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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 2023**

#### **FINANCIAL HIGHLIGHTS:**

The Group's revenue for the six months ended 30 June 2023 amounted to approximately RMB1,094.3 million, representing an increase of 29.3% when compared to the six months ended 30 June 2022.

The Group's gross profit for the six months ended 30 June 2023 amounted to approximately RMB675.0 million, representing an increase of 33.6% when compared to the six months ended 30 June 2022. Gross profit margin increased by 2 percentage point to approximately 61.7%, as compared to the six months ended 30 June 2022.

Profit attributable to owners of the parent amounted to approximately RMB134.9 million, representing an increase of approximately 75.1% as compared to the six months ended 30 June 2022.

Basic earnings per share was approximately RMB15.9 cents for the six months ended 30 June 2023, representing an increase of approximately 75.1% from approximately RMB9.1 cents for the six months ended 30 June 2022.

The Board has recommended to distribute and pay an interim dividend of HK6 cents per ordinary share for the six months ended 30 June 2023 (no interim dividend was distributed for the six months ended 30 June 2022).

## 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 2023 (the “Reporting Period”), together with the unaudited comparative figures for the six months ended 30 June 2022. 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 2023*

		Six months ended 30 June	
	Notes	2023	2022
		RMB’000	RMB’000
		(Unaudited)	(Unaudited)
<b>REVENUE</b>	4	<b>1,094,328</b>	846,397
Cost of sales		<b>(419,365)</b>	(341,214)
<b>Gross profit</b>		<b>674,963</b>	505,183
Other income and gains	4	<b>25,152</b>	12,520
Selling and distribution expenses		<b>(444,956)</b>	(349,997)
Administrative expenses		<b>(53,719)</b>	(49,198)
Other expenses		<b>(29,878)</b>	(20,158)
Finance costs		<b>(3,743)</b>	(2,936)
<b>PROFIT BEFORE TAX</b>	5	<b>167,819</b>	95,414
Income tax expense	6	<b>(31,667)</b>	(17,875)
<b>PROFIT FOR THE PERIOD</b>		<b>136,152</b>	77,539
Attributable to:			
Owners of the parent		<b>134,900</b>	77,048
Non-controlling interests		<b>1,252</b>	491
		<b>136,152</b>	77,539
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic			
— For profit for the period		<b>RMB0.159</b>	RMB0.091
Diluted			
— For profit for the period		<b>RMB0.159</b>	RMB0.091

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>PROFIT FOR THE PERIOD</b>	<b>136,152</b>	<b>77,539</b>
<b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(4,221)	(919)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	4,401	—
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX</b>	<b>180</b>	<b>(919)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>136,332</b>	<b>76,620</b>
Attributable to:		
Owners of the parent	135,080	76,129
Non-controlling interests	1,252	491
	<b>136,332</b>	<b>76,620</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	426,903	421,150
Investment properties	9	46,482	44,884
Prepayment for property, plant and equipment		7,720	721
Right-of-use assets		169,950	152,453
Pledged deposits		100,000	100,000
Goodwill		1,628	1,628
Other intangible assets	10	15,075	15,398
Investment in a joint venture		430	416
Equity investments at fair value through profit or loss	11	39,668	10,676
Deferred tax assets		30,763	30,189
Other non-current assets		6,751	6,822
<b>Total non-current assets</b>		<b>845,370</b>	<b>784,337</b>
<b>CURRENT ASSETS</b>			
Inventories	12	302,270	322,901
Trade and notes receivables	13	328,984	311,561
Prepayments, deposits and other receivables	14	59,306	60,761
Equity investments at fair value through profit or loss	11	2,108	14,687
Financial assets at fair value through profit or loss — current		5,000	—
Cash and cash equivalents	15	241,797	381,010
<b>Total current assets</b>		<b>939,465</b>	<b>1,090,920</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	16	167,710	189,779
Interest-bearing bank borrowings		35,259	36,031
Other payables and accruals	17	279,949	409,093
Lease liabilities		39,722	40,208
Amounts due to related parties		8,786	8,786
Deferred income	18	16,270	16,527
Amount due to a joint venture		72	69
Tax payable		41,713	30,758
<b>Total current liabilities</b>		<b>589,481</b>	<b>731,251</b>
<b>NET CURRENT ASSETS</b>		<b>349,984</b>	<b>359,669</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,195,354</b>	<b>1,144,006</b>

	Notes	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Deferred income	18	<b>14,720</b>	15,842
Lease liabilities		<b>88,518</b>	94,621
Deferred tax liabilities		<b>18,852</b>	27,594
<b>Total non-current liabilities</b>		<b>122,090</b>	138,057
<b>Net assets</b>		<b>1,073,264</b>	1,005,949
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	19	<b>6,847</b>	6,847
Reserves		<b>1,061,706</b>	996,129
		<b>1,068,553</b>	1,002,976
Non-controlling interests		<b>4,711</b>	2,973
<b>Total equity</b>		<b>1,073,264</b>	1,005,949

# 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 2023 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 2022.

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 2022, except for the adoption of the following new and revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 17	<i>Insurance Contracts</i>
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 — Comparative Information</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Disclosure of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform — Pillar Two Model Rules</i>

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IAS 1 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. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.
- (b) 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 Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction 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 (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments did not have any impact on the financial position or performance of the Group.
- (d) Amendments to IAS 12 International Tax Reform — Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

### 3. OPERATING SEGMENT INFORMATION

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

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments 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 2023, 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 2023 are as follows:

	Six months ended 30 June 2023		
	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of chain pharmacies RMB'000 (unaudited)	Total RMB'000 (unaudited)
<b>Segment revenue:</b>			
Revenue from external customers (note 4)	772,597	321,731	1,094,328
Intersegment sales	331,903	—	331,903
	<u>1,104,500</u>	<u>321,731</u>	<u>1,426,231</u>
<b>Reconciliation:</b>			
Elimination of intersegment sales			(331,903)
Revenue			<u>1,094,328</u>
<b>Segment results</b>	<u>541,832</u>	<u>133,131</u>	<u>674,963</u>
<b>Reconciliation:</b>			
Other income and gains			25,152
Selling and distribution expenses			(444,956)
Administrative expenses			(53,719)
Other expenses			(29,878)
Finance costs			(3,743)
<b>Profit before tax</b>			<u>167,819</u>
	Six months ended 30 June 2022		
	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of chain pharmacies RMB'000 (unaudited)	Total RMB'000 (unaudited)
<b>Segment revenue:</b>			
Revenue from external customers (note 4)	536,773	309,624	846,397
Intersegment sales	304,161	—	304,161
	<u>840,934</u>	<u>309,624</u>	<u>1,150,558</u>
<b>Reconciliation:</b>			
Elimination of intersegment sales			(304,161)
Revenue			<u>846,397</u>
<b>Segment results</b>	<u>368,024</u>	<u>137,159</u>	<u>505,183</u>
<b>Reconciliation:</b>			
Other income and gains			12,520
Selling and distribution expenses			(349,997)
Administrative expenses			(49,198)
Other expenses			(20,158)
Finance costs			(2,936)
<b>Profit before tax</b>			<u>95,414</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 2023.

For the six months ended 30 June 2023, the revenue from contracts with customers is recognised at a point in time.

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Revenue</b>		
Sale of pharmaceutical products	<b>1,094,328</b>	846,397
<b>Other income</b>		
Bank interest income	<b>3,698</b>	1,768
Dividend income	<b>32</b>	48
Interest income from financial assets at fair value through profit or loss	<b>—</b>	92
	<b>3,730</b>	1,908
<b>Gains</b>		
Government grants:		
— Related to assets	<b>1,322</b>	1,659
— Related to income	<b>3,938</b>	4,213
Fair value gain on equity investments and financial assets at fair value through profit or loss	<b>2,053</b>	71
Gain on disposal of items of property, plant and equipment	<b>849</b>	—
Others	<b>13,260</b>	4,669
	<b>21,422</b>	10,612
	<b>25,152</b>	12,520

## 5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cost of inventories sold		419,365	341,214
Depreciation of property, plant and equipment and investment properties		25,971	22,705
Depreciation of right-of-use assets*		22,156	21,490
Amortisation of other intangible assets*	10	1,888	1,739
Research and development costs		20,551	17,981
Advertising, marketing and promotion expenses		295,960	212,329
Write-down of inventories to net realisable value		2,875	504
Impairment losses on trade receivables		1,490	210
Fair value loss/(gain):			
Equity investments at fair value through profit or loss**		1,198	1,097
Financial assets at fair value through profit or loss**		—	(1,153)
Finance costs		3,743	2,936
Auditor's remuneration		1,268	1,026
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		125,342	118,870
Pension scheme contributions (defined contribution scheme)		8,798	9,405
Staff welfare expenses		7,271	6,121
		<b>141,411</b>	<b>134,396</b>

\* 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% (2022:16.5%) 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 2023 and 2022, respectively.

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Mainland China</b>		
Current income tax	<b>40,983</b>	12,336
Deferred income tax (benefit)/charge	<b>(9,316)</b>	5,539
Total income tax expense	<b><u>31,667</u></b>	<b><u>17,875</u></b>

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 2023, the Group recognised a deferred tax liability of RMB10,355,000 (31 December 2022: RMB17,790,000) in respect of the withholding tax on future dividend distribution by the PRC entities.

## 7. DIVIDEND

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Proposed interim – HK\$0.06 (2022: nil) per ordinary share	<b>51,816</b>	–

During the six months ended 30 June 2023, the Company declared and paid a final dividend (HK6 cents per ordinary share) and a special dividend (HK3 cents per ordinary share) in respect of the previous financial year amounting to HK\$76,230,000 (equivalent to approximately RMB69,503,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK\$1,494,000 (equivalent to approximately RMB1,362,000).

Subsequent to 30 June 2023, the board of directors recommended that an interim dividend of HK6 cents (six months ended 30 June 2022: Nil) per ordinary share, amounting to a total of approximately HK\$51,816,000 (six months ended 30 June 2022: Nil) will be payable on Thursday, 2 November 2023 to the shareholders on the register of members of the Company on Friday, 20 October 2023. The interim dividend will be subject to the approval of the Company's shareholders in an extraordinary general meeting to be held on Friday, 13 October 2023 (the "EGM"). The interim dividend has not been recognised as a liability at the end of the reporting period.

## 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:

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<b>134,900</b>	77,048
	<b>863,600,000</b>	863,600,000
Weighted average number of ordinary shares in issue	<b>(16,601,500)</b>	(16,601,500)
Weighted average number of shares held for the share award plan (note 20)		
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<b>846,998,500</b>	846,998,500
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	<b>846,998,500</b>	846,998,500

## 9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Carrying amount at 1 January	<b>421,150</b>	410,286
Additions	<b>41,681</b>	85,634
Depreciation provided during the period/year	<b>(25,405)</b>	(48,257)
Transfer to investment properties	<b>(2,164)</b>	(5,381)
Disposals	<b>(8,359)</b>	(21,132)
Carrying amount at 30 June/31 December	<b>426,903</b>	421,150

The Group's buildings are located in Mainland China.

As at 31 December 2022 and 30 June 2023, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB124,329,000 and RMB126,831,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

	<b>Investment properties RMB'000</b>
As at 31 December 2022 and 1 January 2023	44,884
Transfer from property, plant and equipment	2,164
Depreciation provided during the period	<u>(566)</u>
As at 30 June 2023	<u><b>46,482</b></u>

Certain self-owned building of the Group was reclassified to investment properties with original cost of RMB56,405,000 and accumulated depreciation of RMB9,922,000. 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 RMB53,624,000 as at 30 June 2023 by internal appraiser and were determined by income approach.

#### 10. OTHER INTANGIBLE ASSETS

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Carrying amount at 1 January	15,398	18,290
Additions	1,565	741
Amortisation provided during the period/year	<u>(1,888)</u>	<u>(3,633)</u>
Carrying amount at 30 June/31 December	<u><b>15,075</b></u>	<u>15,398</u>

#### 11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
<b>Equity investments at fair value through profit or loss</b>		
Listed equity investment, at fair value	6,252	24,839
Unlisted equity investment, at fair value	<u>35,524</u>	<u>524</u>
	<u><b>41,776</b></u>	<u>25,363</u>

The above listed equity investment at 30 June 2023 was classified as equity investment at fair value through profit or loss, as equity investments amounting to RMB2,108,000 (31 December 2022: RMB14,687,000) were held for trading purpose, and equity investments amounting to RMB39,668,000 (31 December 2022: RMB10,676,000) 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

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Raw materials	61,757	65,600
Work in progress	16,305	13,634
Finished goods	224,208	243,667
	<u>302,270</u>	<u>322,901</u>

Inventories with a value of RMB15,484,000 (2022: RMB13,814,000) are carried at net realisable value, which is lower than cost.

## 13. TRADE AND NOTES RECEIVABLES

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Trade receivables	263,504	200,452
Less: Impairment of trade receivables	<u>(4,877)</u>	<u>(3,387)</u>
Trade receivables, net	258,627	197,065
Notes receivables	<u>70,357</u>	<u>114,496</u>
	<u>328,984</u>	<u>311,561</u>

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 receivables relate to a large number of diversified customers with a good track record, there is no significant concentration of credit risk. Trade 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 30 June 2023 and 31 December 2022. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data. During the period ended 30 June 2023 and year ended 31 December 2022, the Group estimated that the expected credit loss rate for notes receivables was minimal.



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:

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Trade receivables:		
Within 1 month	94,953	75,087
1 to 3 months	107,696	64,058
3 to 6 months	41,067	33,619
6 to 12 months	9,819	18,373
Over 12 months	5,092	5,928
	<u>258,627</u>	<u>197,065</u>

The notes receivables are settled within 180 days. As at 30 June 2023, the Group continued to recognise endorsed notes receivable and associated liabilities amounting to RMB32,796,000 (2022: RMB31,277,000) 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

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Prepayments	24,668	30,392
Tax recoverable	6,516	6,705
Deposits and other receivables	28,122	23,664
	<u>59,306</u>	<u>60,761</u>

#### 15. CASH AND CASH EQUIVALENTS

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Cash and bank balances	241,797	381,010
Non-pledged time deposits	100,000	100,000
Less:		
Pledged time deposits*	<u>(100,000)</u>	<u>(100,000)</u>
	<u>241,797</u>	<u>381,010</u>
Denominated in:		
— RMB	223,332	375,991
— HK\$	18,465	5,019
	<u>241,797</u>	<u>381,010</u>

\* At 30 June 2023, bank deposits of RMB100,000,000 (31 December 2022: RMB100,000,000) was pledged for bank acceptance bills.

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB and HK\$. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

#### 16. TRADE AND BILLS PAYABLES

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Trade payables	<b>129,800</b>	149,226
Bills payables	<b>37,910</b>	40,553
	<b><u>167,710</u></b>	<u>189,779</u>

An aged analysis of the trade payables as at 31 December 2022 and 30 June 2023, based on the invoice date, is as follows:

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Within 3 months	<b>114,100</b>	130,376
3 to 6 months	<b>8,126</b>	11,396
6 to 12 months	<b>3,416</b>	4,666
over 12 months	<b>4,158</b>	2,788
	<b><u>129,800</u></b>	<u>149,226</u>

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

#### 17. OTHER PAYABLES AND ACCRUALS

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Accruals and other payables	<b>109,053</b>	100,735
Deposits received	<b>61,320</b>	57,918
Accrued salaries and welfare	<b>33,182</b>	55,170
Endorsed notes	<b>32,796</b>	31,277
Contract liabilities	<b>22,437</b>	118,439
Other tax payables	<b>12,777</b>	33,939
Payables for purchases of property and equipment	<b>8,384</b>	11,615
	<b><u>279,949</u></b>	<u>409,093</u>

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

## 18. DEFERRED INCOME

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
At 1 January	32,369	34,354
Received amounts	3,881	13,532
Released amounts	<u>(5,260)</u>	<u>(15,517)</u>
At 30 June/31 December	<b><u>30,990</u></b>	<b><u>32,369</u></b>
Current	16,270	16,527
Non-current	<u>14,720</u>	<u>15,842</u>
	<b><u>30,990</u></b>	<b><u>32,369</u></b>

## 19. ISSUED CAPITAL

### Issued Capital

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

	<b>30 June 2023 (Unaudited)</b>	31 December 2022 (Audited)
Issued and fully paid: 863,600,000 (2022: 863,600,000) ordinary shares of HK\$0.01 each (HK\$'000)	<u>8,636</u>	<u>8,636</u>
Equivalent to RMB'000	<b><u>6,847</u></b>	<b><u>6,847</u></b>

## 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 recognise 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 recognise 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.

The Company granted 149,000 shares to certain employees on 20 June 2016 and the vesting date of the shares is 20 June 2016. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$2.37) on the day of the grant, amounting to HK\$353,000 (equivalent to approximately RMB303,000).

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 2023 (2022: Nil).

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:

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Contracted, but not provided for:		
Leasehold improvements	706	1,738
Intangible assets	—	788
Plant and machinery	<u>16,678</u>	<u>14,402</u>
	<u><b>17,384</b></u>	<u>16,928</u>

At the end of 31 December 2022 and 30 June 2023, the Group had significant authorised but not contracted capital commitment of RMB871,000 and RMB4,128,000, respectively.

## 22. RELATED PARTY TRANSACTIONS

### (a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2022 and 30 June 2023 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:

	<b>Six months ended 30 June 2023 RMB'000 (Unaudited)</b>	2022 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	5,349	5,238
Pension scheme contributions	<u>96</u>	<u>109</u>
	<u><b>5,445</b></u>	<u>5,347</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 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
<b>Financial assets</b>				
Pledged deposits, non-current portion	100,000	100,000	100,000	100,000
Equity investments at fair value through profit or loss	41,776	25,363	41,776	25,363
Financial assets at fair value through profit or loss	5,000	—	5,000	—
	<u>146,776</u>	<u>125,363</u>	<u>146,776</u>	<u>125,363</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 2023

	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	6,252	—	35,524	41,776
Financial assets at fair value through profit or loss	—	5,000	—	5,000
Notes receivables	—	70,357	—	70,357
	<b>6,252</b>	<b>75,357</b>	<b>35,524</b>	<b>117,133</b>

As at 31 December 2022

	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	24,839	—	524	25,363
Notes receivables	—	114,496	—	114,496
Total	<b>24,839</b>	<b>114,496</b>	<b>524</b>	<b>139,859</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

By virtue of the clear strategic positioning, in 2023, 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 RMB1,094.3 million (corresponding period in 2022: RMB846.4 million), representing an increase of 29.3% over the corresponding period in last year.
- The Group recorded a profit attributable to owners of the parent for the period of approximately RMB134.9 million (corresponding period in 2022: RMB77.0 million), representing an increase of approximately 75.1% over the corresponding period in last year.
- The basic earnings per share is RMB15.9 cents (corresponding period in 2022: RMB9.1 cents), representing an increase of approximately 75.1% over the corresponding period in last year.

### FUTURE AND OUTLOOK

In 2023, the market is returning to normal gradually as at the end of pandemic control. Chinese medicine has played a huge role since its listing as part of the national development strategy in 2016, especially during the 3-year pandemic. The demand for Chinese medicine has been greatly boosted after the end of the pandemic. In the short term, Chinese herbs are facing the challenge of soaring prices since there is a surge in demand for Chinese medicine. In the long run, Chinese medicine will certainly usher in a market full of opportunities in the future with the gradual stabilization of prices.

#### Pharmaceutical Manufacturing Segment

In 2023, at the last phase of pandemic prevention and control while the demand for medicines increased due to the soared use of Chinese medicines, the Group coordinated resources from all parties to ensure the production of Chinese patented medicines including Keke Tablets (克咳片), Yinhuang Granules (銀黃顆粒), Yinqiaojiedu Granules (銀翹解毒顆粒), Shiqiwaigan Granules (石岐外感顆粒) and Yinhua Oral Liquid (銀花口服液), and cell-broken decoction pieces including Astragalus, Heartleaf Houttuynia Herb, Lohanguo Siraitia Fruit and Platycodon Grandiflorum, maximizing the supply of medicines for pandemic prevention to the public. With the rapid recovery of the market after the New Year, the Group's business segments also progressed steadily.

In light of the demand for capacity expansion of its subsidiary, Honeson Pharmaceutical, the Group decided to build a new production base, the construction of which has commenced in April this year, and is expected to complete the basic civil construction by the end of the year. The Group is committed to making this project into a first-class intelligent production platform for Chinese patented medicines.



## Chain Pharmacies Segment

In 2023, at the last phase of pandemic prevention and control while the demand for various types of medicines and the medical protection products increased due to the spread of infection, the headquarters of the chain company and the pharmacies made every effort to meet the needs of the public, actively contributing to the pandemic prevention and control of Zhongshan. In face with the decrease in the number of customers to the pharmacies for one of the after-pandemic periods, the chain pharmacies proactively explored the online business, accelerated the expansion of franchised stores, and continued to develop business to penetrate into the general retail field, leading the development of chain business in Zhongshan.

## FINANCIAL ANALYSIS

### Revenue

The operation of the Group can be divided into two operating segments, namely (i) pharmaceutical manufacturing and (ii) operation of chain pharmacies. 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		
	2023 RMB'000	2022 RMB'000	Change (%)	2023 (%)	2022 (%)	Change (%)
Pharmaceutical manufacturing	772,597	536,773	43.9	70.6	63.4	7.2
Operation of chain pharmacies	321,731	309,624	3.9	29.4	36.6	-7.2
	<u>1,094,328</u>	<u>846,397</u>	<u>29.3</u>	<u>100.0</u>	<u>100.0</u>	

### 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 43.9% to RMB772.6 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB536.8 million) and accounted for 70.6% of the total revenue during the Reporting Period (six months ended 30 June 2022: 63.4%). The increase in revenue was mainly attributable to the adoption of a new marketing mode promoted widely, which resulted in a significant increase in Chinese patent medicines.

## Operation of Chain Pharmacies

The Group has been operating chain pharmacies in Guangdong under the brand “Zeus (中智)” for the sale of pharmaceutical products since 2001. As at 30 June 2023, the Group has 433 self-operated chain pharmacies in Guangdong (as at 30 June 2022: 397), of which 403 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies increased by 3.9% to RMB321.7 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB309.6 million) and accounted for 29.4% of the total revenue during the Reporting Period (six months ended 30 June 2022: 36.6%). The increase was primarily attributable to the increased public’s need for pandemic prevention supplies resulting from the easing of the COVID-19 pandemic prevention and control.

## Gross Profit and Gross Profit Margin

Gross profit of the Group for the Reporting Period was RMB675.0 million, representing an increase of 169.8 million or 33.6% as compared with RMB505.2 million for the six months ended 30 June 2022. 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		
	2023 RMB'000	2022 RMB'000	Change (%)	2023 (%)	2022 (%)	Change (%)
Pharmaceutical manufacturing	541,832	368,024	47.2	70.1	68.6	1.5
Operation of chain pharmacies	133,131	137,159	-2.9	41.4	44.3	-2.9
	<b>674,963</b>	<b>505,183</b>	<b>33.6</b>	<b>61.7</b>	<b>59.7</b>	<b>2.0</b>

## Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by 47.2% to RMB541.8 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB368.0 million). The gross profit margin increased to 70.1% for the six months ended 30 June 2023 (six months ended 30 June 2022: 68.6%). The increase in gross profit margin was mainly due to the decreased costs and increased performance resulting from the increased sales of Chinese patent medicines.

## Operation of Chain Pharmacies

The gross profit of chain pharmacies segment decreased by 2.9% to RMB133.1 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB137.2 million). The gross profit margin of the chain pharmacies segment decreased to 41.4% for the six months ended 30 June 2023 (six months ended 30 June 2022: 44.3%). The decreased in gross profit margin was mainly due to increased promotional offers provided during the period.

## **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 2023, other income and gains of the Group were approximately RMB25.1 million (six months ended 30 June 2022: RMB12.5 million), representing an increase of approximately RMB12.6 million as compared to corresponding period in last year, which was mainly attributable to the increase in interests income.

## **Selling and Distribution Expenses**

Selling and distribution expenses mainly represent sales-related 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 2023 amounted to approximately RMB445.0 million (six months ended 30 June 2022: RMB350.0 million), representing an increase of approximately 27.1% as compared to corresponding period in last year. Selling and distribution expense ratio was 40.7% (six months ended 30 June 2022: 41.4%) against revenue for the six months ended 30 June 2023. The ratio remained stable in the corresponding periods of both years.

## **Administrative Expenses**

Administrative expenses mainly represent expenses and depreciation related to the administrative office and salaries and benefits of the management staff. Administrative expenses amounted to approximately RMB53.7 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB49.2 million), representing an increase of approximately 9.2% as compared to corresponding period in last year. The increase was mainly attributable to the increases in depreciation and amortisation as a result of the completion of the construction of the Yunfu Factory.

## **Income Tax Expense**

Income tax expense amounted to approximately RMB31.7 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB17.9 million). The increase was in line with the 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 75.1% to RMB134.9 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB77.0 million). The Group's net profit margin was 12.3% for the six months ended 30 June 2023 (six months ended 30 June 2022: 9.2%).

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Net Current Assets**

As at 30 June 2023, the Group had net current assets of approximately RMB350.0 million (31 December 2022: RMB359.7 million). As at 30 June 2023, the Group's total cash and bank balances amounted to approximately RMB241.8 million (31 December 2022: RMB381.0 million). The current ratio of the Group maintained at approximately 1.6 as at 30 June 2023 (31 December 2022: 1.5).

The equity attributable to shareholders of the Company as at 30 June 2023 amounted to approximately RMB1,073.3 million (31 December 2022: RMB1,005.9 million). As at 30 June 2023, the Group had outstanding unsecured borrowings of RMB1.0 million at a fixed interest rate and HK\$37.0 million at a floating interest rate (31 December 2022: RMB1.0 million and HK\$39.0 million).

The Group's gearing ratio (borrowings over total equity) as at 30 June 2023 was 3.3% (31 December 2022: 3.6%).

As at 30 June 2023, the Group had available unutilized banking facilities of RMB119.0 million (31 December 2022: RMB119.0 million) and HK\$3.0 million (31 December 2022: HK\$1.0 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 2023, 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 2023. 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 2023 and 31 December 2022, the Group did not have any charges on its assets.

## **CAPITAL EXPENDITURE**

For the six months ended 30 June 2023, the Group had capital expenditure of approximately RMB71.0 million (six months ended 30 June 2022: RMB38.4 million). The capital expenditure was mainly related to the purchase of items of property, plant and equipment, other intangible assets and land use right.

## **INTERIM DIVIDEND**

As a token of the Group's gratitude for the support of our shareholders, the Board has recommended the distribution of an interim dividend of HK6 cents per ordinary share for the six months ended 30 June 2023 (six months ended 30 June 2022: nil) to shareholders on the register of members of the Company on Friday, 20 October 2023, amounting to approximately HK\$51.8 million, which will be subject to the approval of the Company's shareholders in an extraordinary general meeting to be held on Friday, 13 October 2023 (the "EGM"). The interim dividend will be payable on Thursday, 2 November 2023.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 9 October 2023 to Friday, 13 October 2023, both days inclusive, during which period no transfers of shares shall be effected. The record date will be Friday, 13 October 2023. In order to qualify for attending the forthcoming EGM, 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 Friday, 6 October 2023.

To determine the entitlement of the proposed interim dividend, the register of members of the Company will be closed from Thursday, 19 October 2023 to Friday, 20 October 2023, both days inclusive, during which period no transfers of shares shall be effected. The record date will be Friday, 20 October 2023. In order to be eligible for receiving the interim dividend, all completed transfer forms accomplished 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 Wednesday, 18 October 2023.

## **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 2023, the Group had 2,834 employees with a total remuneration of RMB141.4 million during the Reporting Period (six months ended 30 June 2022: RMB134.4 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 2023 and 30 June 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 30 June 2023 and 30 June 2022. For each of the two six months ended 30 June 2023 and 30 June 2022, the Group did not have any defined benefit plan.

## **SIGNIFICANT INVESTMENTS**

### **Discloseable Transaction – Construction Contract**

On 23 May 2023, Zhongshan Hengsheng Pharmaceutical Group Co., Ltd. (中山市恒生藥業有限公司) (“Zhongshan Hengsheng”), a wholly-owned subsidiary of the Company, entered into the Construction Contract with Shenzhen Xinmei Decoration and Construction Group Limited (深圳新美裝飾建設集團有限公司) (“Shenzhen Xinmei”), pursuant to which Shenzhen Xinmei shall provide construction services to Zhongshan Hengsheng for the construction of the Hengsheng Factory at a consideration of RMB102,000,000.

With the increasing health awareness of the public after the COVID-19 pandemic, Chinese medicine continues to play a fundamental role for medical purpose and healthy lifestyle in the PRC. The demand for the Company's Chinese patent medicines increases steadily as the Group continued to record steady growth on its revenue, and it is expected that the demand in Chinese patent medicines will continue to increase in the future. As such, the Directors are of view that the Group shall expand the production capacity for Chinese patent medicine with the construction of the Hengsheng Factory to further capture market share.

The transaction constitutes a discloseable transaction of the Company and details are published in the Company's announcement dated 23 May 2023.

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 2023, the Group's capital commitment amounted to RMB17.4 million (31 December 2022: RMB16.9 million). The capital commitment is mainly related to the purchasing of new equipment.

## **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 2023 (31 December 2022: 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 2023 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 2023.

## **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](http://www.hkex.com.hk)) and the Company (<http://www.zeus.cn>). The interim report of the Company for the six months ended 30 June 2023 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, 23 August 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.*