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 2022

	For the year ended 31 December		
	2022	2021	Year-on-Year
	RMB'000	RMB'000	Change*
Revenue	**1,825,935**	1,746,500	4.5%
Gross profit	**1,072,295**	1,061,439	1.0%
Gross margin of the Group (%)	**58.7%**	60.8%	
Profit attributable to equity holders of the Company	**106,387**	52,128	104.1%
Basic and diluted			
Earnings per share (expressed in RMB per share)	**RMB0.13**	RMB0.06	101.7%
Final dividend per share	HK6.00 cents	—	—
Special dividend per share	HK3.00 cents	—	—
Total dividend per share	HK9.00 cents	—	—

* *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 2022 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	4	**1,825,935**	1,746,500
Cost of sales		**(753,640)**	(685,061)
Gross profit		**1,072,295**	1,061,439
Other income and gains	4	**33,700**	29,771
Selling and distribution expenses		**(809,821)**	(829,237)
Administrative expenses		**(104,746)**	(102,899)
Other expenses		**(54,222)**	(90,181)
Finance costs		**(6,555)**	(7,080)
PROFIT BEFORE TAX	5	**130,651**	61,813
Income tax expense	6	**(23,736)**	(9,447)
PROFIT FOR THE YEAR		**106,915**	52,366
Attributable to:			
Owners of the parent		**106,387**	52,128
Non-controlling interests		**528**	238
		106,915	52,366
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted			
– For profit for the year		**RMB0.13**	RMB0.06

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
PROFIT FOR THE YEAR	**106,915**	52,366
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(16,266)**	781
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**14,115**	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(2,151)**	781
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**104,764**	53,147
Attributable to:		
Owners of the parent	**104,236**	52,909
Non-controlling interests	**528**	238
	104,764	53,147

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2022

	Notes	**2022 RMB'000**	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**421,150**	410,286
Investment properties		**44,884**	40,778
Right-of-use assets	9(a)	**152,453**	137,025
Prepayments for property, plant and equipment		**721**	3,481
Goodwill		**1,628**	1,628
Other intangible assets	10	**15,398**	18,290
Investment in a joint venture		**416**	381
Equity investments at fair value through profit or loss	11	**10,676**	9,367
Deferred tax assets		**30,189**	31,969
Prepayments		**—**	5,950
Pledged deposits		**100,000**	—
Other non-current assets		**6,822**	7,513
Total non-current assets		**784,337**	666,668
CURRENT ASSETS			
Inventories	12	**322,901**	268,057
Trade and notes receivables	13	**311,561**	293,559
Prepayments, deposits and other receivables		**60,761**	53,645
Equity investments at fair value through profit or loss	11	**14,687**	8,795
Cash and bank balances		**381,010**	233,381
Total current assets		**1,090,920**	857,437
CURRENT LIABILITIES			
Trade and bills payables	14	**189,779**	120,828
Other payables and accruals		**409,093**	229,400
Interest-bearing bank borrowings		**36,031**	57,243
Lease liabilities	9(b)	**40,208**	37,874
Amounts due to related parties		**8,786**	8,786
Deferred income		**16,527**	18,925
Amount due to a joint venture		**69**	64
Tax payable		**30,758**	27,711
Total current liabilities		**731,251**	500,831
NET CURRENT ASSETS		**359,669**	356,606
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,144,006**	1,023,274

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Deferred income		**15,842**	15,429
Lease liabilities	9(b)	**94,621**	80,624
Deferred tax liabilities		**27,594**	26,056
Total non-current liabilities		**138,057**	122,109
Net assets		**1,005,949**	901,165
Equity			
Equity attributable to owners of the parent			
Issued capital		**6,847**	6,847
Reserves		**996,129**	891,893
		1,002,976	898,740
Non-controlling interests		**2,973**	2,425
Total equity		**1,005,949**	901,165

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 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 (collectively referred to as the "Group") for the year ended 31 December 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and impact of the revised IFRSs that are applicable to the Group 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* (the "Conceptual Framework") 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-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 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 business combinations during the year, 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 as determined by IAS 2 *Inventories*, 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 prior to the property, plant and equipment being available for use, 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 amendment that is 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 from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1, 5]
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[6]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[2, 4]
Amendments to IAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024

5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

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

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 IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. 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. In 2022, the IASB issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, 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 revisiting the accounting policy disclosures to ensure consistency with the amendments.

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 in IAS 12 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.

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 including pharmaceutical manufacturing, operation of chain pharmacies and operation of online pharmacies. In 2022, the Group has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change. The financial information of operation of chain pharmacies and operation of online pharmacies is 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 Mainland China and over 90% of the Group's non-current assets were located in Mainland China, 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 2022 and 2021, 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 2022:

	Year ended 31 December 2022		
	Pharmaceutical manufacturing RMB'000	**Operation of chain pharmacies RMB'000**	**Total RMB'000**
Segment revenue:			
Revenue from external customers *(note 4)*	**1,129,905**	**696,030**	**1,825,935**
Intersegment sales	**717,950**	**—**	**717,950**
	1,847,855	**696,030**	**2,543,885**
Reconciliation:			
Elimination of intersegment sales			**(717,950)**
Revenue			**1,825,935**
Segment results	**777,455**	**294,840**	**1,072,295**
Reconciliation:			
Other income and gains			**33,700**
Selling and distribution expenses			**(809,821)**
Administrative expenses			**(104,746)**
Other expenses			**(54,222)**
Finance costs			**(6,555)**
Profit before tax			**130,651**

	Year ended 31 December 2021		
	Pharmaceutical manufacturing RMB'000	Operation of chain pharmacies RMB'000 (Restated)	Total RMB'000
Segment revenue:			
Revenue from external customers *(note 4)*	1,053,280	693,220	1,746,500
Intersegment sales	823,961	—	823,961
	1,877,241	693,220	2,570,461
Reconciliation:			
Elimination of intersegment sales			(823,961)
Revenue			1,746,500
Segment results	761,715	299,724	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

4. REVENUE, OTHER INCOME AND GAINS

	2022	2021
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of pharmaceutical products	**1,825,935**	1,746,500

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

(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:

	2022	2021
	RMB'000	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of pharmaceutical products	**10,885**	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.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2022	2021
	RMB'000	RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**118,439**	10,885

	Note	2022 RMB'000	2021 RMB'000
Other income			
Bank interest income		**3,795**	4,142
Dividend income from equity investments at fair value through profit or loss		**109**	40
Rental income		**1,867**	2,102
Investment income from financial assets at fair value through profit or loss		**93**	35
Sales of raw materials		**2,264**	2,834
Others		**3,891**	1,745
		12,019	10,898
Gains, net			
Government grants:			
– Related to assets		**3,355**	2,830
– Related to income		**12,162**	11,095
Gain on disposal of items of property, plant and equipment	5	**694**	124
Gain on disposal of equity investments at fair value through profit or loss	5	**14**	828
Fair value gains, net:			
Equity investments at fair value through profit or loss	5	**1,264**	—
Financial assets at fair value through profit or loss	5	**1,153**	—
Others		**3,039**	3,996
		21,681	18,873
		33,700	29,771

5. PROFIT BEFORE TAX

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

	Notes	**2022** **RMB'000**	2021 RMB'000
Cost of inventories sold		**753,640**	685,061
Depreciation of property, plant and equipment and investment properties		**49,532**	39,445
Depreciation of right-of-use assets	9(a)	**43,219**	42,325
Research and development costs		**46,350**	43,834
Advertising, marketing and promotion expenses		**180,209**	227,256
Amortisation of other intangible assets*	10	**3,633**	3,282
Write-down of inventories to net realisable value		**4,946**	91
Lease payments not included in the measurement of lease liabilities	9(c)	**737**	3,518
Auditor's remuneration		**2,600**	2,646
(Reversal of impairment)/impairment losses on trade receivables		**(162)**	442
Gain on disposal of items of property, plant and equipment	4	**(694)**	(124)
Gain on disposal of equity investments at fair value through profit or loss	4	**(14)**	(828)
Fair value (gains)/losses, net:			
Equity investments at fair value through profit or loss	4	**(1,264)**	3,437
Financial assets at fair value through profit or loss	4	**(1,153)**	37,000
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**299,558**	306,867
Pension scheme contributions** (defined contribution scheme)		**18,013**	19,595
Staff welfare expenses		**14,800**	16,631
		332,371	343,093

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

** *At 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2021: Nil).*

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

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

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

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

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

	2022	2021
	RMB'000	RMB'000
Current – Mainland China		
Charge for the year	**20,418**	24,904
Underprovision in prior years	**—**	105
Deferred income tax expense/(credit)	**3,318**	(15,562)
Total income tax expense	**23,736**	9,447

In accordance with the PRC Tax Law 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 2022, the Group recognised a deferred tax liability of RMB17,790,000 (2021: RMB17,790,000) in respect of the withholding tax on future dividends.

7. DIVIDENDS

	2022	2021
	RMB'000	RMB'000
Proposed final – HK6.00 cent (2021: Nil) per ordinary share	**45,339**	—
Proposed special – HK3.00 cent (2021: Nil) per ordinary share	**22,670**	—
	68,009	—

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

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 846,998,500 (2021: 836,954,291) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

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

	2022	2021
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**106,387**	52,128

	2022	2021
Shares		
Weighted average number of ordinary shares in issue	**863,600,000**	852,026,301
Weighted average number of shares held for the share award plan	**(16,601,500)**	(15,072,010)
Adjusted weighted average number of ordinary shares in issue used in the basic and diluted earnings per share calculation	**846,998,500**	836,954,291

9. LEASES

The Group as a lessee

The Group has lease contracts for various items of land, pharmacies and office premises used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of pharmacies and office premises generally have lease terms between 3 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Right-of-use assets*

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

	Pharmacies and office premises RMB'000	**Land use rights** RMB'000	**Total** RMB'000
As at 1 January 2021	99,253	29,579	128,832
Additions	50,518	—	50,518
Depreciation charge *(note 5)*	(41,508)	(817)	(42,325)
As at 31 December 2021 and 1 January 2022	**108,263**	**28,762**	**137,025**
Additions	**58,647**	**—**	**58,647**
Depreciation charge *(note 5)*	**(42,402)**	**(817)**	**(43,219)**
As at 31 December 2022	**124,508**	**27,945**	**152,453**

(b) *Lease liabilities*

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

	2022 **RMB'000**	2021 RMB'000
Carrying amount at 1 January	**118,498**	108,988
New leases	**58,647**	50,518
Accretion of interest recognised during the year	**4,636**	4,406
Payments	**(46,952)**	(45,414)
Carrying amount at 31 December	**134,829**	118,498
Analysed into:		
Current portion	**40,208**	37,874
Non-current portion	**94,621**	80,624

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

	2022 **RMB'000**	2021 RMB'000
Interest on lease liabilities	**4,636**	4,406
Depreciation charge of right-of-use assets	**43,219**	42,325
Expense relating to short-term leases (included in selling and distribution expenses)	**737**	3,518
Total amount recognised in profit or loss	**48,592**	50,249

The Group as a lessor

The Group leases its investment 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 RMB1,867,000 (2021: RMB2,102,000), details of which are included in note 4.

At 31 December 2022, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2022	2021
	RMB'000	RMB'000
Within one year	**2,814**	2,407
After one year but within two years	**2,690**	2,284
After two years but within three years	**2,649**	2,220
After three years but within four years	**2,579**	1,110
After four years but within five years	**2,579**	—
After five years	**3,160**	—
	16,471	8,021

10. OTHER INTANGIBLE ASSETS

	Software	**Patents and licences**	**Total**
	RMB'000	RMB'000	RMB'000
31 December 2022			
Cost at 1 January 2022, net of accumulated amortisation	**16,251**	**2,039**	**18,290**
Additions	**741**	**–**	**741**
Amortisation provided during the year *(note 5)*	**(2,800)**	**(833)**	**(3,633)**
At 31 December 2022	**14,192**	**1,206**	**15,398**
At 31 December 2022:			
Cost	**26,718**	**3,528**	**30,246**
Accumulated amortisation	**(12,526)**	**(2,322)**	**(14,848)**
Net carrying amount	**14,192**	**1,206**	**15,398**
31 December 2021			
At 1 January 2021:			
Cost	24,765	2,729	27,494
Accumulated amortisation	(7,137)	(797)	(7,934)
Net carrying amount	17,628	1,932	19,560
Cost at 1 January 2021, net of accumulated amortisation	17,628	1,932	19,560
Additions	1,213	799	2,012
Amortisation provided during the year *(note 5)*	(2,590)	(692)	(3,282)
At 31 December 2021	16,251	2,039	18,290
At 31 December 2021:			
Cost	25,978	3,528	29,506
Accumulated amortisation	(9,727)	(1,489)	(11,216)
Net carrying amount	16,251	2,039	18,290

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 **RMB'000**	2021 RMB'000
Equity investments at fair value through profit or loss		
Listed equity investments, at fair value	**24,839**	17,559
Unlisted equity investments, at fair value	**524**	603
	25,363	18,162

The above equity investments at 31 December 2022 were classified as equity investments at fair value through profit or loss, as equity investments amounting to RMB14,687,000 (2021: RMB8,795,000) were held for trading purpose, and equity investments amounting to RMB10,676,000 (2021: RMB9,367,000) were held for strategic investment purpose while the Group has not elected to designate the investments as financial asset at fair value through other comprehensive income.

12. INVENTORIES

	2022 **RMB'000**	2021 RMB'000
Raw materials	**56,590**	45,366
Work in progress	**12,692**	15,150
Finished goods	**253,619**	207,541
	322,901	268,057

Inventories with a value of RMB13,814,000 (2021: RMB801,000) are carried at net realisable value, which is lower than cost.

13. TRADE AND NOTES RECEIVABLES

	2022 **RMB'000**	2021 RMB'000
Trade receivables	**200,452**	249,351
Less: Impairment of trade receivables	**(3,387)**	(3,549)
Trade receivables, net	**197,065**	245,802
Notes receivables	**114,496**	47,757
	311,561	293,559

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 a large number of diversified 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.

Notes receivables had no historical default and were categorised in stage 1 at 31 December 2022 and 2021. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data. During the year ended 31 December 2022 and 2021, the Group estimated that the expected credit loss rate for notes receivables was minimal.

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:

	2022	2021
	RMB'000	RMB'000
Within 1 month	**75,087**	144,642
1 to 3 months	**64,058**	53,590
3 to 6 months	**33,619**	29,847
6 to 12 months	**18,373**	15,332
Over 12 months	**5,928**	2,391
	197,065	245,802

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

	2022	2021
	RMB'000	RMB'000
At beginning of year	**3,549**	3,107
(Reversal of impairment)/impairment losses, net	**(162)**	442
At end of year	**3,387**	3,549

The Group manages its notes receivables 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 receivables are settled within 270 days. No notes receivables were discounted as at 31 December 2022 and 2021. As at 31 December 2022, the Group continued to recognise endorsed notes receivables and the associated liabilities amounting to RMB31,277,000 (2021: RMB27,028,000). The directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such 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 2022

	Less than 1 year	**1 to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	**0.57%**	**17.64%**	**100.00%**	**1.69%**
Gross carrying amount (RMB'000)	**192,241**	**7,197**	**1,014**	**200,452**
Expected credit losses (RMB'000)	**1,104**	**1,269**	**1,014**	**3,387**

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

14. TRADE AND BILLS PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	**149,226**	120,828
Bills payables	**40,553**	–
	189,779	120,828

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

	2022 RMB'000	2021 RMB'000
Within 3 months	**130,376**	112,019
3 to 6 months	**11,396**	1,456
6 to 12 months	**4,666**	4,556
over 12 months	**2,788**	2,797
	149,226	120,828

The trade payables and bills payables are non-interest-bearing and are normally settled on terms of not exceeding 120 days and 180 days, respectively.

MANAGEMENT DISCUSSION AND ANALYSES

BUSINESS OVERVIEW

During the year ended 31 December 2022 (the "Reporting Period"), the Group continued to engage principally in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in the Guangdong Province, the PRC. Revenue of the Group rose by approximately 4.5% to approximately RMB1,825.9 million.

Profit attributable to owners of the parent increased by approximately 104.1% to RMB106.4 million.

FUTURE AND OUTLOOK

In 2022, macro-trends continue to be ever-shifting, with complicated environments, decrease in CPI, 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 GDP was achieved. Concurrently, market prices for raw materials have spiked since 2021 without signs of coming down, leading to slightly higher production costs for the Group. 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.

Manufacturing Segment

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 patent medicines segment through changes in sales model, reached greater market coverage, resulting in pleasant results. The Group's plant in Yunfu (Yunfu Factory) successfully passed the "Pharmaceutical Good Manufacturing Practice" qualification examination in the first quarter, and has begun producing traditional Chinese medicine decoction pieces, small packet traditional Chinese decoction pieces, bottled traditional Chinese decoction pieces and more. Simultaneously, the Yunfu Factory also fulfills the needs of the Group's modern cell-wall broken herbs decoction pieces, Chinese patent medicines, and chain pharmacies segments, providing a strong foundation for further future development in the Chinese medicine industry. In particular, the premium decoction pieces of Zhongzhi Chain Pharmacies are mainly supplied by the Yunfu Factory, as a result, their quality have been greatly improved and their cost advantage has been revealed. By doing so, it will give back to the public and consumers in Zhongshan can get a better experience.

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 the first half of 2022, the construction project of the chain headquarters in Zhongshan was completed in April. The new headquarters has already fully met the needs of office staff and improving on the catering situation. 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 including pharmaceutical manufacturing, operation of chain pharmacies and operation of online 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 online pharmacies is reported to the chief operating decision maker aggregately. Accordingly, two operating segments are presented, being pharmaceutical manufacturing and operation of chain 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**		
	2022	2021	Change	**2022**	2021	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**1,129,905**	1,053,280	7.3	**61.9**	60.3	1.6
Operation of chain pharmacies	**696,030**	693,220	0.4	**38.1**	39.7	-1.6
	1,825,935	1,746,500	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 modern decoction pieces) under the Group's brands in the PRC. The Group's brands include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

Revenue derived from pharmaceutical manufacturing increased by approximately 7.3% to RMB1,129.9 million for the year ended 31 December 2022 (2021: RMB1,053.3 million) and accounted for 61.9% of the total revenue during the year (2021: 60.3%). The increase in revenue was primarily attributable to the continuous innovation and iteration in the Group's exploration of new marketing mode, which resulted in a significant increase in Chinese patent medicines during the year.

Operation of chain pharmacies

The Group has been operating chain pharmacies in Guangdong province under the brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at 31 December 2022, the Group has 429 self-operated chain pharmacies in Guangdong province (2021: 398), of which 381 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies basically remained stable at approximately RMB696.0 million for the year ended 31 December 2022 (2021: RMB693.2 million) and accounted for 38.1% of the total revenue during the year (2021: 39.7%), which was mainly attributable to the increase in sales of operation of chain pharmacies due to the relaxation of the pandemic measures and the decline in online channel sales due to the adjustments of the Company's marketing strategies.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year was RMB1,072.3 million, representing an increase of RMB10.9 million or 1.0% as compared with RMB1,061.4 million for the year ended 31 December 2021. 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**		
	2022 RMB'000	2021 RMB'000	Change (%)	**2022 (%)**	2021 (%)	Change (%)
Pharmaceutical manufacturing	**777,455**	761,715	2.1	**68.8**	72.3	-3.5
Operation of chain pharmacies	**294,840**	299,724	-1.6	**42.4**	43.2	-0.8
	1,072,295	1,061,439	1.0	**58.7**	60.8	-2.1

Pharmaceutical manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 2.1% to RMB777.5 million for the year ended 31 December 2022 (2021: RMB761.7 million). The gross profit margin decreased to 68.8% for the year ended 31 December 2022 (2021: 72.3%). The increase in gross profit was mainly attributable to the increase in the sale of Chinese patent medicines and 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 structure of sales varieties.

Operation of chain pharmacies

The gross profit of chain pharmacies segment decreased by approximately 1.6% to RMB294.8 million for the year ended 31 December 2022 (2021: RMB299.7 million). The gross profit margin of the chain pharmacies segment decreased to 42.4% for the year ended 31 December 2022 (2021: 43.2%). The decrease in gross profit margin was mainly due to the change in the structure of sales varieties.

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 2022, other income and gains of the Group were approximately RMB33.7 million (2021: RMB29.8 million), representing an increase of approximately RMB3.9 million as compared to previous year, which was mainly attributable to (i) the increase in government grants of approximately RMB1.6 million; and (ii) the increase in changes in fair value of financial assets of RMB2.4 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 2022, selling and distribution expenses amounted to approximately RMB809.8 million (2021: RMB829.2 million), representing a decrease of approximately 2.3% as compared to previous year. Selling and distribution expense ratio decreased to approximately 44.4% (2021: 47.5%) against revenue for the year ended 31 December 2022, which was mainly due to the reduction in advertisement and promotion inputs of the Group.

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 2022, administrative expenses amounted to approximately RMB104.7 million (2021: RMB102.9 million), representing an increase of approximately 1.8% as compared to previous year. The increase was due to the increase in depreciation and amortisation and office expense of the Yunfu Factory and the chain building.

Other Expenses

Other expenses mainly represent research and development expenses. The research and development expenses mainly consist of various expenses incurred in the course of research and development of products, technologies, materials, crafts and standards. For the year ended 31 December 2022, research and development expenses amounted to approximately RMB46.4 million (2021: RMB43.8 million), representing an increase of approximately 5.7% compared to that for the same period of previous year. The increase was mainly due to the increase in the research and development expenses for direct investment.

Finance Costs

Finance costs consist of interest on bank borrowings and interest on lease liabilities, which amounted to RMB6.6 million for the year ended 31 December 2022 (2021: RMB7.1 million), which was mainly due to the decrease in bank borrowings.

Income Tax Expense

Income tax expense amounted to RMB23.7 million for the year ended 31 December 2022 (2021: RMB9.4 million). The increase was primarily due to the increase in profit before tax.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent increased by 104.1% to RMB106.4 million for the year ended 31 December 2022 (2021: RMB52.1 million). The Group's net profit margin amounted to 5.8% for the year ended 31 December 2022 (2021: 3.0%).

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

The Group had net current assets of approximately RMB359.7 million as at 31 December 2022 (31 December 2021: RMB356.6 million). The Group's cash and bank balances increased from RMB233.4 million as at 31 December 2021 to RMB381.0 million (which consisted of cash and bank balances of RMB376.0 million and HK$5.5 million denominated in RMB and HKD respectively) as at 31 December 2022. The current ratio of the Group decreased from approximately 1.7 as at 31 December 2021 to 1.5 as at 31 December 2022.

The equity attributable to shareholders of the Company as at 31 December 2022 amounted to approximately RMB1,005.9 million (31 December 2021: RMB901.2 million). The Group had outstanding unsecured borrowings of RMB1.0 million at a fixed interest rate and HK$39.2 million at a floating interest rate as at 31 December 2022 (2021: RMB32.7 million and HK$30.0 million).

The Group's gearing ratio (borrowings over total equity) as at 31 December 2022 was 3.6% (31 December 2021: 6.4%).

As at 31 December 2022, the Group had available unutilized banking facilities of RMB119.0 million (31 December 2021: RMB87.3 million) and HK$1.0 million (31 December 2021: HK$10.0 million).

The Group adopts a centralised 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 "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 2022, the number of issued shares of the Company was 863,600,000 ordinary Shares of HK$0.01 each.

Update in Contractual Arrangement

The Supplemental Agreement

As some of the registered shareholders (the "Registered Shareholders") of Zhongshan Yu Xin Investment Limited ("Zhongshan Yu Xin"), a shareholder of Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd.* (中山市中智中藥飲片有限公司) ("Zhongzhi Herb Pieces"), being present/former employees of the Group, have left the Group or retired, the Group considers it is in its best interest to simplify the shareholding structure of Zhongzhi Herb Pieces to optimise the governance of Zhongzhi Herb Pieces.

As such, on 3 November 2022, Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) ("Zhongzhi Pharmaceutical") entered into a supplemental agreement (the "Supplemental Agreement") to the series of contracts entered into on 31 August 2014 (and supplemented or amended on 31 August 2014) (the "Existing Contractual Arrangements") with Zhongzhi Herb Pieces, Mr. Lai Zhi Tian ("Mr. Lai"), Zhongshan Yu Xin and Guangdong Jun Ke Investment Limited* (廣東君科創業投資有限公司) ("Guangdong Jun Ke"), in order to (i) reflect the latest shareholding structure of Zhongzhi Herb Pieces upon completion of the proposed restructure; and (ii) confirm the terms and conditions of the Existing Contractual Arrangements as provided under the conditions of the IPO Waiver (as defined in the announcement dated 3 November 2022) will continue to be complied by Mr. Lai.

Accordingly, Mr. Lai and Zhongshan Yu Xin entered into a share transfer agreement for the transfer of 10.00% equity interest of Zhongzhi Herb Pieces held by Zhongshan Yu Xin (the "Transfer"). The consideration of the Transfer was determined at the lowest price and to the extent permitted by the applicable PRC laws and regulations, which was settled using the Mr. Lai's own financial resources. Upon the completion of the Restructure, Zhongzhi Herb Pieces is owned by Mr. Lai and Mr. Luo Tian Quan (one of the Registered Shareholders) as to 99.56% and 0.44% respectively.

Details of the Supplemental Agreement were published in the Company's announcements dated 3 and 4 November 2022.

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 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.

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 2022, the Group had 2,883 employees (2021: 3,152) with a total remuneration of RMB332.4 million during the Reporting Period (2021: RMB343.1 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 2021 and 31 December 2022, 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 2021 and 31 December 2022.

For each of the two years ended 31 December 2021 and 31 December 2022, the Group did not have any defined benefit plan.

SIGNIFICANT INVESTMENTS

Save 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 31 December 2022, the Group's capital commitment amounted to RMB16.9 million (2021: RMB33.2 million). The capital commitment is mainly related to 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. In particular, for the expansion of production capacity, the Group has completed the tender of new factories in Zhongshan, Guangdong province, for the construction of production plants of the Chinese patent medicines segment of Honeson Company in the future to cater for the increase in demand of the Group's products.

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 2022 (2021: 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.

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 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by Ernst & Young in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor on the preliminary announcement.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the year ended 31 December 2022.

DIVIDEND

The Board recommends the payment of a final dividend of HK6 cents per share and a special dividend of HK3 cents per share for the year ended 31 December 2022 (2021: nil) to be payable to the shareholders of the Company whose names appeared on the register of members of the Company as at Thursday, 1 June 2023, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be held on Thursday, 18 May 2023. The final dividend and special dividend will be payable on Friday, 16 June 2023.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 12 May 2023 to Thursday, 18 May 2023, both days inclusive, during which period no transfers of shares shall be effected. The record date will be Thursday, 18 May 2023. In order to qualify for attending and voting at the AGM, 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 Thursday, 11 May 2023.

For the purpose of determining the entitlement to the proposed final dividend and special dividend for the year ended 31 December 2022, the register of members of the Company will be closed from Thursday, 25 May 2023 to Thursday, 1 June 2023, (both days inclusive). The record date will be Thursday, 1 June 2023. In order to qualify for the proposed final dividend and special dividend for the year ended 31 December 2022, all transfer forms accompanied by relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, not later than 4:00 p.m. on Wednesday, 24 May 2023.

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 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
Lai Zhi Tian
Chairman & Executive Director

Hong Kong, 22 March 2023

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*