersegment sales	<u>(304,161)</u>	<u>—</u>	<u>(304,161)</u>
Revenue	536,773	309,624	846,397
Cost of sales	<u>(168,749)</u>	<u>(172,465)</u>	<u>(341,214)</u>
Segment results	<u>368,024</u>	<u>137,159</u>	<u>505,183</u>
Reconciliation:			
Other income and gains			12,520
Selling and distribution expenses			(349,997)
Administrative expenses			(49,198)
Other expenses			(20,158)
Finance costs			<u>(2,936)</u>
Profit before tax			<u>95,414</u>
	Six months ended 30 June 2021		
	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of chain pharmacies RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue:			
Revenue from external customers (note 4)	535,533	351,183	886,716
Intersegment sales	32,813	—	32,813
Elimination of intersegment sales	<u>(32,813)</u>	<u>—</u>	<u>(32,813)</u>
Revenue	535,533	351,183	886,716
Cost of sales	<u>(137,497)</u>	<u>(203,401)</u>	<u>(340,898)</u>
Segment results	<u>398,036</u>	<u>147,782</u>	<u>545,818</u>
Reconciliation:			
Other income and gains			9,220
Selling and distribution expenses			(398,749)
Administrative expenses			(47,078)
Other expenses			(25,593)
Finance costs			<u>(3,462)</u>
Profit before tax			<u>80,156</u>

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after allowances for returns and trade discounts, for the six months ended 30 June 2022.

For the six months ended 30 June 2022, the revenue from contracts with customers is recognised at a point in time.

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue		
Sale of pharmaceutical products	<u>846,397</u>	<u>886,716</u>
Other income		
Bank interest income	1,768	249
Dividend income	48	570
Interest income from financial assets at fair value through profit or loss	<u>92</u>	<u>1,897</u>
	<u>1,908</u>	<u>2,716</u>
Gains		
Government grants:		
— Related to assets	1,659	998
— Related to income	4,213	1,360
Fair value gain on equity investments and financial assets at fair value through profit or loss	71	—
Gain on disposal of items of property, plant and equipment	—	108
Others	<u>4,669</u>	<u>4,038</u>
	<u>10,612</u>	<u>6,504</u>
	<u>12,520</u>	<u>9,220</u>

5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cost of inventories sold		341,214	340,898
Depreciation	9	22,705	18,632
Depreciation of right-of-use assets*		21,490	20,796
Amortisation of other intangible assets*	10	1,739	1,556
Research and development costs		17,981	22,291
Advertising, marketing and promotion expenses		212,329	215,711
Write-down/(Reversal) of inventories to net realisable value		504	(47)
Impairment losses on trade receivables		210	493
Fair value gain/(loss):			
Equity investments at fair value through profit or loss**		(1,097)	(2,053)
Financial assets at fair value through profit or loss**		1,153	—
Finance costs		2,936	3,462
Auditor's remuneration		1,026	1,235
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		118,870	138,046
Pension scheme contributions (defined contribution scheme)		9,405	9,718
Staff welfare expenses		6,121	7,734
Equity-settled share award expense		—	—
		134,396	155,498

* The depreciation of right-of-use assets and the amortisation of other intangible assets for the reporting period is included in "Administrative expenses", and "Selling and distribution expenses" in the consolidated statement of profit or loss.

** The fair value loss of equity investments at fair value through profit or loss and financial assets at fair value through profit or loss for the reporting period is included in "Other income and gains/Other 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 profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

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

Hong Kong profits tax rate is 16.5% (2021:16.5%) of the estimated assessable profit derived from Hong Kong. Since the Group had no such profit during the reporting period, no provision for Hong Kong profits tax has been made.

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

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in Mainland China during the reporting period was 25% of their taxable profits.

Zhongshan Honeson Pharmaceutical Co.,Ltd. and Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. are qualified as high and new technology enterprises and are subject to a preferential income tax rate of 15% for the six months ended 30 June 2022 and 2021, respectively.

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China		
Current income tax	12,336	16,242
Deferred income tax charge	5,539	(2,630)
	<hr/>	<hr/>
Total income tax expense	17,875	13,612
	<hr/>	<hr/>

In accordance with the Enterprise Income Tax Law of the PRC effective on 1 January 2008, a 10% (or a lower rate if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors) withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable to withholding taxes on dividends distributed by the PRC subsidiaries of the Company, in respect of earnings generated from 1 January 2008. As at 30 June 2022, the Group recognised a deferred tax liability of RMB17,790,000 (31 December 2021: RMB17,790,000) in respect of the withholding tax on future dividend distribution by the PRC entities.

7. DIVIDEND

No interim dividend or special dividend were declared for the six months ended 30 June 2022 and 2021.

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

The calculation of basic earnings per share for the period is based on the profit for the period attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 846,998,500 in issue during the period.

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

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>77,048</u>	<u>66,588</u>
	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue	863,600,000	840,000,000
Weighted average number of shares held for the share award plan (note 20)	<u>(16,601,500)</u>	<u>(13,500,033)</u>
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<u>846,998,500</u>	<u>826,499,967</u>
Effect of dilution — weighted average number of ordinary shares held for the share award plan	—	—
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<u>846,998,500</u>	<u>826,499,967</u>

9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Carrying amount at 1 January	410,286	303,163
Additions	32,808	190,090
Depreciation provided during the period/year	(22,705)	(39,445)
Transfer to investment properties	(3,898)	(40,778)
Disposals	<u>(1,834)</u>	<u>(2,744)</u>
Carrying amount at 30 June/31 December	<u>414,657</u>	<u>410,286</u>

The Group's buildings are located in Mainland China.

As at 31 December 2021 and 30 June 2022, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB44,885,000 and RMB120,929,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

Certain self-owned building of the Group was reclassified to investment properties with original cost of RMB52,428,000 and accumulated depreciation of RMB7,402,000. The investment property was stated at cost with fair value not lesser than the carrying amount. The fair value of the investment properties were valued at RMB48,800,000 as at 30 June 2022 by internal appraiser and were determined by income approach.

10. OTHER INTANGIBLE ASSETS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Carrying amount at 1 January	18,290	19,560
Additions	—	2,012
Amortisation provided during the period/year	<u>(1,739)</u>	<u>(3,282)</u>
Carrying amount at 30 June/31 December	<u>16,551</u>	<u>18,290</u>

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Equity investments at fair value through profit or loss		
Listed equity investment, at fair value	22,479	17,559
Unlisted equity investment, at fair value	<u>524</u>	<u>603</u>
	<u>23,003</u>	<u>18,162</u>

The above listed equity investment at 30 June 2022 was classified as equity investment at fair value through profit or loss as it was held for trading.

The above unlisted equity investment at 30 June 2022 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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Raw materials	45,949	45,366
Work in progress	11,839	15,150
Finished goods	<u>198,837</u>	<u>207,541</u>
	<u>256,625</u>	<u>268,057</u>

Inventories with a value of RMB699,000 (2021: RMB801,000) are carried at net realisable value, this being lower than cost.

13. TRADE AND NOTES RECEIVABLES

The Group's trading terms with its wholesale customers are mainly on credit. The credit period is generally not more than three months for major customers. As to new customers, payment in advance is normally required. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to customers with a good track record, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

An aged analysis of the trade receivables as at the end of the reporting periods, based on the invoice date, and the balances of notes receivable is as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade receivables:		
Within 1 month	131,265	145,731
1 to 3 months	80,376	53,993
3 to 6 months	43,725	30,072
6 to 12 months	25,821	15,447
Over 12 months	6,610	4,108
	287,797	249,351
Less: Impairment of trade receivables	(3,759)	(3,549)
	284,038	245,802
Notes receivable	62,373	47,757
	346,411	293,559

The notes receivables are settled within 180 days. As at 30 June 2022, the Group continued to recognise endorsed notes receivable and associated liabilities amounting to RMB12,708,000 (2021: RMB27,028,000) respectively. The directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining endorsed notes.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Current		
Prepayments	17,625	24,095
Tax recoverable	4,120	13,881
Deposits and other receivables	12,892	15,669
	<u>34,637</u>	<u>53,645</u>
Non-current		
Prepayments	<u>850</u>	<u>5,950</u>

15. CASH AND CASH EQUIVALENTS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Cash and bank balances	173,533	153,381
Non-pledged time deposits	80,000	80,000
	<u>253,533</u>	<u>233,381</u>
Denominated in:		
— RMB	249,269	229,603
— HK\$	4,264	3,778
	<u>253,533</u>	<u>233,381</u>

16. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2021 and 30 June 2022, based on the invoice date, is as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 3 months	101,694	112,019
3 to 6 months	5,971	1,456
6 to 12 months	3,157	4,556
over 12 months	3,117	2,797
	<u>113,939</u>	<u>120,828</u>

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

17. OTHER PAYABLES AND ACCRUALS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Accruals and other payables	69,434	62,207
Accrued salaries and welfare	31,082	38,977
Contract liabilities	10,068	10,885
Endorsed notes	12,708	27,028
Deposits received	58,865	56,292
Payables for purchases of property and equipment	9,167	14,388
Other tax payables	18,627	19,623
	<u>209,951</u>	<u>229,400</u>

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

18. DEFERRED INCOME

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
At 1 January	34,354	37,713
Received amounts	4,631	10,566
Released amounts	(5,872)	(13,925)
	<u>33,113</u>	<u>34,354</u>
At 30 June/31 December	<u>33,113</u>	<u>34,354</u>
Current	18,819	18,925
Non-current	14,294	15,429
	<u>33,113</u>	<u>34,354</u>

19. ISSUED CAPITAL

Issued Capital

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

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Issued and fully paid: 863,600,000 (2021: 863,600,000) ordinary shares of HK\$0.01 each (HK\$'000)	<u>8,636</u>	<u>8,636</u>
Equivalent to RMB'000	<u>6,847</u>	<u>6,847</u>

20. SHARE AWARD PLAN

A share award plan was adopted on 8 January 2016 (the “Share Award Plan”). The Share Award Plan is a share incentive scheme and is established to recognize the contributions by certain selected persons and to attract suitable individuals with experience and ability to further development and expansion of the Group.

The awarded shares will be either (i) allotted and issued by the Company, by using the general or specific mandates granted or to be granted to the board of directors by the shareholders of the Company at general meetings of the Company from time to time, or (ii) acquired by an independent trustee (“Trustee”) from the open market by utilizing the Company’s resources provided to the Trustee. The maximum numbers of shares in respect of which options may be granted under the Share Award Plan cannot result in the aggregate number of shares awarded by the board of directors throughout the duration of the plan to be in excess of 1% of the issued share capital of the Company.

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

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

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

In 2017, the Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.70) on the day of the grant, amounting to HK\$1,823,000 (equivalent to approximately RMB1,618,000).

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

The board of directors also approved to grant certain shares with a maximum number of 5,940,000 shares to certain employees, service providers and distributors (the “Eligible Persons”) on 25 March 2019, which was subject to satisfaction of certain performance target for year 2019. According to the achievement status of performance of the Eligible Persons, 1,200,000 shares were vested while the remaining was forfeited due to failure to meet the performance target. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.439) on the day of the grant, amounting to HK\$1,727,000 (equivalent to approximately RMB1,477,000).

The Company granted 850,000 shares to certain employees on 2 November 2020 and the vesting date of the shares was 2 November 2020. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.52) on the day of the grant, amounting to HK\$1,292,000 (equivalent to approximately RMB1,117,000).

On 20 October 2020, the board of directors approved to purchase shares as reserve for future granting. From 21 December 2020 to 30 December 2020, the Group purchased 8,677,000 shares in an aggregate amount of HK\$14,268,000 (equivalent to approximately RMB12,322,000).

On 17 June 2021, the board of directors approved to purchase shares as reserve for future granting. On 18 June 2021, the Group purchased 3,323,000 shares in an aggregate amount of HK\$5,288,000 (equivalent to approximately RMB4,379,000).

The Group recognised a share award expense of nil for the six months ended 30 June 2021 and 2022.

At the date of approval of this interim condensed consolidated financial information, 16,601,500 shares of the Company are held by the Trustee and have yet to be awarded.

21. COMMITMENTS

Capital commitments

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Contracted, but not provided for:		
Leasehold improvements	4,212	14,399
Intangible assets	—	13,950
Plant and machinery	1,402	4,850
	<u>5,614</u>	<u>33,199</u>

At the end of 31 December 2021 and 30 June 2022, the Group had significant authorised but not contracted capital commitment of RMB5,499,000 and nil, respectively.

22. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2021 and 30 June 2022 represent consideration received from the registered shareholders as part of the historical reorganisation. Pursuant to the Contractual Arrangements, the consideration is repayable to the Registered Shareholders upon exercise of the option to repurchase the equity interest of Zhongzhi Herbal Pieces by the Group. The amounts are unsecured, interest-free and have no fixed term of repayment.

(b) Compensation of key management personnel of the Group:

	Six months ended 30 June 2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	5,238	5,314
Pension scheme contributions	109	104
	<u>5,347</u>	<u>5,418</u>

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Financial assets				
Equity investments at fair value through profit or loss	<u>23,003</u>	<u>18,162</u>	<u>23,003</u>	<u>18,162</u>

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

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

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

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

Fair value hierarchy

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

Assets measured at fair value:

As at 30 June 2022

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Equity investment at fair value through profit or loss	<u>22,479</u>	<u>—</u>	<u>524</u>	<u>23,003</u>

As at 31 December 2021

	Fair value measurement using			Total RMB'000 (Audited)
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	
Equity investment at fair value through profit or loss	<u>17,559</u>	<u>—</u>	<u>603</u>	<u>18,162</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

By virtue of the clear strategic positioning, in 2022, Zhongzhi Pharmaceutical grasped the best strategic pulse of development, successfully formed its unique brand and marketing mode, and conducted organisational transformation, which resulted in high synergy and enabled it to stay at the top of the industry.

- During the Reporting Period, the Group recorded a total revenue of approximately RMB846.4 million (corresponding period in 2021: RMB886.7 million), representing a decrease of approximately 4.5% over the corresponding period in last year.
- The Group recorded a profit for the period of approximately RMB77.5 million (corresponding period in 2021: RMB66.5 million), representing an increase of approximately 16.5% over the corresponding period in last year.
- The basic earnings per share is RMB9.1 cents (corresponding period in 2021: RMB8.1 cents), representing an increase of approximately 12.3% over the corresponding period in last year.

FUTURE AND OUTLOOK

In 2022, the Company focuses on its goals and implement various targets. Under the ever-changing environment, the Company will develop rationally, while constantly paying attention to and reviewing the external environment to identify opportunities and act in a timely manner. While continuing to develop rapidly, the company will focus on the quality of development for the year to ensure healthy and high-quality sustainable development, and this concept will run through all links.

Manufacturing Segment

In 2022, macro-trends continue to be ever-shifting, with complicated environments, decrease in disposable income, and the rebound of Covid-19 pandemic, causing a short term economic slow down. However, under the leadership of the Chinese government together with the joint efforts of the People, the pandemic once again was controlled and a modest growth in gross domestic product (GDP) was achieved. Despite the complexity in environment, traditional Chinese medicine has been recognized as a crucial component combating the pandemic, same fact has also been echoed internationally. In 2022, the Group continues to vigorously promote the concept of Chinese medicines health care so that more people can understand, come into contact with and use Chinese medicines. During the first half of 2022, the Group reduced spendings on non-crucial segments, implemented tighter cost control methods, focusing on core business segments, which have resulted in favorable performance thus far. The Group's Chinese patented medicines segment through changes in sales model, reached greater market coverage, resulting in pleasant results.

Chain Pharmacies Segment

National pharmacy chains faced various challenges arising from external environment in 2022. Under the Covid-19 epidemic, in response to the national pandemic prevention requirements, chain pharmacies have become lookout points to detect early signs of the pandemic. While ensuring safety, this measure has changed consumers' consumption habits in pharmacies, shortened the time spent at pharmacies, reduced the purchase of non-urgently needed medicines, and in-turn lowered the average customer spendings. In addition, the Covid-19 pandemic has promoted the habit of consumers to buy medicines online, which has significantly increased the proportion of online platform sales. In the first half of 2022, the construction project of the chain headquarters in Zhongshan was completed. The new headquarters has already fully met the needs of office staff. 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 has greatly improved overall work efficiency, reduced the existing workload and will meet the demands of the continued rapid expansion of Zhongzhi Chain Pharmacies. The chain segment business of the Group will develop more firmly and rapidly, accelerate the expansion of pharmacies, further cover the Zhongshan market, and continue to explore new business opportunities to maintain the leading development of chain pharmacies in Zhongshan.

FINANCIAL ANALYSIS

Revenue

In prior years the Group managed its business based on distribution channels and had three reportable operating segments being pharmaceutical manufacturing, operation of chain pharmacies and operation of on-line pharmacies. In 2022, the Group has changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change. The financial information of operation of chain pharmacies and operation of on-line pharmacies are reported to the chief operating decision maker aggregately. Accordingly, two operating segments are presented being pharmaceutical manufacturing and operation of chain pharmacies in Zhongshan. Below is an analysis of revenue by segment.

	Revenue for the six months ended 30 June			% of total revenue for the six months ended 30 June		
	2022 RMB'000	2021 RMB'000	Change (%)	2022 (%)	2021 (%)	Change (%)
Pharmaceutical manufacturing	536,773	535,533	0.2	63.4	60.4	3.0
Operation of chain pharmacies	309,624	351,183	-11.8	36.6	39.6	3.0
	846,397	886,716	-4.5	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 Caojinghua Cell Broken Herb (cell wall broken decoction pieces (草晶華破壁草本(破壁飲片))) under the Group's brands in the PRC. The Group's brands include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

Revenue derived from pharmaceutical manufacturing increased by approximately 0.2% to RMB536.8 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB535.5 million) and accounted for 63.4% of the total revenue during the Reporting Period (six months ended 30 June 2021: 60.4%).

Operation of Chain Pharmacies

The Group has been operating chain pharmacies in Zhongshan under the brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at 30 June 2022, the Group has 397 self-operated chain pharmacies in Zhongshan (as at 30 June 2021: 379), of which 386 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies decreased by approximately 11.8% to RMB309.6 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB351.2 million) and accounted for 36.6% of the total revenue during the Reporting Period (six months ended 30 June 2021: 39.6%). The decrease was primarily attributable to the decline in on-line channel sales.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the Reporting Period was RMB505.2 million, representing a decrease of approximately 7.4% as compared with RMB545.8 million for the six months ended 30 June 2021. The analysis of gross profit by segment is as below:

	Gross profit for the six months ended 30 June			Gross profit margin for the six months ended 30 June		
	2022 RMB'000	2021 RMB'000	Change (%)	2022 (%)	2021 (%)	Change (%)
Pharmaceutical manufacturing	368,024	398,036	-7.5	68.6	74.3	-5.7
Operation of chain pharmacies	137,159	147,782	-7.2	44.3	42.1	2.2
	505,183	545,818	-7.4	59.7	61.6	-1.9

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment decreased by approximately 7.5% to RMB368.0 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB398.0 million). The gross profit margin decreased to 68.6% for the six months ended 30 June 2022 (six months ended 30 June 2021: 74.3%). The decrease in gross profit margin was mainly due to the increase in the costs of materials purchased for industrial production and the change in the gross profit structure of sales varieties.

Operation of Chain Pharmacies

The gross profit of chain pharmacies segment decreased by 7.2% to RMB137.2 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB147.8 million). The gross profit margin of the chain pharmacies segment increased to 44.3% for the six months ended 30 June 2022 (six months ended 30 June 2021: 42.1%). Gross profit margin increased compared to prior year, which was mainly due to decreased promotional efforts.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, changes in the fair value of financial assets and government grants. For the six months ended 30 June 2022, other income and gains of the Group were approximately RMB12.5 million (six months ended 30 June 2021: RMB9.2 million), representing an increase of approximately RMB3.3 million as compared to corresponding period in last year, which was mainly attributable to the increase in government grants.

Selling and Distribution Expenses

Selling and distribution expenses mainly represent staff costs, advertisement and promotional costs and rental expenses of the Group's chain pharmacies. Selling and distribution expenses for the six months ended 30 June 2022 amounted to approximately RMB350.0 million (six months ended 30 June 2021: RMB398.7 million), representing a decrease of approximately 12.2% as compared to corresponding period in last year. Selling and distribution expense ratio decreased to 41.4% (six months ended 30 June 2021: 45.0%) against revenue for the six months ended 30 June 2022. The decrease in the Group's selling and distribution expenses during the Reporting Period was mainly due to the reduction in advertisement and promotion inputs.

Administrative Expenses

Administrative expenses mainly represent salaries and benefits of the administrative office and management staff as well as legal and professional fees. Administrative expenses amounted to approximately RMB49.2 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB47.1 million), representing an increase of approximately 4.5% as compared to corresponding period in last year. The increase was mainly attributable to the increases in depreciation and amortisation and office expense of the Yunfu Factory and the chain building.

Income Tax Expense

Income tax expense amounted to approximately RMB17.9 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB13.6 million). The increase was mainly due to an increase in profit.

Profit Attributable to Owners of the Parent

As a result of the factors discussed above, profit attributable to owners of the parent increased by 15.7% to RMB77.0 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB66.6 million). The Group's net profit margin maintained at 9.2% for the six months ended 30 June 2022 (six months ended 30 June 2021: 7.5%).

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

As at 30 June 2022, the Group had net current assets of approximately RMB443.5 million (31 December 2021: RMB356.6 million). As at 30 June 2022, the Group's total cash and bank balances amounted to approximately RMB253.5 million (31 December 2021: RMB233.4 million). The current ratio of the Group maintained at approximately 2.0 as at 30 June 2022 (30 June 2021: 1.7).

The equity attributable to shareholders of the Company as at 30 June 2022 amounted to approximately RMB977.6 million (31 December 2021: RMB901.2 million). As at 30 June 2022, the Group had outstanding unsecured borrowings of RMB19.1 million at a fixed interest rate and HK\$34.0 million at a floating interest rate (31 December 2021: RMB32.7 million and HK\$30.0 million).

The Group's gearing ratio (borrowings over total equity) as at 30 June 2022 was 4.9% (31 December 2021: 6.4%).

As at 30 June 2022, the Group had available unutilized banking facilities of RMB71.8 million (31 December 2021: RMB87.3 million) and HK\$nil (31 December 2021: HK\$10.0 million).

The Group adopts a centralized management of its financial resources and always maintains a prudent approach for a steady financial position.

Financing

The Board considers that the existing financial resources together with funds generated from business operations will be sufficient to meet future expansion plans and, if necessary, the Group believes that it will be capable of obtaining additional financing with favorable terms.

CAPITAL STRUCTURE

The shares of the Company (the “Shares”) were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 13 July 2015. The capital of the Company comprises ordinary shares and other reserves. As at 30 June 2022, the number of issued shares of the Company was 863,600,000 ordinary shares of HK\$0.01 each.

FOREIGN EXCHANGE EXPOSURE AND EXCHANGE RATE RISK

The Group’s transactions are mainly denominated in RMB. Certain of the Group’s cash and bank deposits are denominated in Hong Kong dollars. In addition, the Company will pay dividend in Hong Kong dollars in the future. Any significant exchange rate fluctuations of Hong Kong dollars against RMB may have financial impacts on the Group. The Group did not use any forward contracts, currency borrowings or other means to hedge its foreign currency exposure as at 30 June 2022. 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.

CHARGE ON GROUP ASSETS

As at 30 June 2022 and 31 December 2021, the Group did not have any charges on its assets.

CAPITAL EXPENDITURE

For the six months ended 30 June 2022, the Group had capital expenditure of approximately RMB38.4 million (six months ended 30 June 2021: RMB81.0 million). The capital expenditure was mainly related to the purchasing of production equipment and the newly built chain building and Yunfu Factory.

INTERIM 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 interim dividend for the six months ended 30 June 2022 in order to maintain a healthy cash flow (six months ended 30 June 2021: nil).

EMPLOYEES AND EMOLUMENTS POLICY

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, commission, bonuses and the Group's contribution to mandatory provident funds or state-managed retirement benefits scheme. Other benefits include share options to be granted under the share option scheme adopted on 8 June 2015, which became effective on the Listing Date, and shares to be granted under the share award plan which was adopted and became effective on 8 January 2016.

As at 30 June 2022, the Group had 2,849 employees with a total remuneration of RMB134.4 million during the Reporting Period (six months ended 30 June 2021: RMB155.5 million) (including pension scheme contributions, staff welfare expenses and equity-settled share award expense). The salaries of the employees are determined with reference to individual performance, work experience, qualification and current industry practices.

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 six months ended 30 June 2022 and 30 June 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 30 June 2022 and 30 June 2021. For each of the two six months ended 30 June 2022 and 30 June 2021, the Group did not have any defined benefit plan.

SIGNIFICANT INVESTMENTS

Saved as disclosed herein, 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

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

CAPITAL COMMITMENT

As at 30 June 2022, the Group's capital commitment amounted to RMB5.6 million (31 December 2021: RMB33.2 million). The capital commitment is mainly related 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, the Group will devote its best effort and resources to cope with the increasing market demand in the Group's own-branded products, in order to enhance shareholder's value. The Group will also consider any potential investment opportunities which may benefit its shareholders as and when these opportunities arise.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 30 June 2022 (31 December 2021: nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Audit Committee was established with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and overseeing the risk management and internal control systems of the Group. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han.

The Audit Committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the unaudited interim condensed consolidated financial information matters of the Group for the six months ended 30 June 2022 and recommended its adoption by the Board.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency and safeguard the interests of the Company and its shareholders, customers, staff and other stakeholders. It strives to maintain effective accountability systems through well-developed corporate policies and procedures, and internal systems and controls. The Company has complied with the Code on Corporate Governance Practices (“CG Code”) as set out in the Appendix 14 to the Listing Rules during the six months ended 30 June 2022.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions. All Directors of the Company have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code throughout the Reporting Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.zeus.cn>). The interim report of the Company for the six months ended 30 June 2022 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
Mr. Lai Zhi Tian
Chairman and Executive Director

Hong Kong, 25 August 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.