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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 2024

FINANCIAL HIGHLIGHTS:

The Group's revenue for the six months ended 30 June 2024 amounted to approximately RMB1,088.4 million, representing an decrease of 0.5% when compared to the six months ended 30 June 2023.

The Group's gross profit for the six months ended 30 June 2024 amounted to approximately RMB627.0 million, representing an decrease of 7.1% when compared to the six months ended 30 June 2023. Gross profit margin decrease by 4.1 percentage point to approximately 57.6%, as compared to the six months ended 30 June 2023.

Profit attributable to owners of the parent amounted to approximately RMB83.4 million, representing an decrease of approximately 38.2% as compared to the six months ended 30 June 2023.

Basic earnings per share was approximately RMB9.9 cents for the six months ended 30 June 2024, representing a decrease of approximately 37.7% from approximately RMB15.9 cents for the six months ended 30 June 2023.

The Board has recommended not to distribute any interim dividend for the six months ended 30 June 2024 (interim dividend of HK6 cents per ordinary share was distributed for the six months ended 30 June 2023).

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 2024 (the “Reporting Period”), together with the unaudited comparative figures for the six months ended 30 June 2023. 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 2024

		Six months ended 30 June	
	Notes	2024	2023
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	1,088,426	1,094,328
Cost of sales		<u>(461,380)</u>	<u>(419,365)</u>
Gross profit		627,046	674,963
Other income and gains	4	18,074	25,152
Selling and distribution expenses		(448,475)	(444,956)
Administrative expenses		(52,645)	(53,719)
Other expenses		(34,598)	(29,878)
Finance costs		(4,383)	(3,743)
PROFIT BEFORE TAX	5	105,019	167,819
Income tax expense	6	(20,767)	(31,667)
PROFIT FOR THE PERIOD		84,252	136,152
Attributable to:			
Owners of the parent		83,440	134,900
Non-controlling interests		812	1,252
		84,252	136,152
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
— For profit for the period		RMB0.099	RMB0.159
Diluted			
— For profit for the period		RMB0.099	RMB0.159

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	84,252	136,152
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	(467)	(4,221)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	252	4,401
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	(215)	180
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	84,037	136,332
Attributable to:		
Owners of the parent	83,225	135,080
Non-controlling interests	812	1,252
	84,037	136,332

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

	Notes	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	578,389	498,367
Investment properties	9	45,728	46,441
Prepayment for property, plant and equipment		2,183	11,878
Right-of-use assets		164,666	165,749
Pledged deposits		100,500	100,000
Goodwill		1,628	1,628
Other intangible assets	10	13,121	14,218
Prepayments		—	850
Equity investments at fair value through profit or loss	11	41,080	42,563
Deferred tax assets		30,464	30,069
Other non-current assets		7,021	6,751
Total non-current assets		984,780	918,514
CURRENT ASSETS			
Inventories	12	344,374	330,017
Trade and notes receivables	13	411,495	327,986
Prepayments, deposits and other receivables	14	58,093	49,473
Equity investments at fair value through profit or loss	11	—	2,277
Cash and cash equivalents	15	162,908	164,368
Total current assets		976,870	874,121
CURRENT LIABILITIES			
Trade and bills payables	16	266,149	190,970
Interest-bearing bank borrowings		36,297	27,329
Other payables and accruals	17	303,092	283,931
Lease liabilities		42,068	48,253
Amounts due to related parties		8,786	8,786
Deferred income	18	9,571	9,756
Tax payable		34,240	39,583
Total current liabilities		700,203	608,608
NET CURRENT ASSETS		276,667	265,513
TOTAL ASSETS LESS CURRENT LIABILITIES		1,261,447	1,184,027

		30 June 2024	31 December 2023
	Notes	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income	18	10,212	11,866
Lease liabilities		82,019	76,592
Deferred tax liabilities		19,319	19,553
Interest-bearing bank borrowings		38,271	22,683
		<hr/>	<hr/>
Total non-current liabilities		149,821	130,694
		<hr/>	<hr/>
Net assets		1,111,626	1,053,333
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	19	6,847	6,847
Reserves		1,099,882	1,041,669
		<hr/>	<hr/>
		1,106,729	1,048,516
		<hr/>	<hr/>
Non-controlling interests		4,897	4,817
		<hr/>	<hr/>
Total equity		1,111,626	1,053,333
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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 2024 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 2023.

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 2023, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> (the “2020 Amendments”)
Amendments to IAS 1	<i>Non-current Liabilities with Covenants</i> (the “2022 Amendments”)
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i>

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

- (a) 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. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of IFRS 16, the amendments did not have any impact on the financial position or performance of the Group.
- (b) 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 Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

- (c) 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. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the interim condensed consolidated financial information.

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 2023 and 2024, 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 2023 and 2024 are as follows:

	Six months ended 30 June 2024		
	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of chain pharmacies RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue:			
Revenue from external customers (note 4)	778,700	309,726	1,088,426
Intersegment sales	<u>359,001</u>	<u>—</u>	<u>359,001</u>
	1,137,701	309,726	1,447,427
Reconciliation:			
Elimination of intersegment sales			(359,001)
Revenue			<u>1,088,426</u>
Segment results	<u>508,810</u>	<u>118,236</u>	<u>627,046</u>
Reconciliation:			
Other income and gains			18,074
Selling and distribution expenses			(448,475)
Administrative expenses			(52,645)
Other expenses			(34,598)
Finance costs			<u>(4,383)</u>
Profit before tax			<u>105,019</u>
	Six months ended 30 June 2023		
	Pharmaceutical manufacturing RMB'000 (unaudited)	Operation of chain pharmacies RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue:			
Revenue from external customers (note 4)	772,597	321,731	1,094,328
Intersegment sales	<u>331,903</u>	<u>—</u>	<u>331,903</u>
	1,104,500	321,731	1,426,231
Reconciliation:			
Elimination of intersegment sales			(331,903)
Revenue			<u>1,094,328</u>
Segment results	<u>541,832</u>	<u>133,131</u>	<u>674,963</u>
Reconciliation:			
Other income and gains			25,152
Selling and distribution expenses			(444,956)
Administrative expenses			(53,719)
Other expenses			(29,878)
Finance costs			<u>(3,743)</u>
Profit before tax			<u>167,819</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 2024.

For the six months ended 30 June 2024, the revenue from contracts with customers is recognised at a point in time.

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

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of pharmaceutical products	1,088,426	1,094,328
Other income		
Bank interest income	2,648	3,698
Dividend income	56	32
	2,704	3,730
Gains		
Government grants:		
— Related to assets	1,839	1,322
— Related to income	2,634	3,938
Fair value gain on equity investments and financial assets at fair value through profit or loss	—	2,053
Gain on disposal of items of property, plant and equipment	—	849
Others	10,897	13,260
	15,370	21,422
	18,074	25,152

5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Cost of inventories sold		461,380	419,365
Depreciation of property, plant and equipment and investment properties		25,039	25,971
Depreciation of right-of-use assets*		24,453	22,156
Amortisation of other intangible assets*	10	1,561	1,888
Research and development costs		22,886	20,551
Advertising, marketing and promotion expenses		307,333	295,960
Write-down of inventories to net realisable value		4,961	2,875
Impairment losses on trade receivables		3,397	1,490
Fair value loss:			
Equity investments at fair value through profit or loss**		—	1,198
Finance costs		4,383	3,743
Auditor's remuneration		1,390	1,268
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		146,096	125,342
Pension scheme contributions (defined contribution scheme)		9,479	8,798
Staff welfare expenses		8,705	7,271
		164,280	141,411

* 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% (2023: 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 2024 and 2023, respectively.

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

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China		
Current income tax	21,396	40,983
Deferred income tax benefit	(629)	(9,316)
Total income tax expense	<u>20,767</u>	<u>31,667</u>

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 2024, the Group recognised a deferred tax liability of RMB11,643,000 (31 December 2023: RMB10,614,000) in respect of the withholding tax on future dividend distribution by the PRC entities.

7. DIVIDEND

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).

During the six months ended 30 June 2024, the Company declared and paid a final dividend (HK3 cents per ordinary share) in respect of the previous financial year amounting to HK\$25,410,000 (equivalent to approximately RMB23,137,000), after the adjustment of excluding the dividend for shares held under the share award plan of the Company amounting to HK\$498,000 (equivalent to approximately RMB453,000).

Subsequent to 30 June 2024, the board of directors resolved not to pay any interim dividend to the shareholders (six months ended 30 June 2023: HK\$51,816,000).

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 846,837,425 in issue during the period.

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

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

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	83,440	134,900
	863,600,000	863,600,000
Weighted average number of ordinary shares in issue	(16,762,575)	(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	846,837,425	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	846,837,425	846,998,500

9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

	30 June	31 December
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Carrying amount at 1 January	498,367	421,150
Additions	105,496	145,513
Depreciation provided during the period/year	(24,326)	(48,795)
Transfer to investment properties	—	(2,831)
Disposals	(1,148)	(16,670)
Carrying amount at 30 June/31 December	578,389	498,367

The Group's buildings are located in Mainland China.

As at 31 December 2023 and 30 June 2024, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB55,171,000 and nil, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

	Investment properties RMB'000
As at 31 December 2023 and 1 January 2024	46,441
Depreciation provided during the year	(713)
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As at 30 June 2024	45,728
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Certain self-owned building of the Group was reclassified to investment properties with original cost of RMB57,167,000 and accumulated depreciation of RMB11,439,000. 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 RMB61,433,000 as at 30 June 2024 by internal appraiser and were determined by income approach.

10. OTHER INTANGIBLE ASSETS

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Carrying amount at 1 January	14,218	15,398
Additions	464	2,251
Amortisation provided during the period/year	(1,561)	(3,431)
	<hr/>	<hr/>
Carrying amount at 30 June/31 December	13,121	14,218
	<hr/>	<hr/>

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Equity investments at fair value through profit or loss		
Listed equity investment, at fair value	—	6,760
Unlisted equity investment, at fair value	41,080	38,080
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	41,080	44,840
	<hr/>	<hr/>

The above listed equity investment at 30 June 2024 was classified as equity investment at fair value through profit or loss, as equity investments amounting to Nil (31 December 2023: RMB6,760,000) were held for trading purpose, and equity investments amounting to RMB41,080,000 (31 December 2023: RMB38,080,000) 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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Raw materials	76,600	71,116
Work in progress	27,098	19,602
Finished goods	240,676	239,299
	<u>344,374</u>	<u>330,017</u>

Inventories with a value of RMB23,297,000 (2023: RMB19,995,000) are carried at net realisable value, which is lower than cost.

13. TRADE AND NOTES RECEIVABLES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade receivables	301,770	195,894
Less: Impairment of trade receivables	7,258	3,861
	<u>294,512</u>	<u>192,033</u>
Trade receivables, net	294,512	192,033
Notes receivables	116,983	135,953
	<u>411,495</u>	<u>327,986</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 2024 and 31 December 2023. 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 2024 and year ended 31 December 2023, 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:

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade receivables:		
Within 1 month	132,960	76,623
1 to 3 months	99,988	71,031
3 to 6 months	47,069	23,815
6 to 12 months	10,429	18,127
Over 12 months	4,066	2,437
	<u>294,512</u>	<u>192,033</u>

The notes receivables are settled within 180 days. As at 30 June 2024, the Group continued to recognise endorsed notes receivable and associated liabilities amounting to RMB10,295,000 (2023: RMB29,959,000) respectively. The directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining endorsed notes.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Prepayments	14,770	15,343
Tax recoverable	7,314	8,471
Deposits and other receivables	36,009	25,659
	<u>58,093</u>	<u>49,473</u>

15. CASH AND CASH EQUIVALENTS

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Cash and bank balances	118,908	121,651
Non-pledged time deposits	144,500	142,717
Less:		
Pledged time deposits*	<u>(100,500)</u>	<u>(100,000)</u>
	<u>162,908</u>	<u>164,368</u>
Denominated in:		
— RMB	155,051	155,524
— HK\$	7,857	8,844
	<u>162,908</u>	<u>164,368</u>

* At 30 June 2024, bank deposits of RMB100,500,000 (31 December 2023: 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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade payables	148,825	140,766
Bills payables	117,324	50,204
	<u>266,149</u>	<u>190,970</u>

An aged analysis of the trade payables as at 31 December 2023 and 30 June 2024, based on the invoice date, is as follows:

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Within 3 months	130,115	130,594
3 to 6 months	12,365	5,995
6 to 12 months	4,282	2,647
over 12 months	2,063	1,530
	<u>148,825</u>	<u>140,766</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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Accruals and other payables	106,988	98,348
Deposits received	63,548	62,558
Accrued salaries and welfare	32,313	36,387
Endorsed notes	10,295	29,959
Contract liabilities	39,624	23,371
Other tax payables	17,837	9,635
Payables for purchases of property and equipment	32,487	23,673
	<u>303,092</u>	<u>283,931</u>

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

18. DEFERRED INCOME

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
At 1 January	21,622	32,369
Received amounts	2,634	8,665
Released amounts	<u>(4,473)</u>	<u>(19,412)</u>
At 30 June/31 December	<u>19,783</u>	<u>21,622</u>
Current	9,571	9,756
Non-current	<u>10,212</u>	<u>11,866</u>
	<u>19,783</u>	<u>21,622</u>

19. ISSUED CAPITAL

Issued Capital

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

	30 June 2024 (Unaudited)	31 December 2023 (Audited)
Issued and fully paid: 863,600,000 (2023: 863,600,000) ordinary shares of HK\$0.01 each (HK\$'000)	<u>8,636</u>	<u>8,636</u>
Equivalent to RMB'000	<u>6,847</u>	<u>6,847</u>

20. SHARE AWARD PLAN

A share award plan was adopted on 8 January 2016 (the "Share Award Plan"). The Share Award Plan is a share incentive scheme and is established to recognise the contributions made by certain selected persons and to attract suitable individuals with experience and ability to further develop and expand the business 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 (the "Trustee") from the open market by utilizing the Company's resources provided to the Trustee. The maximum number 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 exceeding 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 of directors 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 adoption.

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. As at 31 December 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 grant. On 18 June 2021, the Group purchased 3,323,000 shares in an aggregate amount of HK\$5,288,000 (equivalent to approximately RMB4,383,000).

From 17 June 2024 to 28 June 2024, the Group purchased 1,699,000 shares in an aggregate amount of HK\$2,056,000 (equivalent to approximately RMB1,875,000).

The Group recognised a share award expense of nil for the six months ended 30 June 2024 (2023: Nil).

At the date of approval of this interim condensed consolidated financial information, 18,300,500 shares of the Company are held by the Trustee and have yet to be awarded.

21. COMMITMENTS

Capital commitments

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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Contracted, but not provided for:		
Leasehold improvements	2,716	2,129
Intangible assets	389	272
Plant and machinery	15,992	26,071
	<u>19,097</u>	<u>28,472</u>

At the end of 31 December 2023 and 30 June 2024, the Group had significant authorised but not contracted capital commitment of RMB1,260,000 and RMB199,000, respectively.

22. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2023 and 30 June 2024 represent consideration received from the registered shareholders as part of the historical reorganisation. Pursuant to the Contractual Arrangements, the consideration is repayable to the Registered Shareholders upon exercise of the option to repurchase the equity interest of Zhongzhi Herbal Pieces by the Group. The amounts are unsecured, interest-free and have no fixed term of repayment.

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

	Six months ended 30 June 2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	8,321	5,349
Pension scheme contributions	98	96
	<u>8,419</u>	<u>5,445</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 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Financial assets				
Pledged deposits, non-current portion	100,500	100,000	100,500	100,000
Equity investments at fair value through profit or loss	41,080	44,840	41,080	44,840
	<u>141,580</u>	<u>144,840</u>	<u>141,580</u>	<u>144,840</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 2024

	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	—	—	41,080	41,080
Notes receivables	—	116,983	—	116,983
	<u>—</u>	<u>116,983</u>	<u>41,080</u>	<u>158,063</u>

As at 31 December 2023

	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	6,760	—	38,080	44,840
Notes receivables	—	135,953	—	135,953
Total	<u>6,760</u>	<u>135,953</u>	<u>38,080</u>	<u>180,793</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

By virtue of the clear strategic positioning, in 2024, 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 RMB1,088.4 million (corresponding period in 2023: RMB1,094.3 million), representing a decrease of 0.5% over the corresponding period in last year.
- The Group recorded a profit attributable to owners of the parent for the period of approximately RMB83.4 million (corresponding period in 2023: RMB134.9 million), representing a decrease of approximately 38.2% over the corresponding period in last year.
- The basic earnings per share is RMB9.9 cents (corresponding period in 2023: RMB15.9 cents), representing a decrease of approximately 37.7% over the corresponding period in last year.

FUTURE AND OUTLOOK

In 2024, with accelerated development of new quality production forces, the high-quality development of the pharmaceutical industry underwent certain phased adjustments. In the short run, the prices of some traditional Chinese medicinal materials have dramatically increased, putting pressure on the industry. However, the implementation of health prioritization development strategy to satisfy the increasing demand from the public for medical and healthcare services will still drive the healthy development of the pharmaceutical industry.

Pharmaceutical Manufacturing Segment

In 2024, the Company's traditional decoction pieces business has seen steady growth after fine-tuning at early stage and continuous improvement. The main construction of newly established production base of modern Chinese patent medicines of Honeson Pharmaceutical was completed and has started its equipment installation and testing and preparation for compliance inspection. Based on the exploration of new growth points and the strengths in the cell-broken herb field, the Company accelerates the development of new cell-broken herb products and explores new sales channels.

On 3 June, the International Organization for Standardization (ISO) has formally issued the international standards for the ultrafine products of herbs (ISO 6904:2024 Traditional Chinese medicine – General requirements for the ultrafine powder of herbs), which was formulated by the Company, at the ISO/TC249 14th general meeting.

It demonstrates that the innovation in standards for ultrafine products of herbs is recognized and supported by international industry peers. It not only provides a strong guarantee of “standards first” for ultrafine products of herbs entering into the overseas markets but also injects new vitality into promotion and spread of innovative traditional Chinese medicine.

Chain Pharmacies Segment

In 2024, the pharmaceutical retail terminal faced competitive stress from many aspects. The Company has adopted numerous measures to proactively resolve the competitive stress, further optimize the product structure, explore new business, adapt to new consumer habits, and expand the healthcare advantage of Chinese medicine, transiting from therapy services to preventative and healthcare services for the health of the public.

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		
	2024 RMB'000	2023 RMB'000	Change (%)	2024 (%)	2023 (%)	Change (%)
Pharmaceutical manufacturing	778,700	772,597	0.8	71.5	70.6	0.9
Operation of chain pharmacies	309,726	321,731	-3.7	28.5	29.4	-0.9
	<u>1,088,426</u>	<u>1,094,328</u>	<u>-0.5</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 0.8% to RMB778.7 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB772.6 million) and accounted for 71.5% of the total revenue during the Reporting Period (six months ended 30 June 2023: 70.6%). The increase in revenue was mainly attributable to the steady growth in traditional decoction pieces and Chinese patent medicines of the Company.

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 2024, the Group has 432 self-operated chain pharmacies in Guangdong (as at 30 June 2023: 433), of which 427 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies decreased by 3.7% to RMB309.7 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB321.7 million) and accounted for 28.5% of the total revenue during the Reporting Period (six months ended 30 June 2023: 29.4%), which was mainly attributable to the pharmaceutical retail terminal facing competitive stress from many aspects, leading to a decrease in footfall.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the Reporting Period was RMB627.0 million, representing a decrease of RMB47.9 million or 7.1% as compared with RMB675.0 million for the six months ended 30 June 2023. The analysis of gross profit and gross profit margin by segment is as below:

	Gross profit for the six months ended 30 June			Gross profit margin for the six months ended 30 June		
	2024 RMB'000	2023 RMB'000	Change (%)	2024 (%)	2023 (%)	Change (%)
Pharmaceutical manufacturing	508,810	541,832	-6.1	65.3	70.1	-4.8
Operation of chain pharmacies	118,236	133,131	-11.2	38.2	41.4	-3.2
	627,046	674,963	-7.1	57.6	61.7	-4.1

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment decreased by 6.1% to RMB508.8 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB541.8 million). The gross profit margin decreased to 65.3% for the six months ended 30 June 2024 (six months ended 30 June 2023: 70.1%). The decrease in gross profit margin was mainly due to the change in the structure of sales varieties and the increase in the price of some traditional Chinese medicinal materials.

Operation of Chain Pharmacies

The gross profit of chain pharmacies segment decreased by 11.2% to RMB118.2 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB133.1 million). The gross profit margin of the chain pharmacies segment decreased to 38.2% for the six months ended 30 June 2024 (six months ended 30 June 2023: 41.4%). 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 and government grants. For the six months ended 30 June 2024, other income and gains of the Group were approximately RMB18.1 million (six months ended 30 June 2023: RMB25.1 million), representing a decrease of approximately RMB7.0 million as compared to corresponding period in last year, which was mainly attributable to the decrease in the sales of raw materials, investment income and interest 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 2024 amounted to approximately RMB448.5 million (six months ended 30 June 2023: RMB445.0 million), representing an increase of approximately 0.8% as compared to corresponding period in last year. Selling and distribution expenses ratio was 41.2% (six months ended 30 June 2023: 40.7%) against revenue for the six months ended 30 June 2024, representing an increase of 0.5% over the corresponding period in last year, which is mainly due to the increase in the promotion.

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 RMB52.6 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB53.7 million), representing a decrease of approximately 2.0% as compared to corresponding period in last year. The decrease was mainly due to process optimization.

Income Tax Expense

Income tax expense amounted to approximately RMB20.8 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB31.7 million). The decrease was in line with the decrease in profit.

Profit Attributable to Owners of the Parent

As a result of the factors discussed above, profit attributable to owners of the parent decreased by 38.2% to RMB83.4 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB134.9 million). The Group's net profit margin was 7.7% for the six months ended 30 June 2024 (six months ended 30 June 2023: 12.3%).

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

As at 30 June 2024, the Group had net current assets of approximately RMB276.7 million (31 December 2023: RMB265.5 million). As at 30 June 2024, the Group's total cash and bank balances amounted to approximately RMB162.9 million (31 December 2023: RMB164.4 million). The current ratio of the Group maintained at approximately 1.4 as at 30 June 2024 (31 December 2023: 1.4).

The equity attributable to shareholders of the Company as at 30 June 2024 amounted to approximately RMB1,111.6 million (31 December 2023: RMB1,053.3 million). As at 30 June 2024, the Group had outstanding unsecured borrowings of RMB38.3 million at a floating interest rate and HK\$39.8 million at a floating interest rate (31 December 2023: RMB22.7 million and HK\$30.0 million).

The Group's gearing ratio (borrowings over total equity) as at 30 June 2024 was 6.7% (31 December 2023: 4.8%).

As at 30 June 2024, the Group had available unutilized banking facilities of RMB103.7 million (31 December 2023: RMB119.3 million) and HK\$0.2 million (31 December 2023: HK\$10.0 million).

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

Financing

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

CAPITAL STRUCTURE

The shares of the Company (the "Shares") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2015. The capital of the Company comprises ordinary shares and other reserves. As at 30 June 2024, 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 2024. 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 2024 and 31 December 2023, the Group did not have any charges on its assets.

CAPITAL EXPENDITURE

For the six months ended 30 June 2024, the Group had capital expenditure of approximately RMB97.1 million (six months ended 30 June 2023: RMB71.0 million). The capital expenditure was mainly related to the purchase of items of property, plant and equipment and other intangible assets.

INTERIM DIVIDEND

As the Group has commenced the construction of a new factory property and a new product line for expanding its production capacity, and at the same time increased its advertising investment, the Board is proposed not to distribute any interim dividend for the six months ended 30 June 2024 to maintain a healthy cash flow (interim dividend of HK\$6 cents per ordinary share was distributed for six months ended 30 June 2023).

EMPLOYEES AND EMOLUMENTS POLICY

The key components of the Group's remuneration package included 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 included 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 2024, the Group had 2,736 employees with a total remuneration of RMB164.3 million during the Reporting Period (six months ended 30 June 2023: RMB141.4 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 2024 and 30 June 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 30 June 2024 and 30 June 2023. For each of the two six months ended 30 June 2024 and 30 June 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 RMB102.0 million.

On 30 June 2024, the above Hengsheng Factory accounted for through construction in progress with a carrying value of approximately RMB85.7 million, which equals to their fair values, accounting for approximately 4.4% of the total assets of the Company. There was no realised or unrealised gains or losses during the Reporting Period.

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 the details are set out 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 2024, the Group’s capital commitment amounted to RMB19.1 million (31 December 2023: RMB28.5 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 2024 (31 December 2023: 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 2024 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 C1 to the Listing Rules during the six months ended 30 June 2024.

MODEL CODE FOR SECURITIES TRANSACTIONS BY 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 of the Company have confirmed that, following specific enquiry by the Company, they have complied with the required standards set out in the Model Code throughout the Reporting Period.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.zeus.cn>). The interim report of the Company for the six months ended 30 June 2024 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 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.