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 2023

	For the year ended 31 December		
	2023	2022	Year-on-Year
	RMB'000	RMB'000	Change*
Revenue	**2,049,812**	1,825,935	12.3%
Gross profit	**1,218,143**	1,072,295	13.6%
Gross margin of the Group (%)	**59.4%**	58.7%	
Profit attributable to equity holders of the Company	**162,775**	106,387	53.0%
Basic and diluted			
Earnings per share (expressed in RMB per share)	**RMB0.19**	RMB0.13	46.2%
Interim dividend per share	HK6.00 cents	–	100%
Final dividend per share	HK3.00 cents	HK6.00 cents	(50.0%)
Special dividend per share	–	HK3.00 cents	(100.0%)
Total dividend per share	HK9.00 cents	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 2023 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

	Notes	**2023 RMB'000**	2022 RMB'000
REVENUE	4	**2,049,812**	1,825,935
Cost of sales		**(831,669)**	(753,640)
Gross profit		**1,218,143**	1,072,295
Other income and gains	4	**51,523**	33,700
Selling and distribution expenses		**(888,156)**	(809,821)
Administrative expenses		**(106,651)**	(104,746)
Other expenses		**(59,410)**	(54,222)
Finance costs		**(7,868)**	(6,555)
PROFIT BEFORE TAX	5	**207,581**	130,651
Income tax expense	6	**(43,447)**	(23,736)
PROFIT FOR THE YEAR		**164,134**	106,915
Attributable to:			
Owners of the parent		**162,775**	106,387
Non-controlling interests		**1,359**	528
		164,134	106,915
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted			
– For profit for the year		**RMB0.19**	RMB0.13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2023

	2023 RMB'000	2022 RMB'000
PROFIT FOR THE YEAR	**164,134**	106,915
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(4,370)**	(16,266)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**3,280**	14,115
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(1,090)**	(2,151)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**163,044**	104,764
Attributable to:		
Owners of the parent	**161,685**	104,236
Non-controlling interests	**1,359**	528
	163,044	104,764

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	**2023** **RMB'000**	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**498,367**	421,150
Investment properties		**46,441**	44,884
Right-of-use assets	9(a)	**165,749**	152,453
Prepayments for property, plant and equipment		**11,878**	721
Goodwill		**1,628**	1,628
Other intangible assets	10	**14,218**	15,398
Investment in a joint venture		**–**	416
Equity investments at fair value through profit or loss	11	**42,563**	10,676
Deferred tax assets		**30,069**	30,189
Prepayments		**850**	–
Pledged deposits		**100,000**	100,000
Other non-current assets		**6,751**	6,822
Total non-current assets		**918,514**	784,337
CURRENT ASSETS			
Inventories	12	**330,017**	322,901
Trade and notes receivables	13	**327,986**	311,561
Prepayments, deposits and other receivables		**49,473**	60,761
Equity investments at fair value through profit or loss	11	**2,277**	14,687
Cash and bank balances		**164,368**	381,010
Total current assets		**874,121**	1,090,920
CURRENT LIABILITIES			
Trade and bills payables	14	**190,970**	189,779
Other payables and accruals		**283,931**	409,093
Interest-bearing bank borrowings		**27,329**	36,031
Lease liabilities	9(b)	**48,253**	40,208
Amounts due to related parties		**8,786**	8,786
Deferred income		**9,756**	16,527
Amount due to a joint venture		**–**	69
Tax payable		**39,583**	30,758
Total current liabilities		**608,608**	731,251
NET CURRENT ASSETS		**265,513**	359,669
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,184,027**	1,144,006

	Notes	**2023** **RMB'000**	2022 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**22,683**	–
Deferred income		**11,866**	15,842
Lease liabilities	9(b)	**76,592**	94,621
Deferred tax liabilities		**19,553**	27,594
Total non-current liabilities		**130,694**	138,057
Net assets		**1,053,333**	1,005,949
Equity			
Equity attributable to owners of the parent			
Issued capital		**6,847**	6,847
Reserves		**1,041,669**	996,129
		1,048,516	1,002,976
Non-controlling interests		**4,817**	2,973
Total equity		**1,053,333**	1,005,949

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. ACCOUNTING POLICIES

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") 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 2023. A subsidiary is an entity (including a structured entity), 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 the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and 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 new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2	(a)	*Disclosure of Accounting Policies*
Amendments to IAS 8	(b)	*Definition of Accounting Estimates*
Amendments to IAS 12	(c)	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to IAS 12	(d)	*International Tax Reform – Pillar Two Model Rules*

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 Making Materiality Judgements provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendment 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. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(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.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under IAS 12.

(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. 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.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following revised IFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised IFRSs, if applicable, when they become effective.

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*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[1, 4]
Amendments to IAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[1, 4]
Amendments to IAS 7 and IFRS 7	*Supplier Finance Arrangements*[1]
Amendments to IAS 21	*Lack of Exchangeability*[2]

1 Effective for annual periods beginning on or after 1 January 2024
2 Effective for annual periods beginning on or after 1 January 2025
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

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 resulting from a downstream transaction when the sale or contribution of assets 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. 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.

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments 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. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application 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 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. 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.

For management purposes, the Group is organised into business units based on its sales channels 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 Chinese Mainland and over 90% of the Group's non-current assets were located in Chinese Mainland, 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 2023 and 2022, 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 2023:

	Year ended 31 December 2023		
	Pharmaceutical manufacturing RMB'000	Operation of chain pharmacies RMB'000	Total RMB'000
Segment revenue:			
Revenue from external customers *(note 4)*	**1,415,663**	**634,149**	**2,049,812**
Intersegment sales	**696,224**	**–**	**696,224**
Total segment revenue	**2,111,887**	**634,149**	**2,746,036**
Reconciliation:			
Elimination of intersegment sales			**(696,224)**
Revenue			**2,049,812**
Segment results	**976,903**	**241,240**	**1,218,143**
Reconciliation:			
Other income and gains			**51,523**
Selling and distribution expenses			**(888,156)**
Administrative expenses			**(106,651)**
Other expenses			**(59,410)**
Finance costs			**(7,868)**
Profit before tax			**207,581**

	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
Total segment revenue	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

4. REVENUE, OTHER INCOME AND GAINS

	2023 **RMB'000**	2022 RMB'000
Revenue from contracts with customers		
Sale of pharmaceutical products	**2,049,812**	1,825,935

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 Chinese Mainland 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:

	2023 **RMB'000**	2022 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of pharmaceutical products	**118,439**	10,885

(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:

	2023 **RMB'000**	2022 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**23,371**	118,439

	Note	2023 RMB'000	2022 RMB'000
Other income			
Bank interest income		**6,885**	3,795
Dividend income from equity investments at fair value through profit or loss		**32**	109
Rental income		**2,569**	1,867
Interest income from financial assets at fair value through profit or loss		**100**	93
Sales of raw materials		**6,117**	2,264
Others		**9,092**	3,891
		24,795	12,019
Gains, net			
Government grants:			
– Related to assets		**3,511**	3,355
– Related to income		**15,901**	12,162
Gain on disposal of items of property, plant and equipment	5	**431**	694
Gain on disposal of equity investments at fair value through profit or loss	5	**2,023**	14
Fair value gains, net:			
Equity investments at fair value through profit or loss	5	**1,864**	1,264
Financial assets at fair value through profit or loss	5	**–**	1,153
Others		**2,998**	3,039
		26,728	21,681
		51,523	33,700

5. PROFIT BEFORE TAX

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

	Notes	**2023** **RMB'000**	2022 RMB'000
Cost of inventories sold		**831,669**	753,640
Depreciation of property, plant and equipment and investment properties		**50,069**	49,532
Depreciation of right-of-use assets	9(a)	**48,579**	43,219
Research and development costs		**49,982**	46,350
Advertising, marketing and promotion expenses		**205,578**	180,209
Amortisation of other intangible assets*	10	**3,431**	3,633
Write-down of inventories to net realisable value		**3,538**	4,946
Lease payments not included in the measurement of lease liabilities	9(c)	**952**	737
Auditor's remuneration		**2,600**	2,600
Impairment losses/(reversal of impairment) on trade receivables		**474**	(162)
Gain on disposal of items of property, plant and equipment	4	**(431)**	(694)
Gain on disposal of equity investments at fair value through profit or loss	4	**(2,023)**	(14)
Fair value gains, net:			
Equity investments at fair value through profit or loss	4	**(1,864)**	(1,264)
Financial assets at fair value through profit or loss	4	**–**	(1,153)
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**286,501**	299,558
Pension scheme contributions (defined contribution scheme)**		**17,260**	18,013
Staff welfare expenses		**20,170**	14,800
		323,931	332,371

* *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 2023, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2022: 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% (2022: 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 Chinese Mainland 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 Chinese Mainland 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:

	2023 **RMB'000**	2022 RMB'000
Current – Chinese Mainland		
Charge for the year	**51,368**	20,418
Deferred income tax (credit)/expense	**(7,921)**	3,318
Total income tax expense	**43,447**	23,736

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 Chinese Mainland and the jurisdiction of the foreign investors) withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Chinese Mainland. 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 Chinese Mainland in respect of earnings generated from 1 January 2008. As at 31 December 2023, the Group recognised a deferred tax liability of RMB10,614,000 (2022: RMB17,790,000) in respect of the withholding tax on future dividends.

7. DIVIDENDS

	2023 **RMB'000**	2022 RMB'000
Interim – HK6 cents (2022: nil) per ordinary share	**47,588**	–
Proposed final – HK3 cents (2022: HK6 cents) per ordinary share	**23,463**	45,339
Proposed special – nil (2022: HK3 cents) per ordinary share	**–**	22,670
	71,051	68,009

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).

The Company declared and paid an interim dividend (HK6 cents per ordinary share) amounting to HK$50,820,000 (equivalent to approximately RMB46,642,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK$996,000 (equivalent to approximately RMB914,000).

The proposed final 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 (2022: 846,998,500) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2023 and 2022.

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

	2023 **RMB'000**	2022 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**162,775**	106,387

	2023	2022
Shares		
Weighted average number of ordinary shares in issue	**863,600,000**	863,600,000
Weighted average number of shares held for the share award plan	**(16,601,500)**	(16,601,500)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**846,998,500**	846,998,500

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 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 and 1 January 2023	**124,508**	**27,945**	**152,453**
Additions	**37,308**	**24,567**	**61,875**
Depreciation charge *(note 5)*	**(47,278)**	**(1,301)**	**(48,579)**
As at 31 December 2023	**114,538**	**51,211**	**165,749**

(b) Lease liabilities

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

	2023 **RMB'000**	2022 RMB'000
Carrying amount at 1 January	**134,829**	118,498
New leases	**37,308**	58,647
Accretion of interest recognised during the year	**5,254**	4,636
Payments	**(52,546)**	(46,952)
Carrying amount at 31 December	**124,845**	134,829
Analysed into:		
Current portion	**48,253**	40,208
Non-current portion	**76,592**	94,621

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

	2023 **RMB'000**	2022 RMB'000
Interest on lease liabilities	**5,254**	4,636
Depreciation charge of right-of-use assets	**48,579**	43,219
Expense relating to short-term leases (included in selling and distribution expenses)	**952**	737
Total amount recognised in profit or loss	**54,785**	48,592

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 RMB2,569,000 (2022: RMB1,867,000), details of which are included in note 4 to the financial statements.

At 31 December 2023, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2023 **RMB'000**	2022 RMB'000
Within one year	**2,804**	2,814
After one year but within two years	**2,699**	2,690
After two years but within three years	**2,604**	2,649
After three years but within four years	**2,521**	2,579
After four years but within five years	**1,921**	2,579
After five years	**1,506**	3,160
	14,055	16,471

10. OTHER INTANGIBLE ASSETS

	Software RMB'000	Patents and licences RMB'000	Total RMB'000
31 December 2023			
Cost at 1 January 2023, net of accumulated amortisation	**14,192**	**1,206**	**15,398**
Additions	**2,251**	**–**	**2,251**
Amortisation provided during the year *(note 5)*	**(2,601)**	**(830)**	**(3,431)**
At 31 December 2023, net of accumulated amortisation	**13,842**	**376**	**14,218**
At 31 December 2023:			
Cost	**29,228**	**3,528**	**32,756**
Accumulated amortisation	**(15,386)**	**(3,152)**	**(18,538)**
Net carrying amount	**13,842**	**376**	**14,218**
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, net of accumulated amortisation	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

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 RMB'000	2022 RMB'000
Equity investments at fair value through profit or loss		
Listed equity investment, at fair value	**6,760**	24,839
Unlisted equity investment, at fair value	**38,080**	524
	44,840	25,363

The above equity investments at 31 December 2023 were classified as equity investments at fair value through profit or loss, as equity investments amounting to RMB6,760,000 (2022: RMB14,687,000) were held for trading purpose, and equity investments amounting to RMB38,080,000 (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

	2023 RMB'000	2022 RMB'000
Raw materials	**71,116**	56,590
Work in progress	**19,602**	12,692
Finished goods	**239,299**	253,619
	330,017	322,901

Inventories with a value of RMB19,995,000 (2022: RMB13,814,000) are carried at net realisable value, which is lower than cost.

13. TRADE AND NOTES RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	**195,894**	200,452
Less: Impairment of trade receivables	**(3,861)**	(3,387)
Trade receivables, net	**192,033**	197,065
Notes receivable	**135,953**	114,496
	327,986	311,561

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 2023 and 2022. 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 2023 and 2022, 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:

	2023	2022
	RMB'000	RMB'000
Within 1 month	**76,623**	75,087
1 to 3 months	**71,031**	64,058
3 to 6 months	**23,815**	33,619
6 to 12 months	**18,127**	18,373
Over 12 months	**2,437**	5,928
	192,033	197,065

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

	2023	2022
	RMB'000	RMB'000
At beginning of year	**3,387**	3,549
Impairment losses/(reversal of impairment), net	**474**	(162)
At end of year	**3,861**	3,387

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 2023 and 2022. As at 31 December 2023, the Group continued to recognise endorsed notes receivables and the associated liabilities amounting to RMB29,959,000 (2022: RMB31,277,000). 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 2023

	Less than 1 year	**1 to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	**0.53%**	**22.45%**	**100.00%**	**1.97%**
Gross carrying amount (RMB'000)	**190,615**	**3,142**	**2,137**	**195,894**
Expected credit losses (RMB'000)	**1,019**	**705**	**2,137**	**3,861**

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

14. TRADE AND BILLS PAYABLES

	2023 RMB'000	2022 RMB'000
Trade payables	**140,766**	149,226
Bills payables	**50,204**	40,553
	190,970	189,779

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

	2023 RMB'000	2022 RMB'000
Within 3 months	**130,594**	130,376
3 to 6 months	**5,995**	11,396
6 to 12 months	**2,647**	4,666
over 12 months	**1,530**	2,788
	140,766	149,226

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 2023 (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 12.3% to approximately RMB2,049.8 million.

Profit attributable to owners of the parent increased by approximately 53.0% to RMB162.8 million.

FUTURE AND OUTLOOK

In 2024, as the economy picks up and recovers, the Company intends to accelerate the development of new quality productive forces. Utilising the national enterprise technology center as a platform and promoting industry innovation with technology innovation, the Company will continue to accelerate industry upgrading and transformation, the secondary development of core products of Chinese patent medicines and the introduction of new products, to lay a solid foundation for the development for the next thirty years.

Pharmaceutical Manufacturing Segment

The Company has expedited the construction project of Honeson Pharmaceutical's new plant, and has passed the GMP's compliance inspection and completed its product transfer. While constructing the new plant, the Company has guaranteed the normal operation of the existing plant, achieving a steady transition of production capacity from the old plant to the new one. The Company has continued to promote the research on the secondary development of core products, laying a foundation for the future development.

Chinese decoction pieces represent an important material foundation for Chinese medicines, and the decoction pieces business is the focus of our development. In the future, we will build a management and control system for the whole industry chain including seeds and seedlings, cultivation and plantation, production processing and other aspects in genuine producing areas across the nation, so as to strengthen the linkage between the industry and the land and to consolidate the foundation of the industry.

Chain Pharmacies Segment

With Yunzhi Medicine serving as a stable supplier of traditional Chinese medicine products for the chain pharmacies, the chain pharmacies will continue to expand the influence of traditional Chinese medicine products, offering more healthcare traditional Chinese medicine products to the public and increasing the share in sales of traditional Chinese medicine. At the same time, the Company will accelerate the pace of new retail development and optimise internal management to achieve an overall improvement in business operations.

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 year ended 31 December			**% of total revenue for the year ended 31 December**		
	2023	2022	Change	**2023**	2022	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**1,415,663**	1,129,905	25.3	**69.1**	61.9	7.2
Operation of chain pharmacies	**634,149**	696,030	-8.9	**30.9**	38.1	-7.2
	2,049,812	1,825,935	12.3	**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 25.3% to RMB1,415.7 million for the year ended 31 December 2023 (2022: RMB1,129.9 million) and accounted for 69.1% of the total revenue during the year (2022: 61.9%). The increase in revenue was primarily 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 province under the brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at 31 December 2023, the Group has 428 self-operated chain pharmacies in Guangdong province (2022: 429), of which 426 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies decreased by 8.9% to approximately RMB634.1 million for the year ended 31 December 2023 (2022: RMB696.0 million) and accounted for 30.9% of the total revenue during the year (2022: 38.1%), which was mainly attributable to the increase in demand for pandemic supplies with the relaxation of the pandemic control measures since December 2022, leading to the normalisation of demand in second half of 2023.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year was RMB1,218.1 million, representing an increase of RMB145.8 million or 13.6% as compared with RMB1,072.3 million for the year ended 31 December 2022. 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**		
	2023	2022	Change	**2023**	2022	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**976,903**	777,455	25.7	**69.0**	68.8	0.2
Operation of chain pharmacies	**241,240**	294,840	-18.2	**38.0**	42.4	-4.4
	1,218,143	1,072,295	13.6	**59.4**	58.7	0.7

Pharmaceutical manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 25.7% to RMB976.9 million for the year ended 31 December 2023 (2022: RMB777.5 million). The gross profit margin basically remained stable at 69.0% for the year ended 31 December 2023 (2022: 68.8%).

Operation of chain pharmacies

The gross profit of chain pharmacies segment decreased by approximately 18.2% to RMB241.2 million for the year ended 31 December 2023 (2022: RMB294.8 million). The gross profit margin of the chain pharmacies segment decreased to 38.0% for the year ended 31 December 2023 (2022: 42.4%). 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 2023, other income and gains of the Group were approximately RMB51.5 million (2022: RMB33.7 million), representing an increase of approximately RMB17.8 million as compared to previous year, which was mainly attributable to the increase in government grants, sales of raw materials and interest income.

Selling and Distribution Expenses

Selling and distribution expenses mainly consists of staff costs, promotional costs and amortization of right-of-use assets of the Group. For the year ended 31 December 2023, selling and distribution expenses amounted to approximately RMB888.2 million (2022: RMB809.8 million), representing an increase of approximately 9.7% as compared to previous year. Selling and distribution expense ratio remained relatively stable at approximately 43.3% (2022: 44.4%) against revenue for the year ended 31 December 2023.

Administrative Expenses

Administrative expenses mainly consists of salaries and benefits of the administrative and management staff, amortization of right-of-use assets and professional services. For the year ended 31 December 2023, administrative expenses amounted to approximately RMB106.7 million (2022: RMB104.7 million), representing an increase of approximately 1.8% as compared to previous year. The increase was due to the depreciation and amortisation in the chain pharmacies head-quarter 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 2023, research and development expenses amounted to approximately RMB50.0 million (2022: RMB46.4 million), representing an increase of approximately 7.8% 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 and outsourcing.

Finance Costs

Finance costs consist of interest on bank borrowings and interest on lease liabilities, which amounted to RMB7.9 million for the year ended 31 December 2023 (2022: RMB6.6 million), which was mainly due to the increase in the financial costs for bank borrowings.

Income Tax Expense

Income tax expense amounted to RMB43.4 million for the year ended 31 December 2023 (2022: RMB23.7 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 53.0% to RMB162.8 million for the year ended 31 December 2023 (2022: RMB106.4 million). The Group's net profit margin amounted to 7.9% for the year ended 31 December 2023 (2022: 5.8%).

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

The Group had net current assets of approximately RMB265.5 million as at 31 December 2023 (31 December 2022: RMB359.7 million). The Group's cash and bank balances decreased from RMB381.0 million as at 31 December 2022 to RMB164.4 million (which consisted of cash and bank balances of RMB155.5 million and HK$9.8 million denominated in RMB and HKD respectively) as at 31 December 2023. The current ratio of the Group decreased from approximately 1.5 as at 31 December 2022 to 1.4 as at 31 December 2023.

The equity attributable to shareholders of the Company as at 31 December 2023 amounted to approximately RMB1,053.3 million (31 December 2022: RMB1,005.9 million). The Group had outstanding unsecured borrowings of RMB22.7 million at a fixed interest rate and HK$30.0 million at a floating interest rate as at 31 December 2023 (2022: RMB1.0 million and HK$39.2 million).

The Group's gearing ratio (borrowings over total equity) as at 31 December 2023 was 4.8% (31 December 2022: 3.6%).

As at 31 December 2023, the Group had available unutilized banking facilities of RMB119.3 million (31 December 2022: RMB119.0 million) and HK$10.0 million (31 December 2022: HK$1.0 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 2023, the number of issued shares of the Company was 863,600,000 ordinary Shares of HK$0.01 each.

EMPLOYEES AND EMOLUMENTS POLICY

The Group is committed to establishing fair remuneration system and will conduct performance evaluation for its employees on an annual basis. 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 2023, the Group had 2,643 employees (2022: 2,883) with a total remuneration of RMB323.9 million during the Reporting Period (2022: RMB332.4 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.

A directors' remuneration policy has been adopted. It aims to set out the Company's policy in respect of remuneration paid to executive Directors and non-executive Directors. The Directors' remuneration policy sets out the remuneration structure that allows the Company to attract, motivate and retain qualified Directors who can manage and lead the Company in achieving its strategic objective and contribute to the Company's performance and sustainable growth, and to provide Directors with a balanced and competitive remuneration. The remuneration policy is, therefore, aiming at being competitive but not excessive. To achieve this, remuneration package is determined with reference to a matrix of factors, including the individual performance, qualification and experience of Directors concerned and prevailing industry practice. It will be reviewed and, if necessary, updated from time to time to ensure its continued effectiveness.

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 2022 and 31 December 2023, 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 2022 and 31 December 2023.

For each of the two years ended 31 December 2022 and 31 December 2023, 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.

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 report.

CAPITAL COMMITMENT

As at 31 December 2023, the Group's capital commitment amounted to RMB28.5 million (2022: RMB16.9 million). The capital commitment is mainly related to purchasing of production equipment for the new factory of Zhongshan Hengsheng.

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 2023 (2022: 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 C1 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 2023 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 C3 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 2023.

DIVIDEND

The Board declared and paid an interim dividend of HK6 cents per share (2022: nil) in 2023. The Board recommends the payment of a final dividend of HK3 cents per share (2022: HK6 cents) and a special dividend of nil per share (2022: HK3 cents) for the year ended 31 December 2023 to be payable to the shareholders of the Company whose names appeared on the register of members of the Company as at Friday, 31 May 2024, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be held on Friday, 17 May 2024. The final dividend will be payable on Thursday, 13 June 2024.

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 Monday, 13 May 2024 to Friday, 17 May 2024, both days inclusive, during which period no transfers of shares shall be effected. The record date will be Friday, 17 May 2024. 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 Friday, 10 May 2024.

For the purpose of determining the entitlement to the proposed final dividend for the year ended 31 December 2023, the register of members of the Company will be closed from Tuesday, 28 May 2024 to Friday, 31 May 2024, (both days inclusive). The record date will be Friday, 31 May 2024. In order to qualify for the proposed final dividend for the year ended 31 December 2023, 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 Monday, 27 May 2024.

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 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
Lai Zhi Tian
Chairman & Executive Director

Hong Kong, 22 March 2024

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.