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**YiChang HEC ChangJiang Pharmaceutical Co., Ltd.**

**宜昌東陽光長江藥業股份有限公司**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 01558)**

**INSIDE INFORMATION  
UPDATE ON POSSIBLE SHARE TRANSFER BY  
CONTROLLING SHAREHOLDER OF THE COMPANY**

This announcement is made by YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the “**Company**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement of the Company dated 31 August 2021 in relation to the proposed transfer of no more than 452,400,000 shares of the Company, representing no more than 51.41% of the issued share capital of the Company, by the immediate controlling shareholder of the Company, Guangdong HEC Technology Holding Co., Ltd.\* (廣東東陽光科技控股股份有限公司) (the “**Parent Company**”) to Sunshine Lake Pharma Co., Ltd.\* (廣東東陽光藥業有限公司) (“**Sunshine Lake Pharma**”) and/or its subsidiary (the “**Proposed Transfer**”).

In accordance with the applicable regulatory requirements of the PRC, the Parent Company has published the Report on the Major Asset Disposal and Connected Transaction of Guangdong HEC Technology Holding Co., Ltd. (Draft) (《廣東東陽光科技控股股份有限公司重大資產出售暨關聯交易報告書(草案)》) (the “**Restructuring Report**”) on the website of the Shanghai Stock Exchange and its own website, in which the information related to the Company is extracted and/or summarised below. Pursuant to the applicable regulatory requirements of the PRC, the Parent Company also engaged a PRC qualified valuer to prepare a valuation report on the total equity of the Company as at 31 July 2021, which was included in the Restructuring Report and this announcement. The valuation adopted both market approach and income approach. The final valuation adopted the appraisal value based on the income approach.

For full version of the Restructuring Report in Chinese, please refer to the version published on the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)).

Shareholders and investors of the Company are hereby reminded that (1) the financial information contained in this announcement was prepared in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and audited by KPMG Huazhen LLP, which was engaged by the Parent Company; and (2) the valuation on the total equity of the Company, which was contained in this announcement was not prepared nor had it been reviewed by the Company. Shareholders and investors of the Company are advised to exercise caution when dealing in the shares of the Company.

## I. BASIC INFORMATION OF THE COMPANY

### 1. Development of Principal Business of the Company in the Last Three Years

#### (I) Overview of Principal Business of the Company

The Company is principally engaged in manufacturing and sales of pharmaceutical products. Its core product is Kewei (Oseltamivir Phosphate), a drug for treating viral influenza, which accounts for approximately 90% of its total operating income. In addition, the Company's product portfolio also includes Ertongshu (Benzbromarone Tablets), a drug for treating endocrine and metabolic diseases, Oumeining (Telmisartan Tablets), Xinhaining (Amlodipine Tablets) and Olmesartan Tablets, which are drugs for treating cardiovascular diseases.

#### (II) Production and Sales Volume of Principal Products of the Company

The table below sets out the production and sales volume of principal products of the Company during the reporting period:

*Unit: 0,000 cases*

Type	January to July 2021		For the year 2020		For the year 2019	
	Production volume	Sales volume	Production volume	Sales volume	Production volume	Sales volume
Anti-viral drugs	82.34	323.17	5,971.37	4,332.93	10,913.64	12,750.04
Including: Kewei	78.72	316.15	5,954.28	4,320.96	10,899.02	12,732.86
Endocrine and metabolic drugs	123.07	235.48	573.47	465.01	559.08	620.09
Cardiovascular drugs	418.62	485.93	1,087.85	687.15	654.09	699.34
Others	603.50	840.51	1,420.36	917.02	447.29	519.58
<b>Total</b>	<b><u>1,227.53</u></b>	<b><u>1,885.08</u></b>	<b><u>9,053.06</u></b>	<b><u>6,402.11</u></b>	<b><u>12,574.10</u></b>	<b><u>14,589.06</u></b>

### ***(III) Description of Principal Business of the Company in the Last Three Years***

Prior to the outbreak of COVID-19, the Company's business and operating results showed a good growth momentum, benefiting from high sales volume of Kewei due to its competitive advantages in the anti-influenza therapeutic area. The Company recorded net profit of RMB901 million and RMB1.907 billion for 2018 and 2019, respectively.

In early 2020, Kewei recorded a high production and sales volume as the end medical institutions stocked up for influenza peak seasons as with previous practice. During the early stages of the COVID-19 pandemic, due to the similarity between the symptoms of COVID-19 and influenza and lack of knowledge of the coronavirus both domestically and internationally, Kewei was taken as a reserved medicine by certain end medical institutions. As a result, the production and sales volume of Kewei remained high though the number of influenza cases dropped significantly following the strict precautionary measures against COVID-19 implemented nationwide in the first half of 2020.

Since the second half of 2020, due to lower mobility and raising hygiene awareness of the public amid the continuing resurgence of COVID-19, there has been relatively fewer seasonal confirmed influenza cases in China. According to statistics of the Centre for Disease Control and Prevention of the National Health Commission, the number of the confirmed influenza cases in the Chinese mainland for the year 2020 and the period from January to July 2021 was 1,145,300 and 184,700, representing a year-on-year decrease of 67.63% and 83.64%, respectively, which resulted in a significant decline in the market demand for Kewei products. Meanwhile, as the number of patients at the end medical institutions decreased significantly, prescriptions and sales volume of Kewei, which is a prescription medicine sold primarily at hospitals of different levels, has also dropped accordingly. Due to the large number of deliveries in the first half of 2020 and the sharp fall in market demand, the depletion rate of channel inventory of Kewei was significantly slower and the production and sales volume of the Kewei has remained sluggish since the second half of 2020.

## 2. Key Financial Data of the Company for the Period in the Last Two Years

### (I) Key Financial Data

#### 1. Key data on the balance sheet

Item	Unit: RMB'0,000		
	As at 31 July 2021	As at 31 December 2020	As at 31 December 2019
Total assets	1,049,669.95	956,126.66	991,233.90
Total liabilities	431,410.82	445,760.79	528,918.33
Net assets	618,259.13	510,365.87	462,315.57
Total equity attributable to shareholders of the Parent Company	<u>596,972.46</u>	<u>489,110.31</u>	<u>440,855.44</u>

#### 2. Key data on the income statement

Item	Unit: RMB'0,000		
	January to July 2021	For the year 2020	For the year 2019
Operating income	25,496.47	234,811.26	622,402.42
Operating profit	(49,439.64)	76,004.79	226,971.42
Profit before tax	(49,450.33)	101,043.42	226,905.34
Net profit	<u>(42,589.39)</u>	<u>83,741.15</u>	<u>190,718.50</u>

#### 3. Key data on the cash flow statement

Item	Unit: RMB'0,000		
	January to July 2021	For the year 2020	For the year 2019
Net cash inflow from operating activities	(51,059.50)	129,949.35	179,440.42
Net cash inflow from investing activities	(33,156.66)	(209,462.77)	(171,048.32)
Net cash inflow from financing activities	3,386.53	6,462.98	210,001.97
Net increase in cash and cash equivalents	<u>(80,843.86)</u>	<u>(73,417.07)</u>	<u>218,539.12</u>

**(II) Key Financial Indicators**

Item	As at 31 July 2021/ January to July 2021	As at 31 December 2020/ For the year 2020	As at 31 December 2019/ For the year 2019
Gross profit margin	53.37%	85.35%	85.20%
Net profit margin	(167.04)%	35.66%	30.64%
Current ratio (times)	0.57	0.79	2.27
Quick ratio (times)	0.45	0.66	2.17
Gearing ratio (consolidated)	41.10%	46.62%	53.36%
Trade receivable turnover ratio (times)	1.14	1.75	3.90
Inventory turnover ratio (times)	0.52	1.19	5.17

**(III) Non-recurring Gains or Losses**

Item	January to July 2021	For the year 2020	For the year 2019
<i>Unit: RMB'0,000</i>			
Changes in fair value of convertible bonds	7,508.11	38,236.27	6,555.77
Gains or losses on disposal of non-current assets	(498.22)	(526.91)	(482.54)
Government grants recognised in profit or loss for the period/year	1,141.24	1,196.24	892.28
Reversal of royalty fee	—	25,109.30	—
Non-operating income other than the above items	1.24	57.93	19.74
Non-operating expenses other than the above items	(11.93)	(128.64)	(85.82)
<b>Subtotal</b>	<b>8,140.43</b>	<b>63,944.19</b>	<b>6,899.44</b>
Income tax effect	1,240.96	9,595.65	1,034.95
Minority interest effect (after tax)	0.05	0.09	—
<b>Total</b>	<b>6,899.42</b>	<b>54,348.44</b>	<b>5,864.49</b>

### 3. Ownership and Pledge of Major Assets

#### (I) Major Assets

##### 1. Fixed assets

The table below sets out the major fixed assets of the Company as at 31 July 2021:

Item	Unit: RMB'0,000		
	Original book value	Accumulated depreciation	Book value
Buildings and premises	106,713.69	13,452.44	93,261.25
Machinery equipment	52,886.72	12,586.09	40,300.63
Vehicles	225.27	55.30	169.98
Electronic equipment	28,128.36	8,451.09	19,677.26
Other equipment	133.89	57.45	76.44
<b>Total</b>	<b><u>188,087.94</u></b>	<b><u>34,602.38</u></b>	<b><u>153,485.56</u></b>

##### 2. Self-owned land use rights

As at 31 July 2021, there were 11 major parcels of land with self-owned land use rights (excluding the land use rights allocated from self-owned buildings) owned by the Company and its subsidiaries in the PRC, contributing to a total area of 793,079.19 m<sup>2</sup>. All parcels of land have obtained land use rights by transfer and already got the state land use right certificates.

##### 3. Ownership of self-owned buildings

As at 31 July 2021, there were 71 major self-owned buildings owned by the Company and its subsidiaries in the PRC, contributing to a total floor area of 73,413.86 m<sup>2</sup>.

## **(II) Charge, Pledge and Other Restrictions on Rights of Major Assets**

As at 31 July 2021, the charge and pledge of assets of the Company are as follows:

*Unit: RMB'0,000*

<b>Item</b>	<b>Amount</b>	<b>Reason for restrictions</b>
Monetary funds	12,073.00	Primarily as guarantee deposits for bank acceptance notes
Bills receivable	654.42	Primarily as notes used for financing pledge
Fixed assets	10,333.88	As security for borrowings
Construction in progress	41,831.39	As security for borrowings
Intangible assets	8,462.57	As land use rights used as security for borrowings

*Note:* In addition, pursuant to the Fa Gai Tou Zi [2006] No. 2563 (發改投資[2006]2563號), the Fa Gai Ban Chan Ye [2009] No. 2339 (發改辦產業[2009]2339號) issued by the National Development and Reform Commission (the “NDRC”) and the cooperation agreement entered between the Parent Company and the Academy of Military Medical Sciences (軍事醫學科學院), the Parent Company was not permitted to dispose of its buildings held under the building ownership certificates, Yidu Fang Quan Zheng Zi No. 00024203 (宜都房權證字第00024203號) and the real estate license Yidu Fang Quan Zheng Zi No.1100531 (宜都房權證字第1100531號) (now updated as the real estate certificate E (2018) Yidu Shi Bu Dong Chan Quan No. 0007252) (鄂(2018)宜都市不動產權第0007252號) without consent of the Academy of Military Medical Sciences.

## **4. Major Liabilities and External Guarantees**

### **(I) Major Liabilities**

#### *1. Loans from financial institutions*

As at 31 July 2021, the Company had 3 ongoing bank loan contracts, details of which are as follows:

*Unit: RMB'0,000*

<b>No.</b>	<b>Lending bank</b>	<b>Borrower</b>	<b>Loan balance</b>
1	Agricultural Bank of China Limited (Yidu Branch)	YiChang HEC Pharmaceutical Manufacturing Co., Ltd. (“HEC Pharmaceutical Manufacturing”)	16,516.88
2	China Everbright Bank Company Limited (Yichang Branch)	The Company	9,025.00
3	Industrial and Commercial Bank of China Limited (Yidu Branch)	HEC Pharmaceutical Manufacturing	20,000.00

## 2. Issuance of convertible bonds to Blackstone Fund

On 20 February 2019, as approved by the China Securities Regulatory Commission and the Hong Kong Stock Exchange, the Company issued US\$400,000,000 corporate bonds, with an interest rate of 3% and a term of 7 years and convertible to H shares of the Company, to BCP VII (SG) Dawn HoldCo Pte. Ltd., BCP Asia (SG) Dawn, HoldCo Pte. Ltd., BCP Asia Dawn ESC (Cayman) NQ Ltd. and BCP VII Dawn ESC (Cayman) NQ Ltd. (collectively as the “**Blackstone Fund**”).

### (II) External Guarantees

As at 31 July 2021, the outstanding guarantees provided by the Company as guarantor were two guarantees in respect of the bank loans granted to its subsidiary, HEC Pharmaceutical Manufacturing, details of which are as follows:

<i>Unit: RMB'0,000</i>					
No.	Guarantor	Guaranteed person	Creditor	Maximum guaranteed loan amount	Type of guarantee
1	The Company	HEC Pharmaceutical Manufacturing	Agricultural Bank of China Limited (Yidu Branch)	40,500.00	Joint liability guarantee
2	The Company	HEC Pharmaceutical Manufacturing	Industrial and Commercial Bank of China Limited (Yidu Branch)	20,000.00	Joint liability guarantee

Save as disclosed above, the Company had no external guarantees as at 31 July 2021.



## 5. Particulars of Subsidiaries of the Company

The particulars of the Company's direct subsidiaries as at the date of this report are set forth below:

Name of subsidiary	Principal activities	<i>Unit: RMB'0,000</i>	
		Registered capital	Percentage of shareholding
Yichang HEC Pharmaceutical Co., Ltd. (宜昌東陽光醫藥有限公司) (“ <b>HEC Pharmaceutical</b> ”)	Sales of pharmaceutical products	200.00	100%
Dongguan HEC TaiGen Biopharmaceuticals Co., Ltd. (東莞東陽光太景醫藥研發有限責任公司) (“ <b>HEC TaiGen Biopharmaceuticals</b> ”)	Research, development, production and sales of new drugs	68,340.00	60%
HEC Pharmaceutical Manufacturing	Manufacturing and sales of active pharmaceutical ingredient	45,000.00	100%
Dongguan Yangzhikang Pharmaceutical Co., Ltd. (東莞市陽之康醫藥有限責任公司) (“ <b>Dongguan Yangzhikang</b> ”)	Manufacturing and sales of generic drugs	5,000.00	100%
Guangdong HEC Biological Pharmacy Co., Ltd. (廣東東陽光生物製劑有限公司) (“ <b>Guangdong HEC Biological</b> ”)	Manufacturing and sales of active pharmaceutical ingredient	53,000.00	100%
YiChang HEC Bio-technology Co., Ltd. (宜昌東陽光生物科技有限公司) (“ <b>YiChang Bio-technology</b> ”)	Manufacturing and sales of active pharmaceutical ingredient	3,000.00	90%
YiChang HEC Pharmaceutical Technology Marketing Services Co., Ltd. (宜昌東陽光醫藥科技推廣服務有限公司) (“ <b>YiChang Pharmaceutical Technology</b> ”)	Medical consulting services	5,000.00	93%

There is no subsidiary of the Company which accounted for more than 20% of and significantly affected the latest audited total assets, operating income, net assets or net profit of the Company.

## II. VALUATION OF THE COMPANY

The valuation object of this valuation was the total shareholders' equity of the Company, the valuation benchmark date was 31 July 2021, and the valuation scope covered all assets and liabilities of the Company as at the valuation benchmark date. The valuation agency for this transaction was Fujian United Assets Evaluation & Land and Real Estate Appraisal Co., Ltd. (福建聯合中和資產評估土地房地產估價有限公司) (“**Fujian United**”).

### 1. Overview of the valuation of the Company

According to the Asset Valuation Report (Lian He Zhong He Ping Bao Zi (2021) No. 6212) issued by Fujian United, the valuation benchmark date was 31 July 2021, and the asset-based approach was adopted to assess the value of the total shareholders' equity of the Company.

As at the valuation benchmark date, the appraised value of the total shareholders' equity of the Company was RMB7,241,219,800, which was RMB1,271,495,200 higher than the book value of equity attributable to shareholders of the Parent Company, with an appreciation rate of 21.30%. The corresponding appraised value of the 452,400,000 shares of the Company in this transaction was RMB3,722,781,900.

## **2. Valuation approaches**

On the basis of adopting a valuation approach to form the valuation results, this valuation analyses the completeness of the data used in the specific application of the asset-based approach, the reliability of the data, and the rationality of the reasons for the increase or decrease in the appraised value. After analysis, the asset-based approach reasonably reflects the market value of the appraised object on the valuation benchmark date, so this valuation takes the valuation results under the asset-based approach as the final valuation conclusion.

## **3. Valuation process of the asset-based approach**

This valuation adopted appropriate approaches to assess the assets and liabilities in the financial statement of the Parent Company of the Company, and the specific valuation process is set out as follows:

### ***(I) Valuation of current assets***

The current assets of the appraised unit are composed of monetary funds, bills receivable, trade receivable, prepayments, other receivables, inventories and other current assets.

#### ***1. Monetary funds***

As at the valuation benchmark date, the book value of monetary funds of the Company is RMB1,205,944,500, which includes cash at banks, deposits for letter of credit and margin deposits for acceptance bills, etc. In this valuation, for a RMB account, the appraised value shall be determined with the verified book value; for a foreign currency account, the appraised value of the foreign currency account is calculated by multiplying the verified amount of the foreign currency by the foreign currency exchange rate on the valuation benchmark date.

Upon valuation, the appraised value of monetary funds is RMB1,205,944,500.

#### ***2. Bills receivable***

As at the valuation benchmark date, the book value of bills receivable of the Company is RMB17,785,600, all of which are bank acceptance bills received by the Company for the sales of products. In this valuation, the verified book value is regarded as its appraised value.

Upon valuation, the appraised value of bills receivable is RMB17,785,600.

### 3. *Trade receivable*

As at the valuation benchmark date, the book value of the Company's trade receivable is RMB285,163,700, and all of these are the payment for goods receivable of the Company. In this valuation, the risk loss rate of creditor's rights is determined on the basis of inventory and verification, according to the aging and with reference to the historical recovery experience of the Company's trade receivable. Appraised value of trade receivable = Book value  $\times$  (1 – Risk loss rate), and the accrued provision for bad debts is assessed as zero.

Upon valuation, the appraised value of trade receivable is RMB232,325,600, and the impairment is appraised to be RMB52,838,100, which is mainly due to the fact that the receivables of HEC Pharmaceutical, a subsidiary of the Company whose appraised value of the net assets is negative, needs to be calculated and assessed according to the compensation ratio, which leads to impairment.

### 4. *Prepayments*

As at the valuation benchmark date, the book value of the Company's prepayments is RMB24,124,000, mainly representing the prepayments for goods. In this valuation, the verified book value is used as the valuation amount. Upon valuation, the appraised value of prepayments is RMB24,124,000.

### 5. *Other receivables*

As at the valuation benchmark date, the book value of the Company's other receivables is RMB1,141,957,600, mainly representing the funds of related entities, staff reserves and etc. Among them, the Company purchased from Sunshine Lake Pharma generic drug approvals, which were then transferred to the Company's wholly-owned subsidiary, Dungguan Yangzhikang, and resulted in other receivables of RMB1,112,800,800 payable by Dungguan Yangzhikang.

In this valuation, the verified book value is used as the valuation amount for margin and other amounts; the funds of expense nature were appraised as zero; the amount where there was conclusive evidence to prove that it might not be recovered, was appraised as zero; and for other amounts, the risk loss rate of creditor's rights was determined according to the aging and with reference to the historical recovery experience of the Company's trade receivable. Appraised value = Book value  $\times$  (1 – Risk loss rate), and the accrued provision for bad debts is assessed as zero.

Upon valuation, the appraised value of other receivables is RMB1,132,002,500, and the appraised impairment is RMB9,955,100, which is mainly due to the fact that other receivables of HEC Pharmaceutical, a subsidiary of the Company whose appraised value of the net assets is negative, needs to be calculated and assessed according to the compensation ratio, which leads to the assessed impairment.

## 6. *Inventories*

As at the valuation benchmark date, the Company's book value of the inventories is RMB335,221,100, including raw materials, finished products, in-process products and issued goods.

### (1) Raw materials

As at the valuation benchmark date, the Company's raw materials are all pharmaceutical raw materials, auxiliary materials, reagents, utensils, etc. required for production, and their book balance is RMB94,295,200, without accrual for inventory falling price reserves.

In this valuation, the market price of raw materials was determined with reference to its recent purchase price as at the valuation benchmark date, when plus reasonable transportation and miscellaneous expenses and other reasonable expenses, the valuation unit price can be determined, and to multiply by the actual quantity to arrive at the valuation of raw materials. For product materials recently purchased, the verified book value was adopted in this valuation to determine the appraised value.

Upon valuation, the appraised value of raw materials is RMB94,295,200.

### (2) Finished products

As at the valuation benchmark date, the Company's finished products are APIs and other intermediate products, finished products of pharmaceuticals and other materials that have been put into storage, the book value of which is RMB187,019,000.

For intermediate products, the verified book value is used to confirm the appraised value.

For pharmaceutical finished products, the market approach is adopted for valuation, and the valuation unit price is determined according to the sales unit price excluding tax after deducting sales expenses, sales taxes and surcharges, income tax and partial net profits, and then multiplied by the actual quantity to determine the appraised value. For products nearing the expiration date (the expiration date is less than 6 months), its appraised value is assessed as zero.

Upon valuation, the appraised value of finished goods is RMB355,529,300, and the appraised appreciation is RMB168,510,200, with an appreciation rate of 90.10%. The appraised appreciation is mainly due to the Company adopting market approach to assess finished goods, thus the appraised value is higher than the book value measured at actual cost.

(3) In-process products

As at the valuation benchmark date, the book value of the Company's in-process products was RMB52,328,900, mainly representing the costs of such products in each production process, and no provision for inventory falling price reserves has been made. In this valuation, the appraised value was confirmed as RMB52,328,900 based on the verified book value.

(4) Issued goods

As at the valuation benchmark date, the book value of the goods issued by the Company was RMB1,578,000. The goods are those that have been issued but fail to meet the income conditions. In this valuation, the appraised value is determined according to the sales unit price excluding tax after deducting certain sales expenses, sales taxes and surcharges, income tax and partial net profits, and then multiplied by the actual quantity.

After valuation, the appraised value of the goods issued by the Company is RMB2,529,600, and the appraised appreciation is RMB951,700, with an appreciation rate of 60.31%.

To sum up, the book value of the Company's inventories on the valuation benchmark date was RMB335,221,100, with an appraised value of RMB504,683,000 and an appraised appreciation of RMB169,461,900, representing an appreciation rate of 50.55%.

7. *Other current assets*

As at the valuation benchmark date, other current assets of the Company mainly resulted from input value-added tax to be deducted, with a book value of RMB8,821,400. In this valuation, the appraised value was confirmed as RMB8,821,400 based on the verified book value.

**(II) Valuation of long-term equity investments and other non-current financial assets**

**1. Overview of appraised object**

As at the valuation benchmark date, the book value of the Company's long-term equity investments and other non-current financial assets were RMB1,379,854,300 and RMB1,770,384,100, respectively, both of which are the Company's proposed long-term equity investments. The details are as follows:

Items	Name of Investee	Date of Establishment	Shareholding Ratio	Unit: RMB'0,000		
				Net Assets	Investment Cost	Book Value
Long-term equity investments	HEC Pharmaceutical	2005-07	100.00%	(4,675.96)	203.20	203.20
	HEC TaiGen Biopharmaceuticals	2017-01	60.00%	53,183.19	51,934.21	52,253.64
	Dongguan Yangzhikang	2018-08	100.00%	(3,478.94)	5,000.00	5,000.00
	HEC Pharmaceutical Manufacturing	2018-02	100.00%	26,593.77	30,700.00	30,712.47
	Guangdong HEC Biological	2017-02	100.00%	40,601.23	44,866.12	44,866.12
	YiChang Pharmaceutical Technology	2019-09	93.00%	2,711.63	4,650.00	4,650.00
	YiChang Bio-technology	2019-12	90.00%	299.82	300.00	300.00
Subtotal					<u>137,653.53</u>	<u>137,985.43</u>
Other non-current financial assets	Sunshine Lake Pharma	2003-12	10.00%	24,760.40	176,000.00	177,038.41
Subtotal					<u>176,000.00</u>	<u>177,038.41</u>
Total					<u>313,653.53</u>	<u>315,023.84</u>

**2. Valuation Results**

Upon valuation, the appraised value of long-term equity investments of the Company is RMB2,018,435,900, and the valuation appreciation is RMB638,581,600; the appraised value of other non-current financial assets of the Company is RMB1,770,384,100, and the valuation appreciation is zero.

In this valuation, the details of the valuation on the Company's equity investments are as follows:

<i>Unit: RMB'0,000</i>					
Items	Name of Investee	Shareholding Ratio	Book Value	Appraised Value	Increase/Decrease
Long-term equity investments	HEC Pharmaceutical	100.00%	203.20	—	(203.20)
	HEC TaiGen Biopharmaceuticals	60.00%	52,253.64	90,597.01	38,343.36
	Dongguan Yangzhikang	100.00%	5,000.00	37,779.29	32,779.29
	HEC Pharmaceutical Manufacturing	100.00%	30,712.47	26,821.73	(3,890.74)
	Guangdong HEC Biological	100.00%	44,866.12	43,945.73	(920.39)
	YiChang Pharmaceutical Technology	93.00%	4,650.00	—	(4,650.00)
	YiChang Bio-technology	90.00%	300.00	2,699.84	2,399.84
	<b>Subtotal</b>	<b>—</b>	<b>137,985.43</b>	<b>201,843.59</b>	<b>63,858.17</b>
Other non-current financial assets	Sunshine Lake Pharma	10.00%	177,038.41	177,038.41	—
	<b>Subtotal</b>	<b>—</b>	<b>177,038.41</b>	<b>177,038.41</b>	<b>—</b>
<b>Total</b>			<b>315,023.84</b>	<b>378,882.00</b>	<b>63,858.16</b>

As shown in the table above, there was an appraised impairment in the long-term equity investments of HEC Pharmaceutical, HEC Pharmaceutical Manufacturing, Guangdong HEC Biological and YiChang Pharmaceutical Technology, mainly due to the relevant subsidiaries making a relative loss during its operations. The long-term equity investments successfully controlled by the Company was calculated by adopting cost approach and no adjustments to its gains/losses during the period was made. The valuation was based on the assets and liabilities of each subsidiary as at the valuation benchmark date.

There was an appraised appreciation in the long-term equity investments of HEC TaiGen Biopharmaceuticals and Dongguan Yangzhikang, mainly due to the intangible assets, development expenses and other items of subsidiaries of the Company calculated by adopting cash flow discount approach, while taking into account the potential revenue in the future.

There was an appraised appreciation in the long-term equity investments of YiChang Bio-technology, mainly due to the value attributable to the Company after the reorganisation of capital contributed by the Company and joint shareholders, as well as the outstanding capital contributed by the Company recognised in estimated liabilities.

The book value of Sunshine Lake Pharma's equity investment was measured at fair value, and the increase and decrease of the equity investment was not appraised.

### ***(III) Valuation of fixed assets — houses and buildings***

#### ***1. Overview of appraised object***

As at the valuation benchmark date, the houses and buildings (including structures) of the Company are mainly office buildings, commercial buildings and the plants for its own production use and their ancillary premises, and the net book value on the valuation benchmark date is RMB882,256,400.

The houses and buildings of the Company are mainly distributed in Yidu, Chongqing, Chengdu, Zhengzhou, Wuhan, etc. The houses and buildings in Yidu are mainly plants and their ancillary premises, while the houses and buildings in other places are mainly office buildings and commercial buildings.



## *2. Valuation results*

In this valuation, the book value of the houses and buildings included in the development expenditure of the insulin project valuation of the Company was RMB156,452,200, which was valued in the insulin project as a whole, while it was assessed as zero under fixed assets; the book value of the remaining houses and buildings was RMB725,804,200, with the appraised value of RMB736,003,700, representing an increase of RMB10,199,400 with an appreciation rate of 1.41%.

### ***(IV) Fixed assets - valuation of equipment assets***

#### *1. Overview of appraised object*

As at the valuation benchmark date, the net book value of equipment assets of the Company amounted to RMB513,297,800. These assets include three major categories such as machinery equipment, vehicles and electronic equipment.

#### *2. Valuation results*

In this valuation, the book value of equipment assets included in the development expenditure of the insulin project valuation of the Company was RMB252,141,900, which was assessed in the insulin project as a whole, while it was assessed as zero under fixed assets; the book value of the remaining equipment assets was RMB261,156,000 with the appraised value of RMB268,316,700, representing an increase of RMB7,160,800 with an appreciation rate of 2.74%.

### ***(V) Valuation of projects under construction***

#### *1. Overview of appraised object*

As at the valuation benchmark date, projects under construction of the Company, with book value of RMB495,150,800, are projects under construction or installation, which include three major categories such as civil engineering, equipment installation engineering and engineering materials.

Civil engineering is mainly for generic drugs and large-variety preparations, Changjiang Pharmaceutical's new preparation factory, glargine and insulin aspart API project, living area talent apartment, living area canteen, etc., all located in the factory area, and the construction time is from 2017 to 2020. As at the valuation benchmark date, all projects under construction are in normal construction state.

Equipment installation engineering is mainly the capital cost of fermentation tank system, 202 workshop process pipeline system, A37 public system pipe network.

Engineering materials mainly refer to special equipment and materials that have not been included in specific projects under construction after being collected by projects under construction, and are all placed in warehouses.

## 2. Valuation results

In this valuation, the book value of the projects under construction included in the development expenditure of the insulin project valuation of the Company was RMB300,686,400, which was assessed in the insulin project as a whole, while it was assessed as zero under the projects under construction; the book value of the remaining construction in progress was RMB194,464,300 with the appraised value of RMB189,299,000, representing a decrease by RMB5,165,300 with a depreciation rate of 2.66%, both of which were due to the decoration expenses of certain houses and buildings included in the valuation of corresponding fixed asset project.

### (VI) Intangible assets-description of land use right valuation

#### 1. Overview of appraised object

As at the valuation benchmark date, the land use rights of the Company, with book value of RMB207,816,000, includes industrial and other commercial services which are located in Yidu, Hubei Province.

#### 2. Valuation results

In this valuation, the book value of the land use rights included in the development expenditure of insulin project valuation of the Company was RMB17,154,000, which was assessed as a whole in the insulin project, however, its appraised value was zero under the intangible assets; the book value of the remaining land use rights was RMB190,662,000, while the appraised value was RMB222,499,000, representing an increase by RMB31,837,000 with an appreciation rate of 16.70%.

### (VII) Intangible Assets — Valuation on Other Intangible Assets

#### 1. Scope of valuation

As at the valuation benchmark date, there were 3 items of other intangible assets recorded in the books of the Company. Details are set out in the table below:

*Unit: RMB'0,000*

No.	Content/Name	Acquisition Date	Legal/ Estimated Service Life	Original Recorded Value	Book Value
1	Recombinant human insulin injection	June 2020	10 years	4,258.03	3,761.26
2	Emitasvir Phosphate capsule	December 2020	12.67 years	51,302.05	48,601.94
3	HR OA NC office software	October 2015	10 years	103.39	43.08
Total				<u>55,663.46</u>	<u>52,406.28</u>

In addition, other intangible assets included in this valuation also include intangible assets such as patents and trademarks that were not recorded in the books of the Company.

## 2. *Valuation Conclusion*

Upon valuation, the appraised value of the trademarks of the Company was RMB22,934,300.

Upon valuation, the appraised value of the patents of the Company was RMB47,740,000.

Upon valuation, the appraised value of other intangible assets of the Company was RMB71,105,100 and the appraised impairment was RMB452,957,700, which was mainly due to the intangible assets related to emitasvir phosphate and recombinant human insulin being included in the project of “a combination therapy program with Emitavir and Furaprevir” under R&D, the insulin project for valuation, respectively, while the appraised value was zero under the intangible assets.

## (VIII) *Valuation of development expenditure*

### 1. *Scope of valuation*

As at the valuation benchmark date, the book value of the Company’s development expenditure is RMB1,095,279,000, which is mainly for the projects including NS5B Inhibitor, liraglutide, rongliflozin and insulin under the research of the Company. The details are as follows:

		<i>Unit: RMB’0,000</i>
<b>Items</b>	<b>Contents or Names</b>	<b>Book Value</b>
R & D of NS5B Inhibitor		18,697.95
	Liraglutide	5,924.97
	Rongliflozin L-Pyroglutamic Acid	56,566.57
Insulin project	R&D of Insulin Aspart 30 Injection	7,177.13
	R&D of Insulin Aspart Injection	3,094.48
	R&D of Recombinant Human Insulin Injection	5.98
	R&D of Insulin Glargine	63.12
	R&D of Isophane Protamine Recombinant Human Insulin Injection (Pre-mixed 30R)	8,227.50
	R&D of Insulin Glargine Injection	9,770.18
<b>Total</b>		<b><u><u>109,527.90</u></u></b>

## 2. Valuation result

As at the valuation benchmark date, the appraised value of the development expenditures of the Company was RMB2,146,067,500 and the valuation appreciation was RMB1,050,788,500. The specific situations are as follows:

			<i>Unit: RMB'0,000</i>	
Items	Contents or Names	Book Value	Appraised Value	Increase/Decrease in the Valuation
	R&D of NS5B Inhibitor	18,697.95	24,054.82	5,356.87
	Liraglutide	5,924.97	9,177.02	3,252.05
	Rongliflozin L-Pyrogutamic Acid	56,566.57	62,118.49	5,551.92
	R&D of Insulin Aspart 30 Injection	7,177.13		
	R&D of Insulin Aspart Injection	3,094.48		
	R&D of Recombinant Human Insulin Injection	5.98		
Insulin project	R&D of Insulin Glargine	63.12	119,256.42	90,918.02
	R&D of Isophane Protamine Recombinant Human Insulin Injection (Pre-mixed 30R)	8,227.50		
	R&D of Insulin Glargine Injection	9,770.18		
<b>Total</b>		<b>109,527.90</b>	<b>214,606.75</b>	<b>105,078.85</b>

The relatively high appreciation of such development projects was mainly because that (1) this valuation was based on the future revenue of each project and there was a considerably appraised appreciation in each project under research; (2) the non-current assets relating to the insulin project of the Company was assessed as an asset group in this valuation, and the value of the assets involved, such as properties and buildings, machines and equipment, was also reflected in the overall valuation results of the asset group. The book value of total assets relating to the insulin project and the valuation of the overall project are as follows:

			<i>Unit: RMB'0,000</i>		
Items	Category	Book Value	Appraised Value	Increase/Decrease in the Valuation	Appreciation rate
Fixed assets	Properties and buildings	15,645.22			
	Machinery equipment	17,079.80			
	Electronic equipment	8,134.38			
	Construction in process	30,068.64	119,256.42	14,513.31	13.86%
	Land use rights	1,715.40			
Intangible assets	Other intangible assets	3,761.26			
	Development expenditure	28,338.40			
<b>Total</b>		<b>104,743.11</b>			

As shown in the table above, in this valuation, the book value of total assets included in the insulin project was RMB1,047,431,100 in aggregate, with the appraised value of the overall insulin project of RMB1,192,564,200, the appraised appreciation of RMB145,133,100 with an appreciation rate of 13.86%.

***(IX) Valuation of deferred income tax assets***

As at the valuation benchmark date, the book value of the deferred income tax assets of the Company was RMB67,625,900, mainly representing the timing difference of income tax caused by withdrawal of bad debt provisions, accrued expenses for falling price reserves, bond interest expenses payable and change in the fair value, which are expected to be used for income tax deduction in the future.

In the valuation, the appraised value of each deferred income tax assets was calculated by the difference between the appraised value of relevant asset and its tax basis multiply by applicable tax rate.

According to the valuation, the appraised value on the benchmark date of deferred income tax assets was RMB76,895,900, and the valuation appreciation was RMB9,269,900, mainly due to the increase of deferred income tax assets arising from impairment of trade receivable that resulted from calculation of amounts due from HEC Pharmaceutical as per the compensation proportion.

***(X) Valuation of other non-current assets***

As at the valuation benchmark date, the book value of other non-current assets of the Company was RMB258,429,600, which was mainly equipment prepayment and prepayment for approval of generic drugs. In the valuation, the appraised value was determined as RMB258,429,600 based on the audited book value.

***(XI) Valuation of liabilities***

*1. Current liabilities*

*(1) Bills payable*

As at the valuation benchmark date, the book value of the bills payable of the Company was RMB53,158,900, which was the bank acceptance bill issued by our Company.

According to the valuation, the book value was RMB53,158,900.

*(2) Accounts payable*

As at the valuation benchmark date, the book value of the accounts payable of the Company was RMB65,752,000, which was mainly the trade accounts payable. During the valuation, the appraised value was RMB65,752,000 based on the verified book value.

*(3) Advance from customers*

As at the valuation benchmark date, the book value of the advance from customers of the Company was RMB8,098,200, which was mainly the payment for goods received in advance by our Company. During the valuation, the appraised value was RMB8,098,200 based on the verified book value.

(4) Employee remuneration payable

As at the valuation benchmark date, the book value of the employee remuneration payable of the Company was RMB24,619,200, which was the salaries provided by our Company of RMB24,619,200.

(5) Taxes payable

As at the valuation benchmark date, the book value of the taxes payable of the Company was RMB213,295,000, which was the individual income tax to be withheld and paid and income tax payable by our Company. During the valuation, the appraised value was RMB213,295,000 based on the verified book value.

(6) Other payables

As at the valuation benchmark date, the book value of other payables of the Company was RMB809,936,600, which was the security funds for suppliers, accrued expenses and royalties.

According to the valuation, the appraised value of other payables was RMB704,536,600 and the valuation impairment was RMB105,400,000. The impairment was due to the royalties for Emitasvir received in advance from the subsidiary, HEC TaiGen Biopharmaceuticals being appraised as zero by the Company. According to the agreement, HEC TaiGen Biopharmaceuticals prepaid royalties to the Company and has obtained relevant patent use rights for the research and development of a combination therapy program with Furaprevir and Emitavir, and will settle relevant royalties with the Company every year. As related projects will continue to advance, it is expected that there will be no outflow of economic benefits of the Company in the future, thus the advance payment is appraised as zero.

(7) Non-current liabilities due within one year

As at the valuation benchmark date, the appraised value of non-current liabilities of the Company due within one year was RMB5,304,000, which was the long-term borrowings payable within one year. The relevant long-term borrowings and repayment plan, original contracts, certificates and materials were reviewed in this valuation, and the audited book value was determined as the appraised value. According to the valuation, the appraised value of the non-current liabilities due within one year was RMB5,304,000.

(8) Other current liabilities

As at the valuation benchmark date, the book value of other current liabilities of the Company was RMB2,436,702,700, which was the convertible bonds issued by the Company. The appraised value amounted to RMB2,436,702,700.

2. *Non-current liabilities*

(1) Long-term borrowings

As at the valuation benchmark date, the book value of long-term borrowings of the Company was RMB85,500,000, which was mainly the bank loans of the Company. During the valuation, the appraised value was determined per the verified book value as RMB85,500,000.

(2) Estimated liabilities

As at the valuation benchmark date, the book value of the estimated liabilities of the Company was zero. During the valuation, the Company's outstanding contribution payable to the subsidiary, YiChang Bio-technology, amounted to RMB24,000,000, which was recognised. According to the valuation, the appraised value of the estimated liabilities was RMB24,000,000.

(3) Deferred income

As at the valuation benchmark date, the book value of deferred income of the Company was RMB104,433,900, which was mainly the government subsidies received by the Company. For the government subsidies received by the Company, if the relevant income tax has not been paid, the appraised value is estimated according to the product of the deferred income balance and the corporate income tax rate; for the tax-free subsidies received by the Company, the appraised value was determined as zero. According to the valuation, the appraised value of the deferred income was RMB20,936,500.



(XII) **Valuation Result**

The valuation conclusions of all the rights and interests of the Company's shareholders to be appraised on the going-concern basis with the asset-based approach on the valuation benchmark date upon implementation of valuation procedures are as follows:

The book value of total assets was RMB10,213,174,600, representing a decrease by RMB669,948,500 with an increase rate of 6.56% as compared with its appraised value of RMB10,883,123,100; the book value of total liabilities was RMB3,806,800,700, representing an increase by RMB164,897,400 with an increase rate of 4.33% as compared with its appraised value of RMB3,641,903,300; the appraised value of total rights and interests of shareholders of the Company was RMB7,241,219,800, representing an increase by RMB834,845,900 with an increase rate of 13.03% as compared with the book value of net assets of the Parent Company of the Company of RMB6,406,373,900, and an increase by RMB1,271,495,200 with an increase rate of 21.30% as compared with the book value of consolidated equity attributable to owners of the Parent Company of the Company of RMB5,969,724,600. Please refer to the table below for details:

*Unit: RMB'0,000*

Items	Book Value A	Appraised Value B	Increase/ Decrease C=B-A	Appreciation Rate (%) D=C/A×100
1 Current assets	301,901.79	312,568.66	10,666.87	3.53
2 Non-current assets	719,415.67	775,743.65	56,327.98	7.83
3 Including: Long-term equity investments	137,985.43	201,843.59	63,858.16	46.28
4 Other non-current financial assets	177,038.41	177,038.41	—	—
5 Fixed assets	139,555.42	100,432.04	(39,123.38)	(28.03)
6 Construction in process	49,515.08	18,929.90	(30,585.18)	(61.77)
7 Intangible assets	73,187.88	29,360.41	(43,827.47)	(59.88)
8 Development expenditure	109,527.90	214,606.75	105,078.85	95.94
9 Deferred income tax assets	6,762.59	7,689.59	927.00	13.71
10 Other non-current assets	25,842.96	25,842.96	—	—
<b>11 Total assets</b>	<b>1,021,317.46</b>	<b>1,088,312.31</b>	<b>66,994.85</b>	<b>6.56</b>
12 Current liabilities	361,686.68	351,146.68	(10,540.00)	(2.91)
13 Non-current liabilities	18,993.39	13,043.65	(5,949.74)	(31.33)
<b>14 Total liabilities</b>	<b>380,680.07</b>	<b>364,190.33</b>	<b>(16,489.74)</b>	<b>(4.33)</b>
<b>15 Net assets (owner's equity)</b>	<b>640,637.39</b>	<b>724,121.98</b>	<b>83,484.59</b>	<b>13.03</b>
<b>16 Consolidated equity attributable to owners of the Parent Company</b>	<b>596,972.46</b>	<b>724,121.98</b>	<b>127,149.52</b>	<b>21.30</b>



### III. INDUSTRIAL CATEGORY OF THE COMPANY

#### (I) Industrial Category

##### 1. Industrial category

The primary business of the Company is the production and sales of pharmaceutical products, with main products including drugs for anti-influenza virus Oseltamivir Phosphate (Kewei), drugs for endocrine and metabolism diseases Ertongshu (Benzbromarone Tablets), drugs for cardiovascular diseases Oumeining (Telmisartan Tablets) and Xinhaining (Amlodipine Tablets), and Olmesartan Tablets. The proportion of Kewei to the main operating income of the Company were 95.33%, 88.15% and 29.57% in 2019, 2020 and the period from January to July 2021, respectively, which are core products of the Company.

In accordance with the National Industries Classification (GB/T4754–2017), the Company falls into the subcategory of “C2720 manufacture of chemical medicine and preparations” under “C27 pharmaceutical industry”; according to the Guidelines on Industries Classification of Listed Companies (revised in 2012), the Company belongs to “C27 pharmaceutical industry”.

#### (II) Market Condition of the Main Segmented Markets of the Company

##### 1. Market of anti-influenza virus drugs

###### (1) Competitive pattern of Oseltamivir Phosphate

The market share of different Chinese manufacturers of Oseltamivir Phosphate from 2018 to 2020 was as follows:

Manufacturer	Category	2020	2019	2018
Our Company	Capsule, granule	86.35%	91.17%	90.15%
Roche Group	Capsule	13.65%	8.83%	9.84%
Shanghai Zhongxi Sunve Pharmaceutical Co. Ltd.	Capsule	0.01%	0.00%	0.01%
Total		100.00%	100.00%	100.00%

Source: IMS/IQVIA database

The market share of the Company in the market of Oseltamivir Phosphate products in China exceeded 90% in 2018, 2019 and 2020, and the proportion dropped to 86.35% in 2020.

Before the occurrence of COVID-19, benefiting from the competitive advantages of Kewei in the anti-influenza field, the sales volume of Oseltamivir Phosphate maintained at a high level. At the beginning of 2020, terminal medical institutions stocked up with reference to the previous influenza peak season, so Kewei had a high output and sales volume. At the beginning of COVID-19, Kewei was once stored by terminal medical institutions as reserves due to the similar symptoms of COVID-19 and influenza and lack of understanding of COVID-19, both domestically and internationally. Therefore, Kewei maintained a high output and sales volume in the first half of 2020 despite the obvious decline in the incidence of influenza due to strict anti-epidemic measures nationwide.

With the repeated occurrence of COVID-19 from the second half of 2020 till now, the domestic population mobility has declined and the public health awareness has been gradually enhanced, which leads to low incidence of influenza in China. According to the statistics of the Chinese Center for Disease Control and Prevention under National Health Commission of the People's Republic of China, the number of confirmed influenza cases was 1,145,300 and 184,700 in 2020 and the period from January to July 2021, respectively with a year-on-year decrease of 67.63% and 83.64%, which led to a sharp decline in the market demand of Kewei. Meanwhile, the prescription volume of Kewei as a prescription drug sold in medical institutions at various levels declined following a sharp decrease in patients in the terminal medical institutions.

## **2. *Market of drugs for endocrine, metabolism and other diseases***

The common endocrine and metabolic disorders include gout, diabetes, etc.

### **(1) *Market overview and competitive landscape of gout products***

Gout is a metabolic disease caused by the increase of uric acid in the blood due to the disruption of the metabolism of purine substances in the human body. There are huge differences in the gender and region for the prevalence of hyperuricemia in China, which is more prominent in urban and coastal areas and more frequent in men.

According to the *White Paper on Hyperuric Acid and Gout Trends in China in 2021*, the overall prevalence of hyperuricemia in China is 13.3%, with approximately 177 million patients, and the overall incidence of gout is 1.1%, with approximately 14,660,000 patients. According to IMS/IQVIA database, the market size of anti-gout drugs in China was USD179,822,200, USD262,800,800 and USD274,876,200 from 2018 to 2020, respectively.

Anti-gout drugs mainly include Febuxostat, Benzbromarone, Colchicine and Ampicillin and Probenecid. Based on the total sales of anti-gout drug in China, Benzbromarone is the second best-selling product, accounting for 17.01%, 13.50% and 13.12% of the total market size during the same period, respectively and keeping a decreasing trend. The market size of major anti-gout drugs in China from 2018 to 2020 is as follows:

<i>Unit: USD'0,000</i>			
	<b>For the year 2020</b>	<b>For the year 2019</b>	<b>For the year 2018</b>
<b>Anti-hyperuric acid drugs</b>			
Febuxostat	21,656.90	20,630.32	12,981.97
Benzbromarone	3,605.90	3,547.67	3,059.27
Colchicine	553.67	521.44	491.11
Ampicillin and Probenecid	106.71	74.35	121.90

*Source: IMS/IQVIA database*

According to IMS/IQVIA database, the market share of top five manufacturers of Benzbromarone Preparations in China from 2018 to 2020 was as follows:

<b>Manufacturer</b>	<b>Type</b>	<b>For the year 2020</b>	<b>For the year 2019</b>	<b>For the year 2018</b>
Sano Arzneimittelfabrik GmbH	Benzbromarone Tablets	64.85%	63.66%	66.52%
Our Company	Benzbromarone Tablets	18.48%	18.01%	13.52%
Changzhou Kangpu Pharmaceutical Co., Ltd.	Benzbromarone Tablets	6.59%	7.46%	8.27%
Kunshan Rotam Reddy Pharmaceutical Co., Ltd.	Benzbromarone Tablets	7.78%	8.51%	9.78%
Sichuan Huasun Group Co., Ltd.	Benzbromarone Tablets	1.69%	1.56%	1.75%
<b>Total</b>		<b><u>99.39%</u></b>	<b><u>99.20%</u></b>	<b><u>99.84%</u></b>

*Source: IMS/IQVIA database*

The market share of Benzbromarone Preparations of the Company was 13.52%, 18.01% and 18.48%, respectively, from 2018 to 2020, ranking No. 2 in the market.

(2) *Market Overview and Competitive Landscape of Insulin Products*

Diabetes refers to a series of metabolic disorders syndromes in terms of sugar, protein, fat, water and electrolytes caused by the action of various pathogenic factors such as genetic factors, endocrine dysfunction or dietary imbalance, leading to hypofunction of islets and insulin resistance.

According to the IDF Diabetes Atlas (9th edition) issued by the International Diabetes Federation (IDF), there were 430 million people with diabetes in adults aged 20–79 in the world in 2019, accounting for approximately 9.26% of the global population, which represented an increase of 8.97% compared with the 8th edition released in 2017. Among them, the number of diabetes patients in China is the highest in the world, reaching 129.8 million in 2020. According to data from Menet, the sales of insulin and its similar drugs in sample hospitals in China amounted to nearly RMB27 billion in 2020, representing a year-on-year increase of 7.91%, which is slower than the 8.83% compound growth rate from 2015 to 2019.

At present, the competition landscape of the domestic insulin market is basically stable and the market concentration is relatively high. Three foreign pharmaceutical companies, namely Novo Nordisk, Sanofi, and Eli Lilly, have occupied more than 75% of the domestic insulin drugs market for a long time. Local companies mainly include Gan & Lee Pharmaceutical, Tonghua Dongbao and United Laboratories. According to the IMS/IQVIA database, the market shares of the above six companies in the past three years were as follows:

<b>Company</b>	<b>For the year 2020</b>	<b>For the year 2019</b>	<b>For the year 2018</b>
Novo Nordisk	48.61%	48.39%	49.92%
Sanofi	18.28%	18.79%	18.28%
Eli Lilly	13.38%	13.07%	11.57%
Gan & Lee Pharmaceutical	9.57%	10.40%	11.15%
Tonghua Dongbao	6.76%	6.62%	6.83%
United Laboratories	2.95%	2.41%	1.90%
<b>Total</b>	<b><u>99.55%</u></b>	<b><u>99.68%</u></b>	<b><u>99.65%</u></b>

### 3. *Market of drugs for cardiovascular diseases*

#### (1) *Overview of various drugs for cardiovascular diseases*

There are various drugs for the treatment of hypertension, mainly including calcium channel blockers, angiotensin II receptor antagonists, angiotensin converting enzyme inhibitors and beta blockers, with the first two being the main therapeutic drugs. From 2018 to 2020, the market size of various types of antihypertensive drugs in China is shown in the following table:

<b>Varieties of antihypertensive drugs</b>	<i>Unit: USD0'000</i>		
	<b>For the year 2020</b>	<b>For the year 2019</b>	<b>For the year 2018</b>
Calcium channel blockers	154,293.60	157,364.83	144,163.69
Angiotensin II receptor antagonists	78,944.16	92,601.86	86,605.80
Beta blockers	56,340.17	50,496.77	44,086.26
Angiotensin converting enzyme inhibitors	47,831.09	41,200.63	36,637.08

*Source: IMS/IQVIA database*

The Company's antihypertensive drug products mainly include telmisartan tablets and Olmesartan tablets, both of which are angiotensin II receptor antagonists used for the treatment and prevention of hypertension. Generally, angiotensin II receptor blockers (ARBs) bind to the angiotensin II type 1 (AT1) receptors with high affinity, causing inhibition of the action of angiotensin II on vascular smooth muscle, ultimately leading to a reduction in arterial blood pressure.

(2) *Competitive landscape of telmisartan tablets*

According to the database of IMS/IQVIA, from 2018 to 2020, the market share of the top five manufacturers of telmisartan tablets in China is shown in the following table:

<b>Manufacturer</b>	<b>For the year 2020</b>	<b>For the year 2019</b>	<b>For the year 2018</b>
BOEHRINGER INGEL	35.24%	35.90%	35.69%
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	9.19%	7.87%	6.16%
Beijing Fuyuan Pharmaceutical Co., Ltd.	8.53%	8.36%	7.41%
Shanghai Shuangji Pharmaceutical Co., Ltd.	4.73%	5.07%	5.26%
Hainan Selection Pharmaceutical Co., Ltd.	3.95%	3.92%	4.27%
Our Company	1.97%	4.14%	5.75%
<b>Total</b>	<b>63.62%</b>	<b>65.26%</b>	<b>64.53%</b>

Source: IMS/IQVIA database

As mentioned above, from 2018 to 2020, the Company's market share of telmisartan tablets ranked 4th, 5th and 6th in the market respectively.

(3) *Competitive pattern of Olmesartan Tablets*

The market share of Olmesartan Tablets from 2019 to 2020 in China was as follows:

<b>Manufacturer</b>	<b>For the year 2020</b>	<b>For the year 2019</b>	<b>For the year 2018</b>
DAIICHI SANKYO	52.22%	60.58%	66.47%
Beijing Fuyuan Pharmaceutical Co., Ltd.	24.70%	23.56%	22.89%
Sino Biopharmaceutical Limited	12.86%	9.31%	7.19%
Shanghai Sine Promod Pharmaceutical Co., Ltd.	3.59%	4.78%	2.45%
Our Company	3.44%	—	—
<b>Total</b>	<b>96.80%</b>	<b>98.23%</b>	<b>99.01%</b>

Source: IMS/IQVIA database

## IV. FINANCIAL POSITION AND PROFITABILITY ANALYSIS OF THE COMPANY

### (I) Financial Position Analysis

#### 1. Asset Structure Analysis

At the end of each reporting period, the asset structure in the Company's consolidated statement is set out in the table below:

Item	As at 31 July 2021		As at 31 December 2020		As at 31 December 2019	
	Amount	%	Amount	%	Amount	%
<i>Unit: RMB'O,000</i>						
<b>Current assets:</b>						
Monetary funds	135,725.85	12.93%	226,615.83	23.70%	277,913.76	28.04%
Bills receivable	2,147.71	0.20%	21,044.84	2.20%	99,474.79	10.04%
Trade receivables	23,648.30	2.25%	25,006.10	2.62%	120,163.24	12.12%
Prepayments	3,165.17	0.30%	1,992.65	0.21%	1,429.91	0.14%
Other receivables	1,011.27	0.10%	901.57	0.09%	10,973.23	1.11%
Inventories	36,916.96	3.52%	37,826.76	3.96%	19,232.08	1.94%
Other current assets	10,085.69	0.96%	13,023.20	1.36%	3,883.85	0.39%
<b>Total current assets</b>	<b>212,700.95</b>	<b>20.26%</b>	<b>326,410.95</b>	<b>34.14%</b>	<b>533,070.85</b>	<b>53.78%</b>
<b>Non-current assets:</b>						
Other non-current financial assets	177,038.41	16.87%	—	—	—	—
Fixed assets	153,485.56	14.62%	130,250.94	13.62%	111,177.15	11.22%
Construction in progress	113,902.31	10.85%	118,663.71	12.41%	67,832.87	6.84%
Intangible assets	215,043.84	20.49%	188,298.81	19.69%	76,945.42	7.76%
Development expenditure	125,807.34	11.99%	117,316.20	12.27%	29,424.84	2.97%
Goodwill	7,589.60	0.72%	7,589.60	0.79%	7,589.60	0.77%
Deferred income tax assets	8,848.13	0.84%	4,064.50	0.43%	9,576.06	0.97%
Other non-current assets	35,253.81	3.36%	63,531.94	6.64%	155,617.11	15.70%
<b>Total non-current assets</b>	<b>836,969.01</b>	<b>79.74%</b>	<b>629,715.71</b>	<b>65.86%</b>	<b>458,163.05</b>	<b>46.22%</b>
<b>Total assets</b>	<b>1,049,669.95</b>	<b>100.00%</b>	<b>956,126.66</b>	<b>100.00%</b>	<b>991,233.90</b>	<b>100.00%</b>

At the end of each reporting period, the total assets of the Company amounted to RMB9,912,339,000, RMB9,561,266,600 and RMB10,496,699,500, respectively, remaining relatively stable on the whole. Among which, the current assets accounted for 53.78%, 34.14% and 20.26% of the total assets, respectively,

mainly representing monetary funds, bills receivable, trade receivable and inventories; while non-current assets accounted for 46.22%, 65.86% and 79.74% of the total assets, respectively, mainly representing fixed assets, intangible assets, construction in progress, development expenditure, other non-current financial assets and other non-current assets.

(1) *Current assets*

1) *Monetary funds*

At the end of each reporting period, the breakdown of the Company's monetary funds is set out as follows:

Item	Unit: RMB'0,000		
	As at 31 July 2021	As at 31 December 2020	As at 31 December 2019
Cash on hand	—	0.95	—
Cash at bank	135,725.85	226,614.88	272,134.71
Other monetary funds	—	—	5,779.06
<b>Total</b>	<b><u>135,725.85</u></b>	<b><u>226,615.83</u></b>	<b><u>277,913.76</u></b>

Including: Deposits for bank acceptance bills	12,073.00	22,119.13	—
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At the end of 2020, the Company's balances of monetary funds amounted to RMB2,266,158,300, representing a decrease of 18.46% as compared to RMB2,779,137,600 at the end of 2019, which was mainly due to: ① the decrease in the net operating recoveries resulting from the decrease in the sales income; ② the payment of the academic promotion costs provided last year; ③ acquisition of long-term assets such as fixed assets, patented technology and pharmaceuticals manufacturing approvals. At the end of July 2021, the Company's balances of monetary funds amounted to RMB1,357,258,500, representing a decrease of 40.11% as compared to the end of 2020, which was mainly due to the decrease in the net operating recoveries resulting from the decrease in the sales income for the current period.



## 2) Bills receivable

At the end of each reporting period, the breakdown of the Company's bills receivable is set out as follows:

Item	<i>Unit: RMB'0,000</i>		
	As at 31 July 2021	As at 31 December 2020	As at 31 December 2019
Bank acceptance bills	<u>2,147.71</u>	<u>21,044.84</u>	<u>99,474.79</u>
<b>Total</b>	<b><u>2,147.71</u></b>	<b><u>21,044.84</u></b>	<b><u>99,474.79</u></b>

At the end of each reporting period, the Company's balances of bills receivable constantly declined to RMB994,747,900, RMB210,448,400 and RMB21,477,100, respectively, which was mainly due to the continuous decrease in sales.

## 3) Trade receivables

At the end of each reporting period, the breakdown of the Company's trade receivables is set out as follows:

Item	<i>Unit: RMB'0,000</i>		
	As at 31 July 2021	As at 31 December 2020	As at 31 December 2019
Within 1 year (inclusive)	22,310.29	25,516.40	120,754.61
1 to 2 years (inclusive)	4,008.18	211.74	60.21
2 to 3 years (inclusive)	223.04	57.48	11.98
Over 3 years	<u>502.00</u>	<u>476.92</u>	<u>547.88</u>
<b>Subtotal</b>	<b><u>27,043.50</u></b>	<b><u>26,262.53</u></b>	<b><u>121,374.68</u></b>
Less: provision for bad debts	3,395.20	1,256.43	1,211.44
<b>Total</b>	<b><u>23,648.30</u></b>	<b><u>25,006.10</u></b>	<b><u>120,163.24</u></b>

At the end of 2020, the Company's balances of trade receivables amounted to RMB262,625,300, representing a decrease of 78.36% as compared to RMB1,213,746,800 at the end of 2019, which was mainly due to the decrease in the revenue. At the end of July 2021, the Company's balances of trade receivables amounted to RMB270,435,000, remaining basically stable.

At the end of each reporting period, the provision ratio for bad debts of receivables of the Company was 1.00%, 4.78% and 12.55%, respectively. Such ratio at the end of July 2021 was higher, which was mainly due to the fact that the Company temporarily postponed the collection of certain receivables in order to jointly cope with the adverse effects of the epidemic based on the good relationship with certain key customers in the past, resulting in an increase in trade receivables aging 1 to 2 years (inclusive) and bad debts provision accordingly.

#### 4) Inventories

At the end of each reporting period, the breakdown of the inventories of the Company is set out as follows:

Item	31 July 2021		31 December 2020		31 December 2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Raw materials	25,299.73	63.65%	22,021.67	57.05%	12,299.55	63.94%
Work in progress	3,211.06	8.08%	3,598.80	9.32%	5,297.03	27.54%
Finished goods	11,069.18	27.85%	12,859.67	33.32%	1,636.77	8.51%
Goods sold	166.58	0.42%	117.57	0.30%	3.72	0.02%
<b>Original book value</b>	<b><u>39,746.56</u></b>	<b><u>100.00%</u></b>	<b><u>38,597.72</u></b>	<b><u>100.00%</u></b>	<b><u>19,237.07</u></b>	<b><u>100.00%</u></b>
Less: Provision for decline in value of inventories	2,829.60	7.12%	770.96	2.00%	5.00	0.03%
<b>Book value</b>	<b><u>36,916.96</u></b>	<b><u>92.88%</u></b>	<b><u>37,826.76</u></b>	<b><u>98.00%</u></b>	<b><u>19,232.08</u></b>	<b><u>99.97%</u></b>

During the reporting period, the inventories of the Company were mainly raw materials, finished goods and work in progress. At the end of each reporting period, the balance of the inventories of the Company amounted to RMB192,370,700, RMB385,977,200 and RMB397,465,600, respectively. The balance of raw materials and finished goods recorded significant increase at the end of 2020 and July 2021, which was mainly due to decline of the market demand for Kewei and the significant decrease of production depletion and the delivery of goods sold as a result of the COVID-19 pandemic since 2020.

At the end of each reporting period, all provision for decline in value of inventories of the Company were from the impairment of finished goods, and the provision ratio of decline in value of inventories were 0.03%, 2.00% and 7.12%, respectively. The higher provision ratio of decline in value of inventories at the end of July 2021 was mainly due to the slow down of pharmaceutical sales as a result of the

changing market environment, and the Company made loss provision for decline in value of Kewei products produced at the beginning of 2020 whose expiration date is forthcoming at the end of July 2021.

(2) *Non-current assets*

1) Other non-current financial assets

At the end of each reporting period, the balance of other non-current financial assets of the Company amounted to RMB0, RMB0, RMB1,770,384,100, respectively. In July 2021, the Company acquired 10% equity of Sunshine Lake Pharma, which was initially recognised at fair value as of the acquisition date, and subsequently measured as financial assets at fair value through profit or loss during the holding period as the Company did not have significant influence on Sunshine Lake Pharma. At the end of July 2021, the fair value of the relevant equity of Sunshine Lake Pharma was confirmed in accordance with the results of the Valuation Report (Fujian United (2021) BJC No. 071) issued by Fujian United.

2) Fixed assets

At the end of each reporting period, the breakdown of fixed assets of the Company is set out as follows:

<i>Unit: RMB'0,000</i>				
<b>31 July 2021</b>				
<b>Items</b>	<b>Original book value</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment</b>	<b>Book value</b>
Properties and buildings	106,713.69	13,452.44	—	93,261.25
Machinery equipment	52,886.72	12,586.09	—	40,300.63
Vehicles	225.27	55.30	—	169.98
Electronic equipment	28,128.36	8,451.09	—	19,677.26
Other equipment	133.89	57.45	—	76.44
<b>Total</b>	<b>188,087.94</b>	<b>34,602.38</b>	<b>—</b>	<b>153,485.56</b>
<b>31 December 2020</b>				
<b>Items</b>	<b>Original book value</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment</b>	<b>Book value</b>
Properties and buildings	102,143.63	11,538.95	—	90,604.68
Machinery equipment	34,920.67	11,145.54	—	23,775.14
Vehicles	225.27	42.78	—	182.49
Electronic equipment	22,575.66	6,976.28	—	15,599.38
Other equipment	142.56	53.30	—	89.25
<b>Total</b>	<b>160,007.79</b>	<b>29,756.85</b>	<b>—</b>	<b>130,250.94</b>

Items	31 December 2019			Book value
	Original book value	Accumulated depreciation	Accumulated impairment	
Properties and buildings	94,525.74	8,854.85	—	85,670.89
Machinery equipment	27,717.99	9,689.50	—	18,028.49
Vehicles	188.86	24.88	—	163.98
Electronic equipment	13,061.50	5,777.70	—	7,283.80
Other equipment	86.90	56.90	—	30.00
<b>Total</b>	<b><u>135,580.99</u></b>	<b><u>24,403.84</u></b>	<b><u>—</u></b>	<b><u>111,177.15</u></b>

At the end of each reporting period, the carrying amount of fixed assets of the Company was RMB1,111,771,500, RMB1,302,509,400 and RMB1,534,855,600, respectively. Such an overall upward trend was mainly due to the transfers from construction in progress of the Company's projects such as insulin, generic drug and preparation in major varieties to fixed assets following their completion.

### 3) Construction in progress

At the end of each reporting period, the breakdown of construction in progress of the Company is set out as follows:

Items	31 July 2021	Unit: RMB'0,000	
		31 December 2020	31 December 2019
Construction in progress	112,702.59	117,322.20	67,648.82
Engineering materials	<u>1,199.72</u>	<u>1,341.52</u>	<u>184.05</u>
<b>Original book value</b>	<b><u>113,902.31</u></b>	<b><u>118,663.71</u></b>	<b><u>67,832.87</u></b>
Less: Provision for impairment	—	—	—
<b>Carrying amount</b>	<b><u>113,902.31</u></b>	<b><u>118,663.71</u></b>	<b><u>67,832.87</u></b>

At the end of each reporting period, the carrying amount of construction in progress of the Company was RMB678,328,700, RMB1,186,637,100 and RMB1,139,023,100, respectively. Such an overall upward trend was mainly because the Company has increased investments in the construction of APIs engineering and equipment projects of Insulin Glargine and Insulin Aspart, and the phase I of the innovative and generic drug project.

#### 4) Intangible assets

At the end of each reporting period, the breakdown of the intangible assets of the Company is set out as follows:

*Unit: RMB'0,000*

Items	31 July 2021			Book value
	Original book value	Accumulated amortisation	Accumulated impairment	
Land use rights	37,767.16	3,425.94	—	34,341.22
Computer software	108.00	62.89	—	45.12
Patents/unpatented technology	<u>209,294.40</u>	<u>28,636.90</u>	<u>—</u>	<u>180,657.51</u>
<b>Total</b>	<b><u>247,169.56</u></b>	<b><u>32,125.72</u></b>	<b><u>—</u></b>	<b><u>215,043.84</u></b>

Items	31 December 2020			Book value
	Original book value	Accumulated amortisation	Accumulated impairment	
Land use rights	37,578.15	2,973.67	—	34,604.48
Computer software	108.00	56.59	—	51.42
Patents/unpatented technology	<u>172,224.23</u>	<u>18,581.31</u>	<u>—</u>	<u>153,642.91</u>
<b>Total</b>	<b><u>209,910.38</u></b>	<b><u>21,611.57</u></b>	<b><u>—</u></b>	<b><u>188,298.81</u></b>

Items	31 December 2019			Book value
	Original book value	Accumulated amortisation	Accumulated impairment	
Land use rights	25,833.71	2,355.21	—	23,478.50
Computer software	108.00	45.79	—	62.22
Patents/unpatented technology	<u>63,520.00</u>	<u>10,115.30</u>	<u>—</u>	<u>53,404.70</u>
<b>Total</b>	<b><u>89,461.71</u></b>	<b><u>12,516.29</u></b>	<b><u>—</u></b>	<b><u>76,945.42</u></b>

At the end of each reporting period, the book values of intangible assets of the Company were RMB769,454,200, RMB1,882,988,100 and RMB2,150,438,400, respectively, which increased year by year. This was mainly because the Company has successively obtained the drug registration approvals of Esomeprazole Magnesium Enteric-coated Capsules, Olanzapine Tablets, Emitasvir Phosphate Capsules and other drugs, and self-developed projects such as Recombinant Human Insulin Project were carried forward from development expenditures to intangible assets.

## 5) Development costs

At the end of each reporting period, the breakdown of the development costs of the Company is set out as follows:

Items	<i>Unit: RMB'0,000</i>		
	31 July 2021	31 December 2020	31 December 2019
Insulin Project	28,338.40	25,805.54	22,464.59
Hepatitis C Project	34,977.40	33,000.78	6,960.26
Rongliflozin	56,566.57	53,386.65	—
Liraglutide	5,924.97	5,123.22	—
<b>Total</b>	<b><u>125,807.34</u></b>	<b><u>117,316.20</u></b>	<b><u>29,424.84</u></b>

At the end of 2020, the book value of development costs of the Company was RMB1,173,162,000, representing an increase of RMB878,913,500 as compared with that at the end of 2019, which was mainly due to the fact that (1) the Company obtained the control rights of two products under development, i.e. Rongliflozin and Liraglutide, and started to invest in its internal development during the current period; (2) Sunshine Lake Pharma has completed the application for new drug certificate of Emitasvir Phosphate in the name of the Company during the current period. The Company paid the remaining amount as agreed under the agreement and the consideration for follow-up compounds were carried forward from other non-current assets to development costs.

At the end of July 2021, the book value of development costs of the Company was RMB1,258,073,400, representing an increase of RMB84,911,500 compared with that at the end of 2020, which was mainly attributed to the internal development costs during the current period.

6) Other non-current assets

At the end of each reporting period, the breakdown of the other non-current assets of the Company is set out as follows:

Items	<i>Unit: RMB'0,000</i>		
	31 July 2021	31 December 2020	31 December 2019
Prepayment for purchase of intangible assets:			
Emitasvir and follow-up compounds	—	—	56,000.00
Generic drugs production approvals	16,829.31	44,467.58	89,191.73
Project and equipment amount	<u>18,424.50</u>	<u>19,064.36</u>	<u>10,425.38</u>
<b>Total</b>	<b><u>35,253.81</u></b>	<b><u>63,531.94</u></b>	<b><u>155,617.11</u></b>

At the end of 2020, the book balance of other non-current assets of the Company was RMB635,319,400, representing a decrease of RMB920,851,700 as compared to RMB1,556,171,100 at the end of 2019, which was mainly due to the fact that (1) Sunshine Lake Pharma has completed the application for new drug certificate of Emitasvir Phosphate for Hepatitis C Project in the name of the Company during the current period. The Company paid the remaining amount as agreed under the agreement, and the prepayment balance was carried forward to intangible assets and development costs; (2) the Company obtained the ownership of 13 generic drugs purchased from Sunshine Lake Pharma during the current period, and the prepayment balance was carried forward to intangible assets.

At the end of July 2021, the book balance of other non-current assets of the Company was RMB352,538,100, representing a decrease of RMB282,781,300 as compared to that at the end of 2020, which was mainly due to the fact that the Company obtained the ownership of the production approvals for 8 generic drugs purchased from Sunshine Lake Pharma during the current period, and the prepayment balance was carried forward to intangible assets.

## 2. Liability Structure Analysis

As at the end of each reporting period, the liabilities structure in the Company's consolidated statements is set out as follows:

*Unit: RMB'O,000*

Item	As at 31 July 2021		As at 31 December 2020		As at 31 December 2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
<b>Current liabilities:</b>						
Short-term borrowings	—	—	34,248.29	7.68%	13,266.07	2.51%
Bills payables	6,613.12	1.53%	20,557.50	4.61%	6,154.30	1.16%
Accounts payables	6,308.94	1.46%	7,123.46	1.60%	12,315.07	2.33%
Contract liabilities	2,263.02	0.52%	5,615.23	1.26%	13,132.75	2.48%
Employee remuneration payables	6,761.71	1.57%	8,609.04	1.93%	20,085.42	3.80%
Taxes payables	21,538.92	4.99%	2,756.30	0.62%	27,221.41	5.15%
Other payables	83,821.52	19.43%	92,965.09	20.86%	142,853.88	27.01%
Derivative financial liabilities	14,651.68	3.40%	22,159.79	4.97%	—	—
Non-current liabilities due within one year	928.07	0.22%	350.38	0.08%	—	—
Other current liabilities	229,018.59	53.09%	221,298.24	49.65%	—	—
<b>Total current liabilities</b>	<b>371,905.55</b>	<b>86.21%</b>	<b>415,683.31</b>	<b>93.25%</b>	<b>235,028.91</b>	<b>44.44%</b>
<b>Non-current liabilities:</b>						
Long-term borrowings	44,726.88	10.37%	18,985.26	4.26%	5,000.00	0.95%
Bonds payables	—	—	—	—	220,561.95	41.70%
Other non-current liabilities	—	—	—	—	60,396.05	11.42%
Deferred income	14,778.39	3.43%	11,092.22	2.49%	7,931.42	1.50%
<b>Total non-current liabilities</b>	<b>59,505.27</b>	<b>13.79%</b>	<b>30,077.48</b>	<b>6.75%</b>	<b>293,889.43</b>	<b>55.56%</b>
<b>Total liabilities</b>	<b>431,410.82</b>	<b>100.00%</b>	<b>445,760.79</b>	<b>100.00%</b>	<b>528,918.33</b>	<b>100.00%</b>

At the end of each reporting period, the total liabilities of the Company amounted to RMB5,289,183,300, RMB4,457,607,900 and RMB4,314,108,200, respectively, with a decrease trend on the whole. Among them, current liabilities accounted for 44.44%, 93.25% and 86.21% of the total liabilities, respectively, which were mainly other payables, derivative financial liabilities and other current liabilities; non-current liabilities accounted for 55.56%, 6.75% and 13.79% of the total liabilities, respectively, which were mainly long-term borrowings, bonds payables and other non-current liabilities.



(1) *Current liabilities*

1) Other payables

As at the end of each reporting period, a breakdown of Company's other payables is set out as follows:

<i>Unit: RMB'0,000</i>			
	As at	As at	As at
Item	31 July 2021	31 December 2020	31 December 2019
Amount due to related parties	—	3,726.04	1,197.67
Interest payables	—	4,023.69	4,301.99
Accrued expenses	51,654.26	53,166.80	118,854.74
Equipment and project amount payables	15,802.31	20,364.74	11,874.63
Others	<u>16,364.95</u>	<u>11,683.83</u>	<u>6,624.84</u>
<b>Total</b>	<b><u>83,821.52</u></b>	<b><u>92,965.09</u></b>	<b><u>142,853.88</u></b>

At the end of each reporting period, the balance of the carrying amounts of other payables of the Company amounted to RMB1,428,538,800, RMB929,650,900 and RMB838,215,200, respectively, the gradual decrease in which was mainly due to the decrease in the Company's sales and less newly-added amount of accrued expenses than the settlement amount.

2) Convertible bonds

At the end of each reporting period, the Company's convertible bonds in the balance sheet are set out as follows:

<i>Unit: RMB'0,000</i>			
	As at	As at	As at
Item	31 July 2021	31 December 2020	31 December 2019
Other payables — interest payables	—	4,023.69	4,301.99
Derivative financial liabilities	14,651.68	22,159.79	—
Other current liabilities	229,018.59	221,298.24	—
Bonds payables	—	—	220,561.95
Other non-current liabilities	<u>—</u>	<u>—</u>	<u>60,396.05</u>
<b>Total</b>	<b><u>243,670.27</u></b>	<b><u>247,481.71</u></b>	<b><u>285,260.00</u></b>

In August 2018, the Company issued a principal amount of US\$400 million of H Share Convertible Bonds with a term of seven years to the Blackstone Fund SPVs, comprising bonds and financial derivative instruments. The derivative components of the convertible bonds were measured at fair value and included in other non-current liabilities (non-current liabilities) or derivative financial liabilities (current liabilities); the remainders were recognised as the main debt instruments and measured at amortized cost using the effective interest method, and were included in bonds payables (non-current liabilities) or other current liabilities (current liabilities).

As at the end of each reporting period, the balance of the bonds of the Company's bonds payables remained stable, and its change was subject to the impact of the current interest accruals, interest payments and exchange gains and losses. The derivative instruments were subject to the impact of the changes in the fair value of the bondholders "conversion rights" and exchange gains and losses as of the end of each period. The Company's stock price continued to decrease during the reporting period, resulting in a continuous decline in the derivative instruments.

In 2020, the Company's capital expenditures exceeded the limits specified in the agreement of the convertible bonds without the consent of the bondholders, resulting in the bondholders may demand the Company to repay at any time, so the current bonds payable was adjusted from "bonds payables" to "other current liabilities". In March 2021, the Company obtained a letter of extension of waiver from the bondholders, who agreed to waive the right to early redeem the convertible bonds until 1 July 2022, less than one year after the end of July 2021, and therefore the bonds were still recorded as "current liabilities" at the end of July 2021. In September 2021, the Company obtained a further extension of waiver from the bondholders, who agreed to waive the right to early redeem the convertible bonds until 1 January 2023.

## *(2) Non-current liabilities*

### *1) Long-term Borrowings*

As at the end of each reporting period, all long-term borrowings of the Company were secured, with book balances of RMB50,000,000, RMB189,852,600 and RMB447,268,800, respectively, which were mainly due to the increase investment in the construction of APIs engineering and equipment projects of Insulin Glargine and Insulin Aspart as well as the phase I of the innovative and generic drugs project during the reporting period, leading to the corresponding increase in debt financing.

## 2) Bonds payables and other non-current liabilities

As at the end of each reporting period, all bonds payables and other non-current liabilities of the Company were associated with Blackstone convertible bonds, please refer to “(1) Current liabilities” — “(2) Convertible bonds” in this sub-section for details.

## 3. Analysis of the solvency

During the reporting period, solvency indicators of the Company are shown as follows:

Item	January to July 2021/ 31 July 2021	2020/ 31 December 2020	2019/ 31 December 2019
Current ratio (times)	0.57	0.79	2.27
Quick ratio (times)	0.45	0.66	2.17
Gearing ratio	41.10%	46.62%	53.36%
EBITDA (RMB'0,000)	(21,596.51)	137,736.62	255,973.91
Interest coverage ratio	(2.35)	5.02	12.10

Notes:

1. Current ratio = current assets/current liabilities;
2. Quick ratio = (current assets – inventories – other current assets)/current liabilities;
3. Gearing ratio = total liabilities/total assets;
4. EBITDA=net profit+corporate income tax+interest expense+depreciation charge +amortisation of intangible assets;
5. Interest coverage ratio= (total profit+ expensed interest expenses)/interest expense.

As at the end of 2020 and the end of July 2021, current ratio and quick ratio of the Company fell notably, which was due to the reclassification of the Company's Blackstone convertible bonds from bonds payables and other non-current liabilities to other current liabilities and derivative financial liabilities resulting in the increase in current liabilities.

During the reporting period, gearing ratios of the Company were 53.36%, 46.62% and 41.10%, respectively, showing an overall downward trend, mainly due to (1) the continuous decline in fair value of derivative components of Blackstone convertible bonds; (2) the sharp decline in sales scale of the Company and the subsequent decrease in liability items such as accounts payable, receipts in advance, accrued expense and payroll payable.

During the reporting period, EBITDA and interest coverage ratio of the Company showed a downward trend, mainly due to decline in operating results of the Company affected by COVID-19.

#### 4. *Operating Capacity Analysis*

During the reporting period, operating capacity indicators of the Company are shown as follows:

Item	January to July		
	2021	2020	2019
Trade receivable turnover	1.14	1.75	3.90
Inventory turnover	0.52	1.19	5.15
Total assets turnover	0.04	0.24	0.86

*Notes:*

1. Trade receivable turnover = operating income/average of (note receivables + trade receivable + trade receivable financing) at the beginning and end of the period;
2. Inventory turnover = operating cost/average of inventory at the beginning and end of the period;
3. Total assets turnover = operating income/average of total assets at the beginning and the end of the period;
4. Each indicator for January to July in 2021 has been annualized.

During the reporting period, trade receivable turnover of the Company were 3.90, 1.75 and 1.14, respectively. Inventory turnover were 5.15, 1.19 and 0.52, respectively. Total assets turnover were 0.86, 0.24 and 0.04, respectively. The decrease in indicators was mainly due to the decrease in sales of the Company affected by COVID-19.

## (II) Analysis of operating results

### 1. Analysis of profit

During the reporting period, the key indicators of the Company's operating results are as follows:

Item	January to July 2021		2020		Unit: RMB'0,000 2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
<b>Operating income</b>	25,496.47	100.00%	234,811.26	100.00%	622,402.42	100.00%
Less: Operating costs	11,890.25	46.63%	34,388.71	14.65%	92,112.43	14.80%
Operating taxes and surcharges	1,147.85	4.50%	4,291.31	1.83%	9,060.50	1.46%
Selling expenses	28,191.42	110.57%	115,388.38	49.14%	236,104.87	37.93%
Administrative expenses	19,493.08	76.45%	26,584.26	11.32%	24,701.17	3.97%
R&D expenses	5,786.88	22.70%	9,244.81	3.94%	16,261.95	2.61%
Finance expenses	11,807.88	46.31%	7,487.87	3.19%	23,682.06	3.80%
Including: Interest expenses	13,952.50	54.72%	24,420.58	10.40%	20,450.27	3.29%
Interest income	(815.33)	(3.20)%	(2,498.78)	(1.06)%	(3,603.77)	(0.58)%
Credit impairment losses	2,138.77	8.39%	(439.25)	(0.19)%	473.54	0.08%
Asset impairment losses	2,631.10	10.32%	765.96	0.33%	—	—
Add: Other revenue	1,141.24	4.48%	1,196.24	0.51%	892.28	0.14%
Income from asset disposal	(498.22)	(1.95)%	(526.91)	(0.22)%	(482.54)	(0.08)%
Gain or loss from changes in fair value	7,508.11	29.45%	38,236.27	16.28%	6,555.77	1.05%
<b>Operating profit</b>	<b>(49,439.64)</b>	<b>(193.91)%</b>	<b>76,004.79</b>	<b>32.37%</b>	<b>226,971.42</b>	<b>36.47%</b>
Add: Non-operating income	1.24	0.00%	25,167.26	10.72%	19.74	0.00%
Less: Non-operating expense	11.93	0.05%	128.64	0.05%	85.82	0.01%
<b>Total profit</b>	<b>(49,450.33)</b>	<b>(193.95)%</b>	<b>101,043.42</b>	<b>43.03%</b>	<b>226,905.34</b>	<b>36.46%</b>
Less: Income tax expenses	(6,860.95)	(26.91)%	17,302.27	7.37%	36,186.84	5.81%
<b>Net profit</b>	<b>(42,589.39)</b>	<b>(167.04)%</b>	<b>83,741.15</b>	<b>35.66%</b>	<b>190,718.50</b>	<b>30.64%</b>
Less: Non-controlling interests	31.12	0.12%	(204.57)	(0.09)%	(1,152.45)	(0.19)%
Net profit attributable to owners of the parent company	(42,620.51)	(167.16)%	83,945.72	35.75%	191,870.95	30.83%
<b>Total comprehensive income</b>	<b>(42,589.39)</b>	<b>(167.04)%</b>	<b>83,741.15</b>	<b>35.66%</b>	<b>190,718.50</b>	<b>30.64%</b>

(1) *Analysis of revenue*

The breakdown of the revenue of the Company for the last two years and the latest period is as follows:

Item	January to July 2021		2020		Unit: RMB'0,000 2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Revenue from principal business	25,354.37	99.44%	234,683.82	99.95%	622,358.78	99.99%
Revenue from other business	<u>142.10</u>	<u>0.56%</u>	<u>127.43</u>	<u>0.05%</u>	<u>43.64</u>	<u>0.01%</u>
<b>Total</b>	<b><u>25,496.47</u></b>	<b><u>100.00%</u></b>	<b><u>234,811.26</u></b>	<b><u>100.00%</u></b>	<b><u>622,402.42</u></b>	<b><u>100.00%</u></b>

During the reporting period, the Company's revenue amounted to RMB6,224,024,200, RMB2,348,112,600 and RMB254,964,700, respectively, representing an obvious downward as a whole, which was mainly due to the considerable decline in the sales of Kewei as a result of the COVID-19 pandemic.

1) *Composition of revenue by product*

For the last two years and the latest period, the composition of the revenue from principal business of the Company is set out as follows:

Item	January to July 2021		2020		Unit: RMB'0,000 2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Anti-viral drugs	7,879.03	31.08%	207,161.44	88.27%	593,946.26	95.43%
Including: Kewei	7,498.27	29.57%	206,872.73	88.15%	593,317.32	95.33%
Endocrine and metabolic drugs	4,133.15	16.30%	9,452.86	4.03%	10,344.72	1.66%
Cardiovascular drugs	5,293.51	20.88%	6,677.99	2.85%	8,484.37	1.36%
Others	<u>8,048.67</u>	<u>31.74%</u>	<u>11,391.52</u>	<u>4.85%</u>	<u>9,583.43</u>	<u>1.54%</u>
<b>Total</b>	<b><u>25,354.37</u></b>	<b><u>100.00%</u></b>	<b><u>234,683.82</u></b>	<b><u>100.00%</u></b>	<b><u>622,358.78</u></b>	<b><u>100.00%</u></b>

During the reporting period, Kewei contributed 95.33%, 88.15% and 29.57% of the Company's revenue from principal business, respectively, representing a period-by-period decrease, which was mainly due to the decline in sales of Kewei as a result of the COVID-19 pandemic.

## 2) Composition of revenue by region

During the reporting period, the Company's total revenue was derived from Mainland China.

### (2) Analysis of gross profit from principal business

During the reporting period, the composition of gross profit from principal business of the Company was set out as follows:

Item	January to July 2021		2020		Unit: RMB'0,000 2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Anti-viral drugs	6,253.89	46.16%	182,185.36	90.94%	506,459.52	95.51%
Including: Kewei	5,968.91	44.05%	182,417.38	91.06%	505,976.32	95.42%
Endocrine and metabolic drugs	3,263.47	24.09%	8,256.07	4.12%	9,327.49	1.76%
Cardiovascular drugs	1,677.36	12.38%	2,680.44	1.34%	7,519.32	1.42%
Others	<u>2,354.97</u>	<u>17.38%</u>	<u>7,208.57</u>	<u>3.60%</u>	<u>6,940.02</u>	<u>1.31%</u>
<b>Total</b>	<b><u>13,549.69</u></b>	<b><u>100.00%</u></b>	<b><u>200,330.44</u></b>	<b><u>100.00%</u></b>	<b><u>530,246.35</u></b>	<b><u>100.00%</u></b>

During the reporting period, gross profit of Kewei accounted for 95.42%, 91.06% and 44.05%, respectively. Since 2020, the decrease in the gross profit of the Company was mainly due to the much less contributions from Kewei to gross profit.

### (3) Expenses for the period and analysis

During the reporting period, the breakdown of the expenses of the Company for the period was as follows:

Item	January to July 2021		2020		Unit: RMB'0,000 2019	
	Amount	Percentage of revenue	Amount	Percentage of revenue	Amount	Percentage of revenue
Sales expenses	28,191.42	110.57%	115,388.38	49.14%	236,104.87	37.93%
Management fees	19,493.08	76.45%	26,584.26	11.32%	24,701.17	3.97%
R&D costs	5,786.88	22.70%	9,244.81	3.94%	16,261.95	2.61%
Finance costs	11,807.88	46.31%	7,487.87	3.19%	23,682.06	3.80%
Including: interest expenses	<u>13,952.50</u>	<u>54.72%</u>	<u>24,420.58</u>	<u>10.40%</u>	<u>20,450.27</u>	<u>3.29%</u>
<b>Total</b>	<b><u>65,279.26</u></b>	<b><u>256.03%</u></b>	<b><u>158,705.33</u></b>	<b><u>67.59%</u></b>	<b><u>300,750.05</u></b>	<b><u>48.32%</u></b>

During the reporting period, the expenses for the period of the Company were RMB3,007,500,500, RMB1,587,053,300 and RMB652,792,600, respectively, representing 48.32%, 67.59% and 256.03% of the operating income, respectively. The decline in the expenses for period was mainly due to 1) a significant decrease in sales expenses as the result of less operating income; 2) a decrease in the fixed charge including salaries, depreciation and amortisation among the expenses for the period was less than a decrease in the income, which caused a year-on-year increase in proportion of the total expenses for period to the operating income, and was in line with the decreased operating income.

#### 1) Sales expenses

During the reporting period, the breakdown of the sales expenses of the Company was as follows:

Item	<i>Unit: RMB'0,000</i>					
	January to July 2021		2020		2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Employee compensation	10,479.14	37.17%	48,551.11	42.08%	77,942.44	33.01%
Academic promotion expenses	13,472.45	47.79%	57,470.31	49.81%	135,564.19	57.42%
Business entertainment expenses	2,232.06	7.92%	3,864.56	3.35%	12,823.04	5.43%
Others	2,007.77	7.12%	5,502.40	4.77%	9,775.21	4.14%
<b>Total</b>	<b><u>28,191.42</u></b>	<b><u>100.00%</u></b>	<b><u>115,388.38</u></b>	<b><u>100.00%</u></b>	<b><u>236,104.87</u></b>	<b><u>100.00%</u></b>

During the reporting period, the sales expenses of the Company were RMB2,361,048,700, RMB1,153,883,800 and RMB281,914,200, respectively, representing 37.93%, 49.14% and 110.57% of the operating income, respectively, being the highest among the expenses for the period, which was mainly due to the operational characteristics of the pharmaceutical industry where the Company operates. The wages of the Company's sales staff and academic promotion expenses constituted the major portion of the sales expenses, representing 90.43%, 91.88% and 84.96% of the sales expenses during the reporting period, respectively.

Since 2019, the scale of the Company's sales expenses have decreased year on year, which is in line with the trend of changes in revenue. During this period, the ratio of sales expenses to revenue of the Company increased significantly, which was mainly due to the lower degree of decrease in sales expenses than revenue as the Company continually made efforts in certain academic promotion and new channel development in order to accelerate destocking of downstream customers.



## 2) R&D costs

During the reporting period, the breakdown of the R&D costs of the Company was as follows:

Item	<i>Unit: RMB'0,000</i>					
	January to July 2021		2020		2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Insulin	1,407.76	24.33%	104.98	1.14%	1,157.99	7.12%
New Anti-Hepatitis C Drug	1,555.70	26.88%	2,963.36	32.05%	2,328.72	14.32%
Rongliflozin	3.12	0.05%	250.00	2.70%	12,775.23	78.56%
Liraglutide	—	—	610.15	6.60%	—	—
Others	<u>2,820.30</u>	<u>48.74%</u>	<u>5,316.31</u>	<u>57.51%</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<b><u>5,786.88</u></b>	<b><u>100.00%</u></b>	<b><u>9,244.81</u></b>	<b><u>100.00%</u></b>	<b><u>16,261.95</u></b>	<b><u>100.00%</u></b>

During the reporting period, the R&D costs of the Company were RMB162,619,500, RMB92,448,100 and RMB57,868,800, respectively, representing 2.61%, 3.94% and 22.70% of the operating income, respectively. The R&D costs are mainly used for Rongliflozin, New Anti-Hepatitis C Drug and Insulin.

## 3) Management fees

During the reporting period, the breakdown of the management fees of the Company was as follows:

Item	<i>Unit: RMB'0,000</i>					
	January to July 2021		2020		2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Employee compensation	5,324.32	27.31%	10,019.87	37.69%	13,721.16	55.55%
Amortization and depreciation	8,732.47	44.80%	8,257.42	31.06%	3,343.40	13.54%
Material consumption	955.44	4.90%	1,606.03	6.04%	623.78	2.53%
Audit and consulting fees	585.03	3.00%	1,737.41	6.54%	2,704.24	10.95%
Office expenses	359.91	1.85%	1,252.11	4.71%	1,051.63	4.26%
Others	<u>3,535.90</u>	<u>18.14%</u>	<u>3,711.43</u>	<u>13.96%</u>	<u>3,256.96</u>	<u>13.19%</u>
<b>Total</b>	<b><u>19,493.08</u></b>	<b><u>100.00%</u></b>	<b><u>26,584.26</u></b>	<b><u>100.00%</u></b>	<b><u>24,701.17</u></b>	<b><u>100.00%</u></b>

During the reporting period, the management fees of the Company were RMB247,011,700, RMB265,842,600 and RMB194,930,800, respectively, representing 3.97%, 11.32% and 76.45% of the operating income, respectively. The rise in proportion was mainly due to the decrease in the scale of revenue. During the reporting period, the amortisation of intangible assets of the Company had an increasing trend due to the increase in the amount of amortization as the Company has obtained the pharmaceutical production approval documents for generic drugs successively.

#### 4) Finance expenses

During the reporting period, the breakdown of the Company's finance expenses was as follows:

<i>Unit: RMB'0,000</i>			
Item	January to July 2021	2020	2019
Interest expenses on loans and bonds	15,098.74	24,982.01	20,450.27
Less: Capitalized interest expenses	<u>1,146.24</u>	<u>561.43</u>	<u>—</u>
<b>Net interest expenses</b>	<b><u>13,952.50</u></b>	<b><u>24,420.58</u></b>	<b><u>20,450.27</u></b>
Interest income on deposits	(815.33)	(2,498.78)	(3,603.77)
Net exchange loss	(2,270.11)	(15,390.14)	6,448.18
Other finance expenses	<u>940.82</u>	<u>956.22</u>	<u>387.38</u>
<b>Total</b>	<b><u>11,807.88</u></b>	<b><u>7,487.87</u></b>	<b><u>23,682.06</u></b>

During the reporting period, the Company's finance expenses amounted to RMB236,820,600, RMB74,878,700 and RMB118,078,800, respectively, which were mainly constituted by interest expenses on loans and bonds and net exchange loss. Finance expenses accounted for 3.80%, 3.19% and 46.31% of the operating income, respectively. The higher proportion was mainly attributable to a decrease in the scale of the operating income.

*(4) Credit impairment losses*

During the reporting period, the Company's credit impairment loss was attributable to the change in provision for bad debts on trade receivable. During each of the reporting periods, the Company's credit impairment losses amounted to RMB4,735,400, RMB-4,392,500 and RMB21,387,700, respectively, representing 0.21%, -0.43% and -4.33% of total profit, respectively, which had a relatively small impact on total profit.

In 2020, the Company scaled down its business, resulting a significant release in staff reserves. After the amount of staff reserves released in the period from the staff reserves in previous period being transferred to the bad debt provision made in previous period, the total credit impairment loss of other receivables for the period was negative, which made the overall credit impairment loss of the Company negative. From January to July 2021, the Company incurred significant credit impairment losses, which was mainly due to the increase in the amount of the provision for bad debts on trade receivable as a result of the slower payment from the customers of the Company due to the continuous effect of the COVID-19 pandemic.

*(5) Impairment loss on assets*

During the reporting period, the Company's assets impairment loss was attributable to the change in provision for write-down loss of finished goods inventories. During each of the reporting periods, the Company's impairment loss on assets amounted to RMB0, RMB7,659,600 and RMB26,311,000, respectively, representing 0%, 0.76% and -5.32% of total profit, which had a relatively small impact on total profit. The higher amount of provision for decline in inventories at the end of July 2021 was mainly due to the fact that the drug sales slow down as a result of the change in market conditions and Kewei manufactured in early 2020 were approaching the maturity at the end of July 2021, the Company recorded a provision for decline in such inventories closed to maturity.

*(6) Analysis of net gains from changes in fair value*

During the reporting period, the Company's net gains from changes in fair value were attributable to the changes in fair value of derivative financial liability components of bonds payable. During each of the reporting periods, the Company's net gains from changes in fair value accounted for 2.89%, 37.84% and -15.18% of total profit, respectively. In 2020, the higher net gains from changes in fair value of the Company was mainly due to higher fluctuations in the financial derivative liabilities of the Blackstone convertible bonds for the year.

(7) *Analysis of non-recurring profit and loss*

The breakdown of the Company's non-recurring profit and loss during the reporting period is set out as follows:

Item	Unit: RMB'0,000		
	January to July 2021	2020	2019
Changes in fair value of the equity portion of convertible bonds	7,508.11	38,236.27	6,555.77
Profit or loss on disposal of non- current assets	(498.22)	(526.91)	(482.54)
Government grants recorded in the income statement for the current period/year	1,141.24	1,196.24	892.28
Royalty fees reversal	—	25,109.30	—
Non-operating income other than items mentioned above	1.24	57.93	19.74
Non-operating expenses other than items mentioned above	<u>(11.93)</u>	<u>(128.64)</u>	<u>(85.82)</u>
<b>Subtotal</b>	<b><u>8,140.43</u></b>	<b><u>63,944.19</u></b>	<b><u>6,899.44</u></b>
Effect of income tax	1,240.96	9,595.65	1,034.95
Effect of non-controlling interests (after taxation)	<u>0.05</u>	<u>0.09</u>	<u>—</u>
<b>Total</b>	<b><u>6,899.42</u></b>	<b><u>54,348.44</u></b>	<b><u>5,864.49</u></b>

During the reporting period, the Company's non-recurring profit and loss amounted to RMB58,644,900, RMB543,484,400 and RMB68,994,200, respectively, representing 2.58%, 53.79% and -13.95% of total profit, respectively. In 2020, the Company's non-recurring profit and loss was relatively high, mainly attributable to: (1) a significant decrease in the fair value of the convertible bonds-derivative component during the period as a result of fluctuations in the Company's share price; (2) the release of the royalty fees accrual for Oseltamivir Phosphate Capsule provided in previous years and included in non-operating income as the Company specified the valid period of the agreement signed in the past with Academy of Military Medical Sciences (AMMS) relating to the relevant fees for paying Oseltamivir.

## 2. Profitability analysis

During the reporting period, the indicators for the profitability of the Company are set out in the table below:

Item	January to July 2021	2020	2019
Gross profit margin	53.37%	85.35%	85.20%
Net profit margin	(167.04)%	35.66%	30.64%

*Notes:*

1. Gross profit margin=(operating income-operating costs)/operating income;
2. Net profit margin=Net profit/operating income.

During the reporting period, the gross profit margin of the Company was 85.20%, 85.35% and 53.37%, respectively. The gross profit margin of the Company declined significantly in the period from January to July 2021, mainly due to the proportion of sales of Kewei with higher gross profit margin decreased in the period, while other products of the Company had a lower average gross profit margin. The net profit margin of the Company increased to 35.66% in 2020, mainly due to significant change in the amount of fair value profit or loss caused by the decrease in the fair value of the conversion right of Blackstone convertible bonds-derivative component. During the period from January to July 2021, net profit margin of the Company was negative, mainly due to the material impact caused by the COVID-19 pandemic on the sales of Kewei's.

### 3. Analysis of cash flow

During the reporting period, the cash flow of the Company is set out in the table below:

Item	Unit: RMB'0,000		
	January to July 2021	2020	2019
Net cash flow from operating activities	(51,059.50)	129,949.35	179,440.42
Net cash flow from investing activities	(33,156.66)	(209,462.77)	(171,048.32)
Net cash flow from financing activities	3,386.53	6,462.98	210,001.97
Effect of exchange rate changes on cash and cash equivalents	(14.23)	(366.63)	145.04
Net increase in cash and cash equivalents	(80,843.86)	(73,417.07)	218,539.12
The balance of the cash and cash equivalents at the end of the period	123,652.84	204,496.70	277,913.76

The net cash flow from operating activities of the Company was RMB1,299,493,500 in 2020, decreased 27.58% as compared with RMB1,794,404,200 in 2019, primarily due to (1) the decrease in sales and net operating recoveries of the Company as affected by the COVID-19 pandemic; (2) payment for the educational promotion by the Company provided in the previous year. During the period from January to July 2021, the net cash outflow from operating activities of the Company was RMB510,595,000, mainly due to decrease in sales and net operating recoveries in the period.

The net cash outflow from investing activities of the Company was RMB2,094,627,700 in 2020, further increased as compared with RMB1,710,483,200 in 2019, mainly due to the acquisition of long-term assets such as fixed assets, patented technology and pharmaceuticals approvals. During the period from January to July 2021, the net cash outflow from investing activities of the Company was RMB331,566,600, mainly due to the constant advancement of the constructions in progress in the period.

The net cash flow from financing activities of the Company was RMB2,100,019,700 in 2019, mainly due to the issuance of convertible corporate bonds by the Company to Blackstone Fund and the increase in financing borrowings. The net cash flow from financing activities of the Company was RMB64,629,800 and RMB33,865,300 in 2020 and during the period from January to July 2021, respectively, mainly due to increase in net borrowings.

During the reporting period, the net cash flow from operating activities of the Company, the net profit for the respective periods and their relationships are set out as below:

Item	<i>Unit: RMB'0,000</i>		
	January to July 2021	2020	2019
Net cash flow from operating activities	(51,059.50)	129,949.35	179,440.42
Net profit	(42,589.39)	83,741.15	190,718.50
Net cash flow from operating activities/ net profit	1.20	1.55	0.94

During the reporting period, the ratio of the net cash flow from operating activities of the Company and the net profit for the respective periods was 0.94, 1.55 and 1.20, respectively, and the fluctuations fell within a reasonable range.

#### 4. *Financial Information of the Company*

KPMG Huazhen LLP had audited the consolidated balance sheets of the Company as at 31 December 2019, 31 December 2020 and 31 July 2021 and the income statements, consolidated cash flow statements and consolidated statements of changes in equity of the owners for the year of 2019, 2020 and the period from 1 January 2021 to 31 July 2021, and had issued the auditor's report with unqualified opinions.

##### *(I) Consolidated Balance Sheet*

Item	<i>Unit: RMB'0,000</i>		
	31 July 2021	31 December 2020	31 December 2019
<b>Current assets:</b>			
Monetary funds	135,725.85	226,615.83	277,913.76
Bills receivable	2,147.71	21,044.84	99,474.79
Trade receivable	23,648.30	25,006.10	120,163.24
Prepayments	3,165.17	1,992.65	1,429.91
Other receivables	1,011.27	901.57	10,973.23
Inventories	36,916.96	37,826.76	19,232.08
Other current assets	10,085.69	13,023.20	3,883.85
<b>Total current assets</b>	<b><u>212,700.95</u></b>	<b><u>326,410.95</u></b>	<b><u>533,070.85</u></b>

Unit: RMB'0,000

Item	31 July 2021	31 December 2020	31 December 2019
<b>Non-current assets:</b>			
Other non-current financial assets	177,038.41	—	—
Fixed assets	153,485.56	130,250.94	111,177.15
Construction in progress	113,902.31	118,663.71	67,832.87
Intangible assets	215,043.84	188,298.81	76,945.42
Development expenditures	125,807.34	117,316.20	29,424.84
Goodwill	7,589.60	7,589.60	7,589.60
Deferred income tax assets	8,848.13	4,064.50	9,576.06
Other non-current assets	35,253.81	63,531.94	155,617.11
<b>Total non-current assets</b>	<b>836,969.01</b>	<b>629,715.71</b>	<b>458,163.05</b>
<b>Total assets</b>	<b>1,049,669.95</b>	<b>956,126.66</b>	<b>991,233.90</b>
<b>Current liabilities:</b>			
Short-term borrowings	—	34,248.29	13,266.07
Bills payable	6,613.12	20,557.50	6,154.30
Accounts payables	6,308.94	7,123.46	12,315.07
Contract liabilities	2,263.02	5,615.23	13,132.75
Payroll payable	6,761.71	8,609.04	20,085.42
Taxes payable	21,538.92	2,756.30	27,221.41
Other payables	83,821.52	92,965.09	142,853.88
Financial derivative liabilities	14,651.68	22,159.79	—
Non-current liabilities due within one year	928.07	350.38	—
Other current liabilities	229,018.59	221,298.24	—
<b>Total current liabilities</b>	<b>371,905.55</b>	<b>415,683.31</b>	<b>235,028.91</b>
<b>Non-current liabilities:</b>			
Long-term borrowings	44,726.88	18,985.26	5,000.00
Bonds payable	—	—	220,561.95
Other non-current liabilities	—	—	60,396.05
Deferred income	14,778.39	11,092.22	7,931.42
<b>Total non-current liabilities</b>	<b>59,505.27</b>	<b>30,077.48</b>	<b>293,889.43</b>



Item	Unit: RMB'0,000		
	31 July 2021	31 December 2020	31 December 2019
<b>Total liabilities</b>	<b><u>431,410.82</u></b>	<b><u>445,760.79</u></b>	<b><u>528,918.33</u></b>
Share capital	87,996.77	87,996.77	44,882.01
Capital reserve	268,543.79	118,061.14	145,090.12
Surplus reserve	—	—	(14,220.94)
Treasury shares	32,869.72	32,869.72	23,267.74
Undistributed profit	<u>207,562.18</u>	<u>250,182.68</u>	<u>241,836.52</u>
<b>Equity attributable to shareholders of the parent company</b>	<b><u>596,972.46</u></b>	<b><u>489,110.31</u></b>	<b><u>440,855.44</u></b>
Minority interest	<u>21,286.68</u>	<u>21,255.56</u>	<u>21,460.13</u>
<b>Total equity</b>	<b><u>618,259.13</u></b>	<b><u>510,365.87</u></b>	<b><u>462,315.57</u></b>
<b>Total liabilities and equity</b>	<b><u>1,049,669.95</u></b>	<b><u>956,126.66</u></b>	<b><u>991,233.90</u></b>

## II Consolidated Income Statement

Unit: RMB'0,000

Item	January to July 2021	2020	2019
<b>Operating income</b>	25,496.47	234,811.26	622,402.42
Less: Operating costs	11,890.25	34,388.71	92,112.43
Taxes and surcharges	1,147.85	4,291.31	9,060.50
Selling expenses	28,191.42	115,388.38	236,104.87
Administration expense	19,493.08	26,584.26	24,701.17
Research and development expenditures	5,786.88	9,244.81	16,261.95
Financial costs	11,807.88	7,487.87	23,682.06
Of which: Interest expenses	13,952.50	24,420.58	20,450.27
Interest income	815.33	2,498.78	3,603.77
Credit impairment losses	2,138.77	(439.25)	473.54
Assets impairment losses	2,631.10	765.96	—
Add: Other gains	1,141.24	1,196.24	892.28
Gains on disposal of assets	(498.22)	(526.91)	(482.54)
Gains or losses of fair value changes	7,508.11	38,236.27	6,555.77
<b>Operating profit</b>	<b>(49,439.64)</b>	<b>76,004.79</b>	<b>226,971.42</b>
Add: Non-operating income	1.24	25,167.26	19.74
Less: Non-operating expenditure	11.93	128.64	85.82
<b>Total profit</b>	<b>(49,450.33)</b>	<b>101,043.42</b>	<b>226,905.34</b>
Less: Income tax expense	(6,860.95)	17,302.27	36,186.84
<b>Net profit</b>	<b>(42,589.39)</b>	<b>83,741.15</b>	<b>190,718.50</b>
Net profit attributable to minority shareholders	31.12	(204.57)	(1,152.45)
Net profit attributable to shareholders of the parent company	(42,620.51)	83,945.72	191,870.95
<b>Total comprehensive income</b>	<b>(42,589.39)</b>	<b>83,741.15</b>	<b>190,718.50</b>
Total comprehensive income attributable to shareholders of the parent company	(42,620.51)	83,945.72	191,870.95
Total comprehensive income attributable to minority shareholders	31.12	(204.57)	(1,152.45)

### III Consolidated Statement of Cash Flow

Unit: RMB'0,000

Item	January to July 2021	2020	2019
<b>Cash flow from operating activities:</b>			
Cash received from sales of goods and services	21,721.46	400,680.47	550,507.54
Government grants received	4,827.41	4,357.04	1,464.43
Receipt of other cash related to operating activities	1.24	857.93	19.74
<b>Subtotal of cash inflow from operating activities</b>	<b><u>26,550.11</u></b>	<b><u>405,895.43</u></b>	<b><u>551,991.70</u></b>
Cash paid for purchase of goods and services	25,191.12	27,211.84	36,596.57
Cash payments to and for employees	20,431.19	81,607.61	95,942.53
Tax payments	2,231.52	64,857.11	108,317.73
Academic promotion and business entertainment expenses paid	15,542.20	89,814.15	98,391.31
Payment of other cash related to operating activities	14,213.58	12,455.37	33,303.14
<b>Subtotal of cash outflow from operating activities</b>	<b><u>77,609.61</u></b>	<b><u>275,946.08</u></b>	<b><u>372,551.28</u></b>
<b>Net cash flow from operating activities</b>	<b><u>(51,059.50)</u></b>	<b><u>129,949.35</u></b>	<b><u>179,440.42</u></b>
<b>Cash flow from investing activities:</b>			
Cash received by earning deposit interest income	815.33	2,498.78	3,603.77
Net cash recovered from disposal of fixed assets	1.98	1,961.59	453.68
Cash received from collection of time deposit investment	—	—	26,716.89
Decrease in restricted funds	18,728.15	—	—
<b>Subtotal of cash inflow from investing activities</b>	<b><u>19,545.46</u></b>	<b><u>4,460.37</u></b>	<b><u>30,774.35</u></b>

Unit: RMB'0,000

Item	January to July 2021	2020	2019
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	36,338.63	176,835.57	153,159.30
Cash paid for research and development projects	7,681.47	14,968.44	14,130.57
Cash paid for the purchase of a subsidiary	—	—	7,815.90
Cash paid for investing time deposits	—	—	26,716.89
Increase of restricted funds (in case of decrease, it shall be shown with “()”)	8,682.03	22,119.13	—
<b>Subtotal of cash outflow from investing activities</b>	<b>52,702.12</b>	<b>213,923.14</b>	<b>201,822.67</b>
<b>Net cash flow used in investing activities</b>	<b>(33,156.66)</b>	<b>(209,462.77)</b>	<b>(171,048.32)</b>
<b>Cash flow from financing activities:</b>			
Cash received from issuance of convertible bonds	—	—	270,231.97
Cash received from borrowings	27,639.93	51,800.60	71,320.15
<b>Subtotal of cash inflow from financing activities</b>	<b>27,639.93</b>	<b>51,800.60</b>	<b>341,552.11</b>
Cash payment for repayment of debts	15,360.31	125.00	29,000.00
Cash payment for repayment of interests	8,893.09	9,521.77	3,784.59
Payment for fees for issuing convertible bonds	—	—	2,166.27
Cash paid for share repurchase	—	13,691.66	24,595.90
Cash paid for distributed profit	—	21,999.19	72,003.38
<b>Subtotal of cash outflow from financing activities</b>	<b>24,253.40</b>	<b>45,337.62</b>	<b>131,550.14</b>
<b>Net cash flow from financing activities</b>	<b>3,386.53</b>	<b>6,462.98</b>	<b>210,001.97</b>

	<i>Unit: RMB'0,000</i>		
Item	January to July 2021	2020	2019
The effect of exchange rate fluctuations on cash	<u>(14.23)</u>	<u>(366.63)</u>	<u>145.04</u>
Net increase in cash and cash equivalents	<u>(80,843.86)</u>	<u>(73,417.07)</u>	<u>218,539.12</u>
Add: Cash and cash equivalents balance at the beginning of the year	<u>204,496.70</u>	<u>277,913.76</u>	<u>59,374.65</u>
Cash and cash equivalents balance at the end of the year	<u>123,652.84</u>	<u>204,496.70</u>	<u>277,913.76</u>

(IV) Related Transactions of the Company During the Reporting Period

The data in this section is extracted from the Company's audited financial reports for the last two years and one period.

1. Regular Related Transactions During the Reporting Period

(1) Related transactions for purchase of goods and receipt of services

		<i>Unit: RMB'0,000</i>		
Related party	Details of related transactions	January to July 2021	2020	2019
Sunshine Lake Pharma	Receipt of services	1,609.69	7,820.19	318.93
Ruyuan HEC Pharmaceutical Co., Ltd.(乳源東陽光藥業有限公司)	Purchase of goods	1,026.31	12.39	172.92
Ruyuan HEC Intelligent Technology Co., Ltd. (乳源東陽光智能科技有限公司)	Purchase of goods	32.61	—	—
Ruyuan Ruifeng Trading Co., Ltd. (乳源瑞豐貿易有限公司)	Purchase of goods	4.28	—	—
Shaoguan HEC Packaging and Printing Co., Ltd.(韶關東陽光包裝印刷有限公司)	Purchase of goods	198.11	1,892.27	3,246.57
Yichang HEC Power Plant Co., Ltd.(宜昌東陽光火力發電有限公司)	Purchase of goods	1,688.00	1,345.14	1,047.65
Yichang HEC Biochemistry Pharmacy Co., Ltd.(宜昌東陽光生化製藥有限公司)	Purchase of goods and receipt of services	2,525.61	369.27	—
Yichang Sanxia Tianlongwan International Golf Club Co., Ltd. (宜昌三峽天龍灣國際高爾夫俱樂部有限公司)	Purchase of goods	0.23	0.02	—
Yichang Shanchengshuidu Hotel Co., Ltd. (宜昌山城水都大飯店有限公司)	Purchase of goods	46.01	4.90	—
Yidu Shanchengshuidu Project Construction Co., Ltd. (宜都山城水都建築工程有限公司)	Receipt of services	2,604.37	8,965.97	9,968.08
HEC Medicine Retail Chain Co., Ltd., Yidu Branch(東陽光藥零售連鎖有限公司宜都店)	Purchase of goods	—	0.62	—
Ruyuan HEC Electrochemical Plant (乳源東陽光電化廠)	Purchase of goods	—	16.83	—
Ruyuan Shanchengshuidu Furniture Co., Ltd. (乳源山城水都家具有限公司)	Purchase of goods	—	10.51	—
Yichang HEC Pharmaceutical Co., Ltd. (宜昌東陽光藥業股份有限公司)	Purchase of goods and receipt of services	—	2,427.75	2,674.79
<b>Total</b>		<b><u>9,735.21</u></b>	<b><u>22,865.85</u></b>	<b><u>17,428.95</u></b>

For the year of 2019 and 2020 and from January to July 2021, the Company's purchase of goods and receipt of services from related parties amounted to RMB174,289,500, RMB228,658,500 and RMB97,352,100, respectively.

(2) Related transactions for sales of goods and rendering of services

*Unit: RMB'0,000*

Related party	Details of related transactions	January to July 2021	2020	2019
Sunshine Lake Pharma	Sales of goods	174.27	—	189.41
HEC Medicine Retail Chain (Dongguan) Co., Ltd.(東陽光藥零售連鎖(東莞)有限公司)	Sales of goods	32.23	3.09	0.75
HEC Medicine Retail Chain Co., Ltd.(東陽光藥零售連鎖有限公司)	Sales of goods	—	416.18	70.57
HEC Medicine Retail Chain Co., Ltd., Yidu Branch(東陽光藥零售連鎖有限公司宜都店)	Sales of goods	0.35	—	—
<b>Total</b>		<b>206.85</b>	<b>419.27</b>	<b>260.73</b>

For the year of 2019 and 2020 and from January to July 2021, the Company's sales of goods to related parties amounted to RMB2,607,300, RMB4,192,700, and RMB2,068,500, respectively, accounting for a relatively low proportion to current operating income of 0.04%, 0.18% and 0.78%, respectively.

(3) Related leases

*Unit: RMB'0,000*

Related party	Details of related transactions	January to July 2021	2020	2019
Dongguan HEC Medicine Development and Research Co., Ltd. (東莞東陽光藥物研發有限公司)	Lease of houses	111.29	222.58	—
Ruyuan HEC Pharmaceutical Co., Ltd.(乳源東陽光藥業有限公司)	Lease of houses and equipment	—	750.00	—
Yidu HEC Formed Foil Co., Ltd. (宜都東陽光化成箔有限公司)	Lease of houses	—	16.35	9.52
Shenzhen HEC Formed Foil Co., Ltd., Dongguan Chang'an Branch (深圳市東陽光化成箔股份有限公司東莞長安分公司)	Lease of houses	—	65.06	—
<b>Total</b>		<b>111.29</b>	<b>1,053.99</b>	<b>9.52</b>

For the year of 2019 and 2020 and from January to July 2021, the Company and its subsidiaries as lessees made leases to related parties amounting to RMB95,200, RMB10,539,900 and RMB1,112,900, respectively, mainly for renting employee dormitories, plant and equipment from related parties.

## 2. Non-recurring Related Transactions During the Reporting Period

The table below sets out the Company's non-recurring related transactions during the reporting period:

<i>Unit: RMB'0,000</i>				
Related party	Details of related transactions	From January to July 2021	2020	2019
Sunshine Lake Pharma	Purchasing patent rights, purchasing pharmaceutical production approval documents, and receiving transition period profit	41,003.86	184,738.01	22,110.00
Shenzhen HEC Industrial Development Co., Ltd. (深圳市東陽光實業發展有限公司)	Purchasing equity in subsidiaries, collection and payment of royalty fee, etc.	433.78	11,787.39	23,822.33
Yidu Changjiang Machinery Equipment Co., Ltd. (宜都長江機械設備有限公司)	Purchasing equipment and equipment modification	274.60	1,608.82	451.80
Guangdong HEC E-Business Co., Ltd. (廣東東陽光電子商務有限公司)	Purchasing fixed assets	—	—	94.34
<b>Total</b>		<b>41,712.24</b>	<b>198,134.21</b>	<b>46,478.47</b>

During the reporting period, the Company's non-recurring related transactions mainly included the purchase of patent rights, pharmaceutical production approval documents, and equipment modification services from related parties. The purchase amount in each period during the reporting period was RMB464,784,700, RMB1,981,342,100 and RMB417,122,400, respectively.



### 3. Remuneration of Key Management Personnel During the Reporting Period

The table below sets out the remuneration of key management personnel of the Company during the reporting period:

Item	<i>Unit: RMB'0,000</i>		
	January to July 2021	2020	2019
Remuneration of key management personnel	213.17	634.92	290.04

### 4. Accounts with Related Parties

#### (1) Trade Receivables

No.	Related party	<i>Unit: RMB'0,000</i>		
		January to July 2021	2020	2019
1	Sunshine Lake Pharma	5,026.78	1,515.37	—
2	HEC Medicine Retail Chain (Dongguan) Co., Ltd. (東陽光藥零售連鎖(東莞)有限公司)	30.83	—	0.21
<b>Total</b>		<b><u>5,057.61</u></b>	<b><u>1,515.37</u></b>	<b><u>0.21</u></b>

#### (2) Other Non-current Assets

No.	Related party	<i>Unit: RMB'0,000</i>		
		January to July 2021	2020	2019
1	Sunshine Lake Pharma	<u>16,829.31</u>	<u>44,467.58</u>	<u>145,191.73</u>
<b>Total</b>		<b><u>16,829.31</u></b>	<b><u>44,467.58</u></b>	<b><u>145,191.73</u></b>

At the end of each reporting period, among the amounts due from related parties of the Company, other non-current assets were mainly the prepayments for the purchase of intangible assets paid by the Company to Sunshine Lake Pharma. Due to the successive transfer of relevant new drug certificates and generic drug approvals, other non-current assets gradually decreased.

### (3) Accounts Payables

		<i>Unit: RMB'0,000</i>		
No.	Related party	January to July 2021	2020	2019
1	Yidu Shanchengshuidu Project Construction Co., Ltd. (宜都山城水都建築工程有限公司)	651.47	—	—
2	Sunshine Lake Pharma	425.90	427.54	—
3	Shaoguan HEC Packaging and Printing Co., Ltd. (韶關東陽光包裝印刷有限公司)	214.11	—	0.49
4	Ruyuan HEC Pharmaceutical Co., Ltd. (乳源東陽光藥業有限公司)	7.28	—	—
5	Shenzhen HEC Formed Foil Co., Ltd., Dongguan Chang'an Branch (深圳市東陽光化成箔股份有限公司東莞長安分公司)	3.25	—	—
6	Yidu HEC Formed Foil Co., Ltd. (宜都東陽光化成箔有限公司)	0.60	—	—
7	YiChang HEC Biochemistry Pharmacy Co., Ltd. (宜昌東陽光生化製藥有限公司)	—	96.28	—
<b>Total</b>		<b>1,302.60</b>	<b>523.82</b>	<b>0.49</b>

### (4) Prepayment

		<i>Unit: RMB'0,000</i>		
No.	Related party	January to July 2021	2020	2019
1	Sunshine Lake Pharma	469.37	—	—
<b>Total</b>		<b>469.37</b>	<b>—</b>	<b>—</b>

### (5) Other Payables

		<i>Unit: RMB'0,000</i>		
No.	Related party	January to July 2021	2020	2019
1	Yidu Shanchengshuidu Project Construction Co., Ltd. (宜都山城水都建築工程有限公司)	—	3,710.85	1,197.67
2	Shaoguan HEC Packaging and Printing Co., Ltd. (韶關東陽光包裝印刷有限公司)	—	15.19	—
<b>Total</b>		<b>—</b>	<b>3,726.04</b>	<b>1,197.67</b>

## **EFFECT OF THE PROPOSED TRANSFER**

The Proposed Transfer is the sale of its 226,200,000 domestic shares in the Company to Sunshine Lake Pharma, and the sale of its 226,200,000 shares under the H Share Full Circulation in the Company to HEC (Hong Kong), a wholly-owned subsidiary of Sunshine Lake Pharma. The total of shares to be transferred mentioned above is 452,400,000 shares, representing approximately 51.41% of the total share capital of the Company. The corresponding value of the 452,400,000 shares of the Company in this transaction is RMB3,728.5375 million, and the counterparty of the transaction will pay the entire transaction consideration in cash.

The shareholding of other shareholders in the Company will not be affected by the Proposed Transfer.

Upon completion of the Proposed Transfer, the Parent Company will cease to be a controlling shareholder of the Company while Sunshine Lake Pharma will directly and indirectly hold a total of 452,400,000 shares of the Company, representing approximately 51.41% of the total share capital of the Company. Based on the information available as at the date of this announcement, the shareholding in Sunshine Lake Pharma controlled by Mr. Zhang Yushuai (張寓帥先生) and Ms. Guo Meilan (郭梅蘭女士), the Company's ultimate controlling shareholders, will be increased from approximately 41.02% to approximately 51.68%.

This announcement and the accompanying financial statements were originally prepared in Chinese and published in both English and Chinese. If there is any inconsistency or conflict between the Chinese and English versions, the Chinese version shall prevail.

On behalf of the Board  
**YiChang HEC ChangJiang Pharmaceutical Co., Ltd.**  
**TANG Xinfu**  
*Chairman*

Hubei, the PRC

11 November 2021

*As at the date of this announcement, the board of the Company consists of Mr. JIANG Juncai, Mr. WANG Danjin, Mr. CHEN Yangui and Mr. LI Shuang as executive directors; Mr. TANG Xinfu and Mr. Eddy HUANG as non-executive directors; and Mr. TANG Jianxin, Mr. ZHAO Dayao, Ms. XIANG Ling and Mr. LI Xuechen as independent non-executive directors.*