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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2022:

- Revenue was RMB1,293.3 million, representing an increase of 539.5% as compared with the six months ended 30 June 2021.
- Gross profit was RMB960.7 million, representing an increase of 853.1% as compared with the six months ended 30 June 2021.
- Profit before interest, tax, depreciation and amortisation was RMB274.7 million, representing an increase of RMB628.4 million as compared to loss before interest, tax, depreciation and amortisation of RMB353.7 million for the six months ended 30 June 2021.
- Profit and total comprehensive income attributable to equity shareholders of the Company (without taking into account the effect of the convertible bonds) was RMB190.4 million, representing an increase of RMB536.4 million as compared to the loss and total comprehensive income attributable to equity shareholders of the Company (without taking into account the effect of convertible bonds) of RMB346.0 million for the six months ended 30 June 2021.
- Loss and total comprehensive income attributable to equity shareholders of the Company (taking into account the effect of the convertible bonds) was RMB32.8 million, representing a decrease of 93.5% as compared to the loss and total comprehensive income attributable to equity shareholders of the Company (taking into account the effect of the convertible bonds) of RMB507.0 million for the six months ended 30 June 2021.
- Both basic and diluted loss per share were RMB0.04.

INTERIM DIVIDEND

- The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: nil).

RESULTS HIGHLIGHTS

The board (the “**Board**”) of directors (the “**Director(s)**”) of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “**Group**” or “**we**” or “**our**”) for the six months ended 30 June 2022 (the “**Reporting Period**”), together with the comparative figures for the corresponding period of 2021. The results have been prepared in accordance with the International Financial Reporting Standards (“**IFRS**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2022 — unaudited
(Expressed in Renminbi)

| | | Six months ended 30 June | |
|---|------|--------------------------|------------------|
| | Note | 2022 | 2021 |
| | | RMB'000 | RMB'000 |
| Revenue | 3 | 1,293,308 | 202,246 |
| Cost of sales | | <u>(332,651)</u> | <u>(101,458)</u> |
| Gross profit | | 960,657 | 100,788 |
| Other net expenses | 5(a) | (141,706) | (56,555) |
| Distribution costs | | (533,105) | (258,929) |
| Administrative expenses | | (149,672) | (185,124) |
| Research and development cost | | (40,906) | (49,666) |
| Reversals/(recognition) of impairment losses on trade and other receivables | | <u>5,343</u> | <u>(19,420)</u> |
| Profit/(loss) from operations | | 100,611 | (468,906) |
| Finance costs | 5(b) | <u>(137,013)</u> | <u>(119,298)</u> |
| Loss before taxation | 5 | (36,402) | (588,204) |
| Income tax | 6 | <u>3,940</u> | <u>81,227</u> |
| Loss for the period | | <u>(32,462)</u> | <u>(506,977)</u> |
| Loss and total comprehensive income for the period attributable to: | | | |
| Equity shareholders of the Company | | (32,798) | (507,028) |
| Non-controlling interests | | <u>336</u> | <u>51</u> |
| Loss and total comprehensive income for the period | | <u>(32,462)</u> | <u>(506,977)</u> |
| Basic and diluted loss per share | 7 | <u>RMB(0.04)</u> | <u>RMB(0.58)</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2022 — unaudited

(Expressed in Renminbi)

| | | At 30 June 2022 RMB'000 | At 31 December 2021 RMB'000 |
|--|-------------|----------------------------------|--------------------------------------|
| | <i>Note</i> | | |
| Non-current assets | | | |
| Fixed assets | | | |
| — Property, plant and equipment | 8 | 2,893,518 | 2,858,808 |
| — Ownership interests in leasehold land held for own use | 8 | 353,449 | 357,747 |
| | | 3,246,967 | 3,216,555 |
| Intangible assets | 9 | 3,204,058 | 3,271,990 |
| Goodwill | | 75,896 | 75,896 |
| Financial assets measured at fair value through profit or loss (FVPL) | 14 | 1,789,621 | 1,789,621 |
| Prepayments | 10 | 189,242 | 64,825 |
| Deferred tax assets | | 106,651 | 65,318 |
| Total non-current assets | | 8,612,435 | 8,484,205 |
| Current assets | | | |
| Inventories | 11 | 315,321 | 279,696 |
| Trade and other receivables | 12 | 805,726 | 546,791 |
| Prepayments | | 74,998 | 7,776 |
| Restricted cash | 13 | 146,144 | 91,992 |
| Cash and cash equivalents | 13 | 859,097 | 1,131,121 |
| Total current assets | | 2,201,286 | 2,057,376 |
| Current liabilities | | | |
| Trade and other payables | 15 | 1,003,070 | 911,680 |
| Contract liabilities | | 67,034 | 74,903 |
| Bank loans | | 70,900 | 48,477 |
| Interest-bearing borrowings | 16 | 2,824,408 | — |
| Deferred income | | 7,894 | 4,379 |
| Current taxation | | — | 198,625 |
| Total current liabilities | | 3,973,306 | 1,238,064 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
at 30 June 2022 — unaudited
(Expressed in Renminbi)

| | | At 30 June 2022 <i>RMB'000</i> | At 31 December 2021 <i>RMB'000</i> |
|--|-------------|---|---|
| | <i>Note</i> | | |
| Net current (liabilities)/assets | | (1,772,020) | 819,312 |
| Total assets less current liabilities | | 6,840,415 | 9,303,517 |
| Non-current liabilities | | | |
| Bank loans | | 661,907 | 544,900 |
| Deferred income | | 190,208 | 137,730 |
| Interest-bearing borrowings | 16 | — | 2,600,125 |
| Total non-current liabilities | | 852,115 | 3,282,755 |
| Net assets | | 5,988,300 | 6,020,762 |
| Capital and reserves | 17 | | |
| Share capital | | 879,968 | 879,968 |
| Reserves | | 4,895,515 | 4,928,313 |
| Total equity attributable to equity shareholders of the Company | | 5,775,483 | 5,808,281 |
| Non-controlling interests | | 212,817 | 212,481 |
| Total equity | | 5,988,300 | 6,020,762 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2022 — unaudited
(Expressed in Renminbi)

| | <i>Note</i> | Attributable to equity shareholders of the Company | | | | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|-------------|--|----------------------------|------------------------------|------------------------------|--------------------------------------|-------------------------|
| | | Share capital RMB'000 | Capital reserve RMB'000 | Statutory reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 | |
| Balance at 1 January 2021 | | 879,968 | 1,105,582 | 328,696 | 2,576,857 | 4,891,103 | 5,103,659 |
| Change in equity for the six months ended 30 June 2021: | | | | | | | |
| Loss and total comprehensive income for the period | | — | — | — | (507,028) | (507,028) | (506,977) |
| Balance at 30 June 2021 and 1 July 2021 | | 879,968 | 1,105,582 | 328,696 | 2,069,829 | 4,384,075 | 4,596,682 |
| Changes in equity for the six months ended 31 December 2021: | | | | | | | |
| Loss and total comprehensive income for the period | | — | — | — | (80,621) | (80,621) | (80,747) |
| Assets obtained from the controlling shareholder | 14 | — | 1,504,827 | — | — | 1,504,827 | 1,504,827 |
| Balance at 31 December 2021 | | <u>879,968</u> | <u>2,610,409</u> | <u>328,696</u> | <u>1,989,208</u> | <u>5,808,281</u> | <u>6,020,762</u> |
| Balance at 1 January 2022 | | 879,968 | 2,610,409 | 328,696 | 1,989,208 | 5,808,281 | 6,020,762 |
| Change in equity for the six months ended 30 June 2022: | | | | | | | |
| Loss and total comprehensive income for the period | | — | — | — | (32,798) | (32,798) | (32,462) |
| Balance at 30 June 2022 | | <u>879,968</u> | <u>2,610,409</u> | <u>328,696</u> | <u>1,956,410</u> | <u>5,775,483</u> | <u>5,988,300</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*for the six months ended 30 June 2022 — unaudited**(Expressed in Renminbi)*

| | Six months ended 30 June | |
|---|---------------------------------|----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Operating activities | | |
| Cash generated from/(used in) operations | 407,693 | (457,968) |
| The People's Republic of China (the "PRC") | | |
| corporate income tax paid | (255,266) | (3,827) |
| Net cash generated from/(used in) operating activities | 152,427 | (461,795) |
| Investing activities | | |
| Interest received | 3,174 | 8,115 |
| Payments for purchase of property, plant and equipment | (289,646) | (261,262) |
| Payments for development cost | (37,080) | (68,963) |
| Payments for purchase of intangible assets | (100,167) | (94,319) |
| (Increase)/decrease in restricted cash | (54,152) | 86,979 |
| Proceeds from disposal of property, plant and equipment | 942 | 19 |
| Net cash used in investing activities | (476,929) | (329,431) |
| Financing activities | | |
| Proceeds from bank loans | 260,765 | 276,399 |
| Repayments of bank loans | (115,075) | (153,603) |
| Finance costs paid | (54,964) | (49,189) |
| Other borrowing costs paid | (38,060) | — |
| Net cash generated from financing activities | 52,666 | 73,607 |
| Net decrease in cash and cash equivalents | (271,836) | (717,619) |
| Cash and cash equivalents at 1 January | 1,131,121 | 2,044,967 |
| Effect of foreign exchange rate changes | (188) | 294 |
| Cash and cash equivalents at 30 June | 859,097 | 1,327,642 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”), including compliance with International Accounting Standard (“**IAS**”) 34, *Interim Financial Reporting*, issued by the International Accounting Standard Board (“**IASB**”). It was authorised for issue on 26 August 2022.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes in Note 2 that are expected to be reflected in the 2022 annual financial statements.

Notwithstanding the Group’s net current liabilities of RMB1,772,020,000 as of 30 June 2022, these interim consolidated financial statements have been prepared on a going concern basis. Based on the future projection of the Group’s cash flows from operations and the anticipated ability of the Group to renew or rollover of its banking or other financing sources, the Company’s board of directors considered that the Group are able to generate adequate cash flow to finance its continuing operations and its planned and/or committed capital expenditure for the twelve months from the end of the reporting period of this interim financial information. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable and that it is appropriate to prepare the interim consolidated financial statements on a going concern basis.

The preparation of an interim financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The interim financial information is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendment to IFRSs issued by the IASB to this interim financial information for the current accounting period:

- Amendment to IFRS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

These amendments have not had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial information. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of sales of pharmaceutical products. Therefore, the Group's management considers that there is only one operating segment under the requirements of IFRS 8, *Operating Segments*. In this regard, no segment information is presented for the period.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Revenue from contracts with customers within the scope of IFRS 15 | | |
| Sales of anti-viral drugs | 1,012,403 | 57,300 |
| Sales of endocrine and metabolic drugs | 42,469 | 34,193 |
| Sales of cardiovascular drugs | 76,327 | 44,207 |
| Sales of anti-infective drugs | 41,714 | 39,354 |
| Sales of other medical products and license fee | 120,395 | 27,192 |
| | <u>1,293,308</u> | <u>202,246</u> |

Analysis of the Group's revenue and results by geographical market has not been presented as 100% (the six months ended 30 June 2021: 100%) of the revenue are generated from the Mainland China.

4 SEASONALITY OF OPERATIONS

The Group's core product, Kewei, is a type of anti-viral drugs for the treatment and prevention of influenza. The Group experiences a higher sale in first and fourth quarter of a year due to the fact that outbreaks of influenza tend to be a seasonal nature and is more prevalent in the spring and winter.

For the twelve months ended 30 June 2022, the Group reported revenue of RMB2,004,850,000 (twelve months ended 30 June 2021: RMB466,654,000), and gross profit of RMB1,343,568,000 (twelve months ended 30 June 2021: RMB366,513,000).

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after (charging)/crediting:

(a) Other net expenses

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Interest income | 3,174 | 8,115 |
| Government grants | 9,250 | 11,275 |
| Net loss on disposal of fixed assets | (353) | (4,983) |
| Fair value change on conversion option embedded in convertible bonds (<i>Note 16</i>) | (8,522) | (93,936) |
| Impairment loss on intangible assets (<i>Note 9</i>) | (19,177) | – |
| Net foreign exchange (loss)/gain | (126,149) | 23,076 |
| Others | 71 | (102) |
| | <u>(141,706)</u> | <u>(56,555)</u> |

(b) Finance costs

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Interest on bank loans | 17,974 | 10,197 |
| Interest on other borrowings (<i>Note 16</i>) | 128,593 | 118,904 |
| | <u>146,567</u> | <u>129,101</u> |
| Less: interest expense capitalised into construction in progress | <u>(9,554)</u> | <u>(9,803)</u> |
| Total | <u>137,013</u> | <u>119,298</u> |

(c) Other items

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Amortisation cost of intangible assets (Note 9) | 114,847 | 84,207 |
| Less: amount capitalised as development costs in intangible assets | (13,490) | (13,490) |
| | <u>101,357</u> | <u>70,717</u> |
| Depreciation cost of fixed assets (Note 8) | 73,609 | 46,567 |
| Less: amount capitalised as development costs in intangible assets | (901) | (2,096) |
| | <u>72,708</u> | <u>44,471</u> |
| Write-down/(reversal) of inventories (Note 11) | <u>22,980</u> | <u>(480)</u> |

6 INCOME TAX

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Current tax | | |
| Provision for PRC corporate income tax for the period | 31,270 | 35 |
| Under-provision for PRC corporate income tax in respect of prior years | 6,123 | 3,511 |
| | <u>37,393</u> | <u>3,546</u> |
| Deferred tax | | |
| Origination and reversal of temporary differences | (41,333) | (84,773) |
| | <u>(3,940)</u> | <u>(81,227)</u> |

- (i) The PRC corporate income tax rate is 25% for the six months ended 30 June 2022 and 2021.
- (ii) The PRC Corporate Income Tax Law allows enterprises to apply for the certificate of “High and New Technology Enterprise” (“HNTTE”) which entitles the qualified companies to a preferential corporate income tax (“CIT”) rate of 15%. The Company was recognised as HNTTE and enjoyed a preferential CIT rate of 15% for the six months ended 30 June 2022 and 2021.

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of RMB32,798,000 (six months ended 30 June 2021: RMB507,028,000) and the weighted average number of 879,967,700 ordinary shares in issue during the six months ended 30 June 2022 and 2021.

(b) Diluted loss per share

Diluted loss per share for the six months ended 30 June 2022 and 2021 were the same as the basic loss per share as the share options outstanding during the period have an anti-dilutive effect on the basic loss per share.

8 FIXED ASSETS

| | Plant and buildings RMB'000 | Machinery RMB'000 | Office equipment and others RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Sub-total RMB'000 | Ownership interests in leasehold land held for own use RMB'000 | Total RMB'000 |
|---|-----------------------------------|----------------------|--|------------------------------|--|----------------------|---|------------------|
| Cost: | | | | | | | | |
| At 1 January 2021 | 1,021,434 | 349,208 | 228,266 | 2,252 | 1,186,638 | 2,787,798 | 375,782 | 3,163,580 |
| Additions | 54,147 | 5,021 | 3,699 | – | 421,410 | 484,277 | 19,966 | 504,243 |
| Transfer from construction in progress | 504,805 | 402,180 | 119,591 | 12 | (1,026,588) | – | – | – |
| Disposals | (4,699) | (3,677) | (2,430) | – | (13,516) | (24,322) | – | (24,322) |
| At 31 December 2021 | 1,575,687 | 752,732 | 349,126 | 2,264 | 567,944 | 3,247,753 | 395,748 | 3,643,501 |
| Additions | 4,797 | 1,076 | 700 | – | 98,743 | 105,316 | – | 105,316 |
| Transfer from construction in progress | 105,333 | 13,112 | 42,569 | – | (161,014) | – | – | – |
| Disposals | – | (1,303) | (1,522) | – | – | (2,825) | – | (2,825) |
| At 30 June 2022 | 1,685,817 | 765,617 | 390,873 | 2,264 | 505,673 | 3,350,244 | 395,748 | 3,745,992 |
| Accumulated depreciation and amortisation: | | | | | | | | |
| At 1 January 2021 | (115,388) | (111,446) | (70,873) | (430) | – | (298,137) | (29,737) | (327,874) |
| Charge for the year | (33,969) | (32,051) | (29,793) | (211) | – | (96,024) | (8,264) | (104,288) |
| Written-back on disposals | 878 | 2,412 | 1,926 | – | – | 5,216 | – | 5,216 |
| At 31 December 2021 | (148,479) | (141,085) | (98,740) | (641) | – | (388,945) | (38,001) | (426,946) |
| Charge for the period | (25,223) | (24,660) | (19,321) | (107) | – | (69,311) | (4,298) | (73,609) |
| Written-back on disposals | – | 541 | 989 | – | – | 1,530 | – | 1,530 |
| At 30 June 2022 | (173,702) | (165,204) | (117,072) | (748) | – | (456,726) | (42,299) | (499,025) |
| Carrying amount: | | | | | | | | |
| At 30 June 2022 | 1,512,115 | 600,413 | 273,801 | 1,516 | 505,673 | 2,893,518 | 353,449 | 3,246,967 |
| At 31 December 2021 | 1,427,208 | 611,647 | 250,386 | 1,623 | 567,944 | 2,858,808 | 357,747 | 3,216,555 |

- (i) As at 30 June 2022, the Group was applying for certificates of ownership for certain properties, with carrying value of RMB551,358,000 (31 December 2021: RMB513,291,000). The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.
- (ii) As at 30 June 2022, amount of RMB161,090,000 (31 December 2021: RMB83,828,000) of the ownership interests in leasehold land held for own use, amount of RMB289,640,000 (31 December 2021: RMB258,397,000) of construction in progress and amount of RMB716,533,000 (31 December 2021: RMB262,150,000) of plant and buildings were held in pledge for bank loans.

9 INTANGIBLE ASSETS

| | | | Drugs' intellectual property rights | | |
|--|---|--|--|---------------------------|-------------------------|
| | Capitalised development costs <i>RMB'000</i> | Patent for Hepatitis C drugs <i>RMB'000</i> | Generic drugs <i>RMB'000</i> | Insulin <i>RMB'000</i> | Total <i>RMB'000</i> |
| Cost: | | | | | |
| At 1 January 2021 | 1,173,161 | 848,021 | 831,642 | 42,580 | 2,895,404 |
| Addition through internal development | 136,568 | – | – | – | 136,568 |
| Acquisition from related party | – | – | 638,115 | – | 638,115 |
| Transfer from development costs to patents | (108,383) | – | – | 108,383 | – |
| At 31 December 2021 | 1,201,346 | 848,021 | 1,469,757 | 150,963 | 3,670,087 |
| Addition through internal development | 45,711 | – | – | – | 45,711 |
| Acquisition from related party | – | – | 20,381 | – | 20,381 |
| At 30 June 2022 | 1,247,057 | 848,021 | 1,490,138 | 150,963 | 3,736,179 |
| Accumulated amortisation: | | | | | |
| At 1 January 2021 | – | (102,301) | (81,028) | (2,484) | (185,813) |
| Charge for the year | – | (67,481) | (111,851) | (6,968) | (186,300) |
| At 31 December 2021 | – | (169,782) | (192,879) | (9,452) | (372,113) |
| Charge for the period | – | (33,741) | (73,558) | (7,548) | (114,847) |
| At 30 June 2022 | – | (203,523) | (266,437) | (17,000) | (486,960) |
| Impairment loss: | | | | | |
| At 1 January 2021 | – | – | – | – | – |
| Recognised in the year | – | – | (25,984) | – | (25,984) |
| At 31 December 2021 | – | – | (25,984) | – | (25,984) |
| Recognised in the period | – | – | (19,177) | – | (19,177) |
| At 30 June 2022 | – | – | (45,161) | – | (45,161) |
| Net book value: | | | | | |
| At 30 June 2022 | 1,247,057 | 644,498 | 1,178,540 | 133,963 | 3,204,058 |
| At 31 December 2021 | 1,201,346 | 678,239 | 1,250,894 | 141,511 | 3,271,990 |

- (i) As at 30 June 2022, the capitalised development costs were under development and not yet ready for use.

- (ii) In 2018 and 2019, the Company entered into two acquisition agreements with Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司, “Sunshine Lake Pharma”), which was a related party of the Group and has become the controlling shareholder of the Company since December 2021, to acquire 33 pharmaceutical products’ know-how, intellectual property rights and ownership rights (“Target Products”) from Sunshine Lake Pharma with a total consideration of RMB2,131,635,000, which comprised a prepayment of RMB1,065,817,000, several milestone payments totalling RMB577,888,000 and contingent payments of RMB487,930,000 subject to the future sales of the Target Products. As at 30 June 2022, the Group had made accumulated payments of RMB1,492,120,000 (31 December 2021: RMB1,391,953,000) to Sunshine Lake Pharma, in which RMB1,490,137,000 (31 December 2021: RMB1,469,756,000) was transferred to intangible assets after the China National Medical Products Administration (“NMPA”) approvals for 29 (31 December 2021: 28) out of the Target Products has been obtained as at 30 June 2022.
- (iii) Impairment review on the intangible assets of the Group has been conducted by the management as at 30 June 2022. As price decreased after included in the national centralised procurement, the estimated recoverable amount of 3 generic drugs, which were determined based on value-in-use calculations, were less than their carrying amount. The differences were approximately RMB19,177,000 (six months ended 30 June 2021: nil) in total based on the impairment evaluation result, which was recognised as impairment loss in the “other income and loss” in the consolidated statement of profit or loss and other comprehensive income.

10 PREPAYMENTS

| | At 30 June 2022 RMB'000 | At 31 December 2021 RMB'000 |
|---|----------------------------------|--------------------------------------|
| Prepayments for property, plant and equipment | <u>189,242</u> | <u>64,825</u> |

11 INVENTORIES

| | At 30 June 2022 RMB'000 | At 31 December 2021 RMB'000 |
|------------------|----------------------------------|--------------------------------------|
| Raw materials | 218,204 | 227,442 |
| Work in progress | 63,926 | 35,077 |
| Finished goods | 29,325 | 7,002 |
| Goods in transit | <u>3,866</u> | <u>10,175</u> |
| | <u>315,321</u> | <u>279,696</u> |

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

| | Six months ended 30 June | |
|---------------------------------------|---------------------------------|----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Carrying amount of inventories sold | 224,331 | 95,471 |
| Write down of inventories | 23,560 | 5,244 |
| Reversal of write-down of inventories | (580) | (5,724) |
| | <hr/> | <hr/> |
| Cost of inventories sold | 247,311 | 94,991 |
| | <hr/> | <hr/> |

12 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the aging analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

| | At | At |
|---|----------------|--------------------|
| | 30 June | 31 December |
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Within 3 months | 470,190 | 403,721 |
| More than 3 months but within one year | 256,369 | 69,403 |
| More than 1 year | 272 | 5,917 |
| | <hr/> | <hr/> |
| Trade and bills receivable, net of allowance for doubtful debts | 726,831 | 479,041 |
| Other receivables, net of allowance for doubtful debts | 38,442 | 10,487 |
| Prepaid tax and deductible value-added tax | 40,453 | 57,263 |
| | <hr/> | <hr/> |
| Financial assets measured at amortised cost | 805,726 | 546,791 |
| | <hr/> | <hr/> |

Trade receivables are generally due within 30–90 days from the date of billing. Bills receivable is due in 3 or 6 months from the date of billing. All of the trade and other receivables of the Group are expected to be recovered within one year.

Bills receivable with carrying value of RMB66,177,000 (31 December 2021: RMB13,116,000) were pledged as securities of issuing bills payables by the Group as at 30 June 2022.

13 CASH AND CASH EQUIVALENTS

| | At 30 June 2022 RMB'000 | At 31 December 2021 RMB'000 |
|--|----------------------------------|--------------------------------------|
| Cash at bank | 1,005,241 | 1,223,113 |
| Less: restricted cash | (146,144) | (91,992) |
| Cash and cash equivalents in the cash flow statement | <u>859,097</u> | <u>1,131,121</u> |

14 FINANCIAL ASSETS MEASURED AT FVPL

| | At 30 June 2022 RMB'000 | At 31 December 2021 RMB'000 |
|--|----------------------------------|--------------------------------------|
| Investments not held for trading — Unlisted equity securities | <u>1,789,621</u> | <u>1,789,621</u> |

The unlisted equity securities are shares in Sunshine Lake Pharma.

In 2021, the Company was granted with 10% equity interest in Sunshine Lake Pharma at nil consideration from Shenzhen HEC Industrial Development Co., Ltd. (深圳市東陽光實業發展有限公司, “Shenzhen HEC Industrial”) in connection with the Company agreed to enter into a revised non-completion agreement. The Company recognised the granted equity interest as FVPL at its fair value of RMB1,770,385,000 when it obtained the control of the equity interest in July 2021. Meanwhile, the Company recognised RMB1,504,827,000 as capital reserve after netting off tax payables of RMB265,558,000, which was in relation to this transaction.

15 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the aging analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

| | At 30 June 2022 <i>RMB'000</i> | At 31 December 2021 <i>RMB'000</i> |
|--|---|---|
| Within 1 month | 40,520 | 19,264 |
| 1 to 3 months | 56,891 | 28,910 |
| Over 3 months but within 1 year | 75,962 | 52,270 |
| Over 1 year | 4,077 | 14,878 |
| | <hr/> | <hr/> |
| Total trade and bills payables | 177,450 | 115,322 |
| Amounts due to related parties | 25,259 | 83,816 |
| Value added tax and other taxes payable | 21,607 | 52,130 |
| Accrued payroll and benefits | 85,917 | 88,216 |
| Accrued expenses | 541,339 | 334,580 |
| Other payables for purchasing fixed assets | 125,639 | 198,936 |
| Other payables | 25,859 | 38,680 |
| | <hr/> | <hr/> |
| Financial liabilities measured at amortised cost | <u>1,003,070</u> | <u>911,680</u> |

16 INTEREST-BEARING BORROWINGS

| | At 30 June 2022 <i>RMB'000</i> | At 31 December 2021 <i>RMB'000</i> |
|-------------------|---|---|
| Convertible bonds | | |
| — Current | 2,824,408 | — |
| — Non-current | — | 2,600,125 |
| | <hr/> | <hr/> |
| | <u>2,824,408</u> | <u>2,600,125</u> |

- (i) On 20 February 2019, the Company issued a tranche of 1,600 convertible bonds with an aggregate principal amount of USD400,000,000 (equivalent to approximately RMB2,702,320,000 translated at the then exchange rate). Each number of bond has a face value of USD250,000 and a maturity date of 20 February 2026. The bonds bear interest at 3.0% per annum payable semi-annually in arrears on 30 June and 31 December of each year. The bonds are unsecured.

As the convertible bonds do not contain an equity component, the conversion option embedded in the convertible bonds above is measured at fair value and the liability component is carried at amortised cost. No conversion or redemption of the convertible bonds has occurred up to 30 June 2022. The convertible price was adjusted to HK\$14 (equivalent approximately to RMB12 translated at the then exchange rate) per conversion share according to the adjusted net profit of the Company for the year ended 31 December 2021.

- (ii) The bondholders have the right to redeem all or any portion of the convertible bonds on or before the mature date upon occurrence of the breach of covenants agreed in the subscription agreement. In 2020, the bondholders informed the Group that the aggregate capital expenditure incurred by the Group for 2020 exceeded RMB150,000,000 and such excess capital expenditure was incurred without the consent of the bondholders under the subscription agreement. Accordingly, a covenant was breached with the effect that the convertible bonds became repayable on demand.

The Group has obtained certain waiver letters from the bondholders during 2020 and 2021. The latest waiver letter dated on 30 September 2021 and pursuant to the letter, the bondholders agreed to waive their right of early redemption on the convertible bonds until 1 January 2023.

- (iii) The convertible bonds recognised in the consolidated statement of financial position of the Group are analysed as follows:

| | Liability component <i>RMB'000</i> | Derivative component <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|--|---|--------------------------------|
| At 1 January 2021 | 2,253,219 | 221,598 | 2,474,817 |
| Fair value change on conversion option embedded in convertible bonds | – | 93,936 | 93,936 |
| Accrued interest | 118,904 | – | 118,904 |
| Interest paid | (38,992) | – | (38,992) |
| Exchange gain | (23,370) | – | (23,370) |
| At 30 June 2021 | <u>2,309,761</u> | <u>315,534</u> | <u>2,625,295</u> |
| Fair value change on conversion option embedded in convertible bonds | – | (79,775) | (79,775) |
| Accrued interest | 124,448 | – | 124,448 |
| Interest paid | (38,910) | – | (38,910) |
| Exchange gain | (30,933) | – | (30,933) |
| At 31 December 2021 | <u>2,364,366</u> | <u>235,759</u> | <u>2,600,125</u> |
| Fair value change on conversion option embedded in convertible bonds | – | 8,522 | 8,522 |
| Accrued interest | 128,593 | – | 128,593 |
| Interest paid | (38,257) | – | (38,257) |
| Exchange loss | 125,425 | – | 125,425 |
| At 30 June 2022 | <u>2,580,127</u> | <u>244,281</u> | <u>2,824,408</u> |

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

- (i) No dividend for the six months ended 30 June 2022 and 2021 were proposed.
- (ii) No final dividends in respect of the previous financial year approved during the six months ended 30 June 2022 and 2021.

(b) Share Capital

Ordinary shares, issued and fully paid

| | At 30 June 2022 | | At 31 December 2021 | |
|---|----------------------|----------------|----------------------|----------------|
| | <i>No. of shares</i> | <i>RMB'000</i> | <i>No. of shares</i> | <i>RMB'000</i> |
| Ordinary shares, issued and fully paid: | | | | |
| As at 30 June/31 December | <u>879,967,700</u> | <u>879,968</u> | <u>879,967,700</u> | <u>879,968</u> |

(c) Equity settled share-based transactions

No share options were granted nor exercised during the six months ended 30 June 2022 and 2021.

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has a team headed by the finance manager performing valuations for the conversion option embedded in convertible bonds. The team reports directly to the chief financial officer and the audit committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the audit committee is held twice a year, to coincide with the reporting dates.

| | Fair value at 30 June 2022 RMB'000 | Fair value measurements as at 30 June 2022 categorised into | | |
|---|---|--|--------------------|--------------------|
| | | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 |
| Recurring fair value measurement | | | | |
| Financial assets measured at FVPL | | | | |
| — Unlisted equity securities | 1,789,621 | — | — | 1,789,621 |
| Convertible bonds | | | | |
| — Conversion option (<i>Note 16(iii)</i>) | 244,281 | — | 244,281 | — |

| | Fair value at 31 December 2021 RMB'000 | Fair value measurements as at 31 December 2021 categorised into | | |
|---|---|--|--------------------|--------------------|
| | | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 |
| Recurring fair value measurement | | | | |
| Financial assets measured at FVPL | | | | |
| — Unlisted equity securities | 1,789,621 | — | — | 1,789,621 |
| Convertible bonds | | | | |
| — Conversion option (<i>Note 16(iii)</i>) | 235,759 | — | 235,759 | — |

During the six months ended 30 June 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) *Valuation techniques and inputs used in Level 2 fair value measurements*

The fair value of conversion option embedded in convertible bonds in Level 2 is the estimated amount that the Group would pay to terminate the option at the end of the reporting period, taking into account the underlying share price and the potential shares outstanding to be converted.

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2022 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

| | At 30 June 2022 | | At 31 December 2021 | |
|-----------------------|--|-------------------------------|--|-------------------------------|
| | Carrying amount RMB'000 | Fair value RMB'000 | Carrying amount RMB'000 | Fair value RMB'000 |
| Convertible bonds | | | | |
| — Liability component | 2,580,127 | 2,308,479 | 2,364,366 | 1,965,898 |

19 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2022 not provided for in the interim financial information were as follows:

| | At 30 June 2022 RMB'000 | At 31 December 2021 RMB'000 |
|------------------------------------|--|--|
| Contracted for | | |
| — Acquisition of fixed assets | 459,992 | 405,686 |
| — Acquisition of intangible assets | 1,648,930 | 1,715,378 |
| | 2,108,922 | 2,121,064 |

20 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2022 and 2021, the directors of the Company are of the view that related parties of the Group include the following:

| Name of related party | Relationship with the Group |
|---|---|
| HEC Biochemistry Pharmacy Co., Ltd. (宜昌東陽光生化製藥有限公司) ("HEC Biochemistry Pharmacy") | effectively owned by the ultimate controlling shareholder |
| Sunshine Lake Pharma (廣東東陽光藥業有限公司) | effectively owned by the ultimate controlling shareholder |
| Shaoguan HEC Packaging and Printing Co., Ltd. (韶關東陽光包裝印刷有限公司) ("Shaoguan HEC Printing") | effectively owned by the ultimate controlling shareholder |
| Yichang HEC Power Plant Co., Ltd. (宜昌東陽光火力發電有限公司) ("HEC Power Plant") | effectively owned by the ultimate controlling shareholder |
| Yidu Shanchengshuidu Project Construction Co., Ltd. (宜都山城水都建築工程有限公司) ("Yidu Construction") | effectively owned by the ultimate controlling shareholder |
| Ruyuan HEC Pharmaceutical Co., Ltd. (乳源東陽光藥業有限公司) ("Ruyuan HEC Pharmaceutical") | effectively owned by the ultimate controlling shareholder |
| Yidu Changjiang Machinery Equipment Co., Ltd. (宜都長江機械設備有限公司) ("Yidu Machinery Equipment") | effectively owned by the ultimate controlling shareholder |
| Shenzhen HEC Industrial (深圳市東陽光實業發展有限公司) | effectively owned by the ultimate controlling shareholder |
| HEC Medicine Retail Chain Co., Ltd. (東陽光藥零售連鎖有限公司) ("HEC Medicine Retail") | effectively owned by the ultimate controlling shareholder |
| Dongguan HEC Pharm R&D Co., Ltd. (東莞東陽光藥物研發有限公司) ("Dongguan HEC Pharm R&D") | effectively owned by the ultimate controlling shareholder |
| Ruyuan Dongyangguang Intelligent Technology Co., Ltd. (乳源東陽光智能科技有限公司) ("Ruyuan HEC Intelligent Technology") | effectively owned by the ultimate controlling shareholder |

* The English translation of the above companies' names is for reference only. The official names of these companies are in Chinese.

(a) Transactions with related parties

During the six months ended 30 June 2022 and 2021, the Group entered into the following material related party transactions:

| | | Six months ended 30 June | |
|--------|--------------------------------------|---------------------------------|----------------|
| | | 2022 | 2021 |
| | | RMB'000 | RMB'000 |
| (i) | Purchase of goods from: | | |
| | — Shaoguan HEC Printing | 9,099 | 1,562 |
| | — Ruyuan HEC Pharmaceutical | 14,088 | 9,733 |
| | — HEC Power Plant | 13,135 | 10,573 |
| | — HEC Biochemistry Pharmacy | 17,297 | 22,987 |
| | — Ruyuan HEC Intelligent Technology | 180 | — |
| | | 53,799 | 44,855 |
| (ii) | Accept service from: | | |
| | — Sunshine Lake Pharma | 41,473 | 12,328 |
| | — HEC Biochemistry Pharmacy | 1,593 | 1,858 |
| | — Yidu Construction | 4,588 | 26,044 |
| | — Others | 19 | — |
| | | 47,673 | 40,230 |
| (iii) | Lease assets from: | | |
| | — Dongguan HEC Pharm R&D | 1,113 | 1,113 |
| | — Others | 462 | — |
| | | 1,575 | 1,113 |
| (iv) | Payments past through: | | |
| | — Shenzhen HEC Industrial | 8,482 | 4,338 |
| | — Sunshine Lake Pharma | 12,088 | 20,527 |
| | | 20,570 | 24,865 |
| (v) | Proceeds arise from Target Products: | | |
| | — Sunshine Lake Pharma | 86,515 | 12,844 |
| (vi) | Sales of goods to: | | |
| | — Sunshine Lake Pharma | 4,427 | 1,919 |
| | — Others | 65 | 312 |
| | | 4,492 | 2,231 |
| (vii) | Purchase of fixed assets from: | | |
| | — Yidu Machinery Equipment | 4,401 | 2,746 |
| (viii) | Purchase of intangible assets from: | | |
| | — Sunshine Lake Pharma | 20,381 | 244,056 |

(b) Balances with related parties

(i) Amounts due from related parties

| | At 30 June 2022 RMB'000 | At 31 December 2021 RMB'000 |
|--|----------------------------------|--------------------------------------|
| Prepayment to and trade receivable from: | | |
| — Sunshine Lake Pharma | 143,970 | 47,984 |
| — Others | 189 | — |
| | <u>144,159</u> | <u>47,984</u> |

(ii) Amounts due to related parties

| | At 30 June 2022 RMB'000 | At 31 December 2021 RMB'000 |
|---------------------------------------|----------------------------------|--------------------------------------|
| Trade payables and other payables to: | | |
| — Yidu Construction | 9,209 | 5,413 |
| — Sunshine Lake Pharma | 12,327 | 77,803 |
| — Shaoguan HEC Printing | 3,687 | 348 |
| — Yidu Machinery Equipment | 36 | 252 |
| | <u>25,259</u> | <u>83,816</u> |

- (c) As at 30 June 2022, the Group's bank loans amounted to RMB235,765,000 (31 December 2021: RMB87,875,000) were guaranteed by Shenzhen HEC Industrial and its subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY REVIEW

In the first half of 2022, there was still certain risk of spreading of COVID-19 pandemic (the “**Pandemic**”) in some regions of the PRC. Nevertheless, with the full implementation of the general strategy of “guarding against the importation of cases and the resurgence of domestic infections” and the general approach of “dynamic zero”, together with the support of efficient coordination of various policies and measures for Pandemic prevention and control as well as economic and social development, the general economy of China was able to overcome the impact of the Pandemic and gradually stabilize and recover. Currently, the organic combination of “prevention and control” and “treatment” has become an effective measure to control the recurrence of the Pandemic. At the same time, substantial progress has been made in the development of oral small molecule COVID-19 drugs, which provide more options for the prevention and control of the Pandemic, representing great significance to the stable recovery of the economy.

As a vital industry which secures people’s livelihood and prevents major diseases, the biopharmaceutical industry is closely related to the health and life of the general public. In recent years, the PRC government issued a series of industrial policies to encourage the development of the pharmaceutical industry. The “Development Planning of the Pharmaceutical Industry in the 14th Five-Year Plan” (《“十四五”醫藥工業發展規劃》) emphasizes that breakthroughs shall be continuously achieved in respect of the new mechanisms and the basic research and translational application of new target drugs. Biopharmaceutical has to be deeply integrated with the new generation of information technology. The new generation of biotechnology represented by gene therapy, cell therapy and synthetic biotechnology will become the future development trend of the pharmaceutical industry.

The innovative drug industry of the PRC is currently still in the stage of rapid growth. The investment value and future potential of innovative drugs are still the major focus of the market. National policies lead to the upgrading of innovative drug industry and move towards cutting-edge projects represented by innovative drugs. In order to encourage pharmaceutical enterprises’ own innovation to enhance the international competitiveness of pharmaceutical industry of the PRC, the Center for Drug Evaluation of the China National Medical Products Administration (“**NMPA**”) stipulated that the development direction of innovative drugs shall be oriented by clinical value, which accelerates the development of the research and development (“**R&D**”) model towards the innovative drugs sector.

With the continuous recovery of the economic development level, the ongoing optimization of the reform of medical and healthcare system and the gradual normalization of people's lives, the demand for medical care will continue to increase. Looking forward, pharmaceutical enterprises with strong commercialization capabilities, reasonable layout of pipeline under development, corresponding R&D capabilities and funding levels, significant clinical trial results and strong pharmaceutical innovation capabilities will achieve higher development potential and investment value.

II. BUSINESS REVIEW

1. Summary of Overall Results

During the six months ended 30 June 2022, the Group achieved a revenue of RMB1,293.3 million, representing an increase of 539.5% as compared to the corresponding period of 2021. The increase was primarily attributed to the fact that the Pandemic prevention and control in China has generally stabilized, the flow of people and daily social activities have gradually returned to normal, and the overall flow of people, the number of diagnosis and treatment activities and the volume of prescriptions in terminal medical institutions have recovered significantly during the first half of 2022. In addition, many southern provinces in China issued influenza (“**Flu**”) warnings and the number of patients of fever clinics surged this year. Meanwhile, comparing with the early stage of the Pandemic, the current inventory of Kewei channels has returned to a normal and reasonable level. Therefore, with gradual recovery of the flow of people and the number of Flu cases as well as the normalization of the Company's channel inventory, Kewei, the Group's core product, showed a very good trend of recovery in its sales volume leveraging on its brand advantages accumulated in the field of Flu treatment for years and its advantages in efficacy and safety. In the future, with the further strengthening of Pandemic prevention in China and control and the launch and promotion of more product portfolios of the Group, together with the Group's further effort on academic promotion and the expansion of new channels, the overall performance of the Group is expected to be further improved.

In terms of specific performance, revenue generated from Kewei, the core product of the Company, reached RMB1,005.9 million, representing an increase of 1,775.5% as compared to the corresponding period of 2021. Profit and total comprehensive income attributable to equity shareholders of the Company (without taking into account the effect of the convertible bonds) was RMB190.4 million, representing an increase of RMB536.4 million as compared to the loss and total comprehensive income attributable to equity shareholders of the Company (without taking into account the effect of convertible bonds) of RMB346.0 million for the six months ended 30 June 2021. For the six months ended 30 June 2022, revenue from Kewei (Oseltamivir Phosphate), Ertongshu (Benzbromarone Tablets), Oumeining (Telmisartan Tablets), Olmesartan Tablets and Moxifloxacin Hydrochloride Tablets (being the Company's core products) accounted for 77.8%, 3.0%, 2.4%, 1.9% and 1.2% of the total revenue, respectively. At the same time, as new pharmaceutical products are successively approved to launch, they further enrich the Group's product portfolio and offer medical choices with both high quality and fair price for patients.

2. R&D Progress

The Group made outstanding R&D progress in the therapeutic areas of endocrine and metabolic diseases during the first half of 2022.

1. Endocrine and metabolic diseases area

The Group strives in R&D of insulin products in endocrine and metabolism area and has a comprehensive product line plan, which covers both the second and the third generations of insulin.

The latest progress of the insulin products during the Reporting Period is as follows:

| Projects | R&D investment amount RMB'000 | Expensed R&D investment amount RMB'000 | Capitalised R&D investment amount RMB'000 | Percentage of | Percentage of |
|--|----------------------------------|---|--|--------------------------|------------------------|
| | | | | R&D investment | R&D investment |
| | | | | in operating revenue (%) | in operating costs (%) |
| Isophane Protamine Recombinant Human Insulin Injection (Pre-mixed 30R) | 4,707 | – | 4,707 | 0.4% | 1.4% |
| Insulin Aspart Injection | 1,307 | – | 1,307 | 0.1% | 0.4% |
| Insulin Aspart 30 Injection | 927 | – | 927 | 0.1% | 0.3% |

The Group's insulin products are developed in accordance with standards on biosimilar drugs adopted in Europe and the United States with quality equivalent to originator drugs. The recombinant human insulin injection and insulin glargine injection developed by the Group were approved to launch, and the results of clinical trials show that the statistics of those injection are highly consistent in terms of efficacy, safety and stability when compared with the originator biologics. The Group also has a comprehensive product line covering both the second and the third generations of insulin, which meets the clinical medication needs of doctors and patients. Moreover, the product line adopts a yeast expression system which is advanced in technology and easy for large scale production.

Insulin Aspart Injection, Insulin Aspart 30 Injection and Isophane Protamine Recombinant Human Insulin Injection (Pre-mixed 30R), the Company's self-developed products, are under the approval stage of production registration in the PRC.

In addition, in order to further enrich the product line of the Group in the field of diabetes, the Group has acquired multiple drugs for diabetes from Sunshine Lake Pharma Co., Ltd.* (廣東東陽光藥業有限公司) (“**Sunshine Lake Pharma**”), all of which have been approved to launch, except for Rongliflozin L-Pyroglutamic Acid and Liraglutide which were under Phase III clinical stage. Such pharmaceutical products are expected to be marketed in a rapid manner and generate considerable sales, which will further increase the integrated strengths of the Group and improve the revenue structure of the Group.

| Projects | Acquired/ | Expensed | Capitalised | Percentage of | |
|---------------------|------------|------------|-------------|---------------|-----------------|
| | R&D | R&D | R&D | R&D | Percentage of |
| | investment | investment | investment | investment | investment in |
| | amount | amount | amount | in operating | operating costs |
| | RMB'000 | RMB'000 | RMB'000 | revenue | (%) |
| Rongliflozin | 22,205 | – | 22,205 | 1.7% | 6.7% |
| L-Pyroglutamic Acid | | | | | |
| Liraglutide | 2,858 | – | 2,858 | 0.2% | 0.9% |

3. Sales Performance Review

During the Reporting Period, the sales of the Group's core products are as follows:

- The revenue of Kewei (Oseltamivir Phosphate) granules and capsules amounted to RMB1,005.9 million, accounting for 77.8% of the total revenue;
- The revenue of Ertongshu (Benzbromarone Tablets) amounted to RMB39.0 million, accounting for 3.0% of the total revenue;
- The revenue of Oumeining (Telmisartan Tablets) amounted to RMB31.4 million, accounting for 2.4% of the total revenue;
- The revenue of Olmesartan Tablets amounted to RMB24.6 million, accounting for 1.9% of the total revenue;
- The revenue of Moxifloxacin Hydrochloride Tablets amounted to RMB15.7 million, accounting for 1.2% of the total revenue.

The total revenue of the above-mentioned five drugs, being the core products of the Group, accounted for 86.3% of the total revenue.

Kewei (Oseltamivir Phosphate), the Company's core product, is the first-line drug for the treatment of influenza ("Flu") in the PRC, which can be used in the treatment and prevention of Flu A and Flu B and is listed in the Influenza Treatment Guidance (2020 version) (《流行性感冒診療方案(二零二零年版)》).

During the Reporting Period, the Group adjusted the division of labour of the sales teams in accordance with the market demand, i.e. a self-operated sales team responsible for the academic promotion of core drugs in graded hospitals and primary medical institutions, a new retail sales team responsible for all drugs in chain pharmacies, non-bidding markets and online hospitals, and a centralized sales team responsible for centralized procurement of drugs by the PRC government. During the Reporting Period, the Company has started to expand its online pharmacy channel and cooperated with a number of well-known online channel operators. As of 30 June 2022, the Group has a total of 1,760 staff in its sales teams. The establishment and development of these multi-channel sales teams shall lay a solid foundation to the sales volume of the Group's product portfolio in all sales channels.

4. Production Review

The Group adheres to the credo of “For Everyone’s Health” and strives to provide high quality medicine to patients. Led by this belief, the Group enhances its production system constantly, strengthens its supervision on the production process and improves the quality of products and services continuously.

At the same time, the Group is highly attentive to production safety and environmental protection. In respect of production safety, the Group always considers production safety as the core of production management, attaches great importance to labour protection and production safety management, pays attention to the health and safety of employees, advocates safety culture, and forms a positive atmosphere in which all staff in the factory concern about safety and pay attention to safety in everything. In respect of environmental protection governance, the Company attaches great importance to environmental protection and earnestly implements advanced environmental protection concept such as “Environmental protection originates from design. Production processes must help reducing pollution sources, cleanup and recycling of three kinds of waste, clean and green production”. The Group constantly applies new technologies, new processes and new methods to comprehensively improve its governance capabilities and standard, and has achieved energy conservation and consumption reduction of ultra-low emissions and circular economy that outperform national standards.

III. OPERATION RESULTS AND ANALYSIS

1. Revenue

For the six months ended 30 June 2022, the revenue of the Group amounted to RMB1,293.3 million, representing an increase of 539.5% as compared to the corresponding period last year. The Group’s revenue from Kewei products during the Reporting Period amounted to RMB1,005.9 million, representing an increase of 1,775.5% compared to the corresponding period last year. The increase in the revenue from Kewei products was mainly attributed to the fact that the Pandemic prevention and control in China has generally stabilized, the flow of people and daily social activities have gradually returned to normal, and the overall flow of people, the number of diagnosis and treatment activities and the volume of prescriptions in terminal medical institutions have recovered significantly during the first half of 2022. In addition, many southern provinces in China issued Flu warnings and the number of patients of fever clinics surged

this year. Meanwhile, comparing with the early stage of the Pandemic, the current inventory of Kewei channels has returned to a normal and reasonable level. Therefore, with gradual recovery of the flow of people and the number of Flu cases and the normalization of the Company's channel inventory, Kewei, the Group's core product, showed a very good trend of recovery in its sales volume leveraging on its brand advantages accumulated in the field of Flu treatment for years and its advantages in efficacy and safety. In the future, with the further strengthening of Pandemic prevention and control in China and the launch and promotion of more product portfolios of the Group, together with the Group's further effort on academic promotion and the expansion of new channels, the overall performance of the Group is expected to be further improved.

The following table illustrates the revenue from products of each therapeutic area of the Group and as a percentage of the total revenue:

Turnover

| | For the six months ended 30 June | | | | Change as compared with the corresponding period of 2021 (%) |
|-------------------------------|----------------------------------|--------|---------|--------|--|
| | 2022 | | 2021 | | |
| | RMB'000 | % | RMB'000 | % | |
| Anti-viral drugs | 1,012,403 | 78.3% | 57,300 | 28.3% | 1,666.8% |
| Including: core product Kewei | 1,005,913 | 77.8% | 53,635 | 26.5% | 1,775.5% |
| Cardiovascular drugs | 76,327 | 5.9% | 44,207 | 21.9% | 72.7% |
| Endocrine and metabolic drugs | 42,469 | 3.3% | 34,193 | 16.9% | 24.2% |
| Anti-infective drugs | 41,714 | 3.2% | 39,354 | 19.5% | 6.0% |
| Others | 120,395 | 9.3% | 27,192 | 13.4% | 342.8% |
| Total | 1,293,308 | 100.0% | 202,246 | 100.0% | 539.5% |

2. Cost of Sales

The Group's cost of sales consists of (1) cost of raw materials, primarily including cost of raw materials, ancillary materials and packaging materials; (2) labour cost, primarily including salaries and benefits of our staff directly involved in manufacturing of our products; (3) manufacturing cost, primarily including depreciation of machinery, equipment and plant and cost of labour protection materials, fuel, machine oil and maintenance; and (4) patent fee paid to third parties in relation to patents and licences. For the six months ended 30 June 2022, the cost of sales of the Group amounted to RMB332.7 million, representing an increase of 227.8% as compared to RMB101.5 million for the corresponding period of last year, which was mainly due to the increase in sales volume of the Company's core product Kewei during the Reporting Period.

3. Gross Profit

For the six months ended 30 June 2022, gross profit of the Group was RMB960.7 million, representing an increase of 853.1% as compared to RMB100.8 million for the six months ended 30 June 2021, which was mainly due to the increase in sales volume of the Company's core product Kewei during the Reporting Period.

4. Other Net Expenses/Income

Other net expenses/income of the Group mainly included (1) government subsidies, primarily representing amortization of government subsidies for the construction of the production line for Kewei recognized by instalments in accordance with accounting standards, and other subsidies or incentives granted by the local government; (2) interest income; (3) net foreign exchange; (4) fair value change on convertible bonds embedded in conversion option; (5) net profit or loss of disposal of fixed assets; and (6) other miscellaneous gains. For the six months ended 30 June 2022, other net expenses of the Group amounted to RMB141.7 million, representing an increase of RMB85.1 million as compared to RMB56.6 million of other net expenses for the corresponding period of last year, which was mainly due to the increase in exchange loss on convertible bonds.

5. Expenses Analysis

For the six months ended 30 June 2022, the Group's expenses amounted to RMB855.4 million in total, representing an increase of RMB222.9 million as compared to RMB632.4 million for the six months ended 30 June 2021. The main components of the Group's expenses are as follows:

| | For the six months ended 30 June | | Change as compared with the corresponding period of |
|--|-------------------------------------|---------|---|
| | 2022 | 2021 | 2021 |
| | RMB'000 | RMB'000 | (%) |
| Distribution costs | 533,105 | 258,929 | 105.9% |
| Administrative expenses | 149,672 | 185,124 | -19.2% |
| R&D cost | 40,906 | 49,666 | -17.6% |
| (Reversal)/recognition of impairment losses on trade and other receivables | (5,343) | 19,420 | -127.5% |
| Finance costs | 137,013 | 119,298 | 14.9% |
| Total | 855,353 | 632,437 | 35.3% |

Distribution costs mainly consist of (1) marketing expenses relating to conducting academic promotion activities and other marketing activities; (2) travelling expenses for marketing purposes; (3) labour cost; and (4) other expenses. The increase in distribution costs was mainly due to (1) the corresponding increase in marketing costs driven by increasing sales scale of the Group's products; and (2) an increase in marketing expenses and travelling expenses relating to the organization of academic promotion activities and other marketing activities, which were mainly due to the fact that the Pandemic prevention and control in China has generally stabilized, the flow of people and daily social activities have gradually returned to normal, resulting in an increase in activities in the Group's academic promotion and the expansion of new channels.

Administrative expenses mainly consist of (1) salary and welfare benefits for the management and administrative personnel; (2) depreciation and amortization costs relating to our office facilities and land use rights; and (3) other miscellaneous expenses. The decrease in administrative costs was mainly due to the decrease in miscellaneous costs and the inclusion of staff's salary costs, which were previously included in management costs, in the production cost upon the operation of new workshop.

For the six months ended 30 June 2022, the Group's investment in R&D amounted to RMB86.6 million in total, representing 6.7% of the revenue and a decrease of 29.1% as compared to the corresponding period of last year, among which expenses were RMB40.9 million and capitalized expenditures were RMB45.7 million.

Finance costs mainly include interests on bank loans and convertible bonds.

6. Other Operating Expenses

For the six months ended 30 June 2022, the Group has no other operating expenses.

7. Loss/Profit Before Taxation

For the six months ended 30 June 2022, the Group's loss before taxation amounted to RMB36.4 million in total (taking into account the effect of the convertible bonds), representing a decrease of 93.8% as compared to the loss before taxation of RMB588.2 million (taking into account the effect of the convertible bonds) for the six months ended 30 June 2021, which was mainly due to increase in sales volume of the Company's core product Kewei.

For the six months ended 30 June 2022, the Group's profit before tax amounted to RMB226.1 million (without taking into account the effect of the convertible bonds), representing an increase of RMB624.8 million as compared to the loss before tax of RMB398.7 million (without taking into account the effect of convertible bonds) for the six months ended 30 June 2021, which was mainly due to increase in sales volume of the Company's core product Kewei.

8. Income Tax

For the six months ended 30 June 2022, the income tax credits of the Group amounted to RMB3.9 million, and the income tax credits amounted to RMB81.2 million for the six months ended 30 June 2021, which was mainly due to the loss recorded in profit before tax of the Company, offsetting income tax.

9. Loss for the Period

For the six months ended 30 June 2022, the Group recorded a net loss amounted to RMB32.5 million, representing a decrease of 93.6% as compared to the net loss of RMB507.0 million for the six months ended 30 June 2021.

10. Loss/Profit and Total Comprehensive Income Attributable to Equity Shareholders of the Company

For the six months ended 30 June 2022, profit and total comprehensive income attributable to equity shareholders of the Company (without taking into account the effect of the convertible bonds) was RMB190.4 million, representing an increase of RMB536.4 million as compared to loss and total comprehensive income attributable to equity shareholders of the Company (without taking into account the effect of the convertible bonds) of RMB346.0 million for the six months ended 30 June 2021.

For the six months ended 30 June 2022, loss and total comprehensive income attributable to equity shareholders of the Company (taking into account the effect of the convertible bonds) was RMB32.8 million, representing a decrease of 93.5% as compared to loss and total comprehensive income attributable to equity shareholders of the Company (taking into account the effect of the convertible bonds) of RMB507.0 million for the six months ended 30 June 2021.

IV. FINANCIAL POSITION

1. Overview

As of 30 June 2022, the Group's total assets amounted to RMB10,813.7 million, with total liabilities of RMB4,825.4 million and shareholders' equity of RMB5,988.3 million.

As of 30 June 2022, the Group's capital is mainly derived from product sales and is used in production workshop construction, distribution and administrative management etc. The management has clear goals and records in budget, financial and operating performance, and actively monitors them and regularly evaluates internal control measures.

2. Net Current Assets

The following table sets forth our current assets, current liabilities and net current assets for the dates indicated.

| | As at 30 June 2022 RMB'000 | As at 31 December 2021 RMB'000 |
|---|-------------------------------------|---|
| Current assets | | |
| Inventories | 315,321 | 279,696 |
| Trade and other receivables | 805,726 | 546,791 |
| Prepayment | 74,998 | 7,776 |
| Restricted cash | 146,144 | 91,992 |
| Cash and cash equivalents | 859,097 | 1,131,121 |
| Total current assets | 2,201,286 | 2,057,376 |
| Current liabilities | | |
| Trade and other payables | 1,003,070 | 911,680 |
| Contract liabilities | 67,034 | 74,903 |
| Bank loans | 70,900 | 48,477 |
| Interest-bearing borrowings | 2,824,408 | — |
| Deferred income | 7,894 | 4,379 |
| Current taxation payable | — | 198,625 |
| Total current liabilities | 3,973,306 | 1,238,064 |
| Net current (liabilities)/assets | (1,772,020) | 819,312 |

As at 30 June 2022, the Group recorded the total current assets of RMB2,201.3 million, as compared to RMB2,057.4 million as at 31 December 2021. During the Reporting Period, the net current assets of the Group decreased by RMB2,591.3 million due to the combined effect of the increase in current assets by RMB143.9 million resulting from the increase in sales, and the increase in total current liabilities by RMB2,735.2 million mainly resulting from the reclassification of convertible bonds to current liabilities as it becomes repayable on demand since 1 January 2023.

3. Gearing Ratio and Quick Ratio

Gearing ratio represents the total interest bearing loans as at a record date divided by total equity as at the same record date. Quick ratio represents current assets (excluding inventories) as at a record date divided by current liabilities as at the same record date. The Group's gearing ratio increased from 53.04% as at 31 December 2021 to 59.40% as at 30 June 2022 and quick ratio decreased from 1.44 times as at 31 December 2021 to 0.47 times as at 30 June 2022.

4. Cash Flow Analysis

The Group's cash flow is shown in the following table:

| | For the six months ended 30 June | |
|--|---|----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| Net cash generated/(used in) from operating activities | 152,427 | (461,795) |
| Net cash used in investing activities | (476,929) | (329,431) |
| Net cash generated from financing activities | 52,666 | 73,607 |
| Net decrease in cash and cash equivalents | (271,836) | (717,619) |

For the six months ended 30 June 2022, the Group's net cash generated from operating activities was RMB152.4 million, and net cash used in operating activities was RMB461.8 million for the corresponding period of last year, which was mainly due to the increase in sales volume of the Company's core product Kewei.

The Group's net cash outflow in investing activities was RMB476.9 million, representing an increase of RMB147.5 million as compared with the corresponding period of last year, which was mainly due to the increase in restricted cash during the Reporting Period resulted from the acquisition of production machinery from overseas suppliers.

In the first half of 2022, the Group's net cash inflow from financing activities was RMB52.7 million, representing a decrease of RMB20.9 million as compared to the net cash inflow of RMB73.6 million for the corresponding period of last year. The change was mainly due to the decrease in proceeds from bank borrowings and increase in payment for finance costs.

5. Bank Loans

As at 30 June 2022, the Group's bank loans was RMB732.8 million, representing an increase of RMB139.4 million as compared to RMB593.4 million as at 31 December 2021, among which, loans at fixed rates and floating rates amounted to nil and RMB732.8 million, respectively. The Group is currently in good liquidity position with sufficient funding and has no repayment risk. The Group's bank loans are loans denominated in RMB from domestic banks in China.

6. Capital Structure

As at 30 June 2022, the Group's total equity attributable to equity shareholders of the Company amounted to RMB5,775.5 million, representing a decrease of RMB32.8 million as compared to RMB5,808.3 million as at 31 December 2021. The decrease was mainly due to the loss recorded in the business operation of the Group during Reporting Period.

7. Capital Expenditure

In order to meet the production demand for our products, the Group constructed plants and buildings, machines and equipment and acquired relevant interests of drugs in progress for the six months ended 30 June 2022 with an aggregate capital expenditure of RMB426.9 million, representing an increase of 0.6% as compared to RMB424.5 million in the corresponding period of 2021.

8. Contingent Liabilities

As of 30 June 2022, the Group did not provide any external guarantees.

9. Pledge of the Group's Assets

As of 30 June 2022, the Group's land use rights amounting to RMB161.1 million, construction in progress amounting to RMB289.6 million, fixed assets amounting to RMB716.5 million and bills receivable amounting to RMB66.2 million were pledged to secure bank loans and issuing bills payables.

10. Foreign Exchange and Exchange Rate Risk

The Group's business mainly operates in the PRC. Almost all of the income and expenditure of the Group were denominated in RMB. Other than the convertible bonds and bank deposits denominated in foreign currencies, the Group does not have any other material direct exposure to foreign exchange fluctuations.

11. Employee and Remuneration Policies

As at 30 June 2022, the Group has a total of 3,919 employees. The staff costs, including directors' emoluments but excluding any contributions to pension scheme, were approximately RMB248.4 million for the six months ended 30 June 2022. The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long-term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Moreover, social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

12. Hedging Activities

For the six months period ended 30 June 2022, the Group did not enter into any hedging transactions relating to foreign exchange risk or interest rate risk.

13. Significant Investments Held, Material Acquisition and Disposal of Subsidiaries and Associated Companies and Joint Ventures

During the six months ended 30 June 2022, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies and joint ventures by the Group, nor was there any plan authorised by the Board for other material investments or additions of capital assets during the Reporting Period.

14. Future Plans for Material Investment or Capital Assets

As of the date of this announcement, the Group does not have any future plan for material investment or acquisition of material capital assets.

V. OTHER SIGNIFICANT EVENTS

1. Metoprolol Succinate Sustained-Release Tablets Approved to Launch

Metoprolol Succinate Sustained-release Tablets (specifications: 47.5mg and 95mg), a product acquired by the Company from Sunshine Lake Pharma, has undergone the assessment and approval process and obtained approval for launch from the NMPA. Metoprolol Succinate Sustained-release Tablets are frequently used for clinical treatment of high blood pressure and chronic heart failure. They have considerable clinical value and market prospect and will become one of the products of the Company for the treatment of cardiovascular diseases after its launch. This can further enrich the Group's product portfolio, and will provide patients with a choice of medication with high quality and fair price.

Please refer to the announcement of the Company dated 10 January 2022 for details.

2. Change of Joint Company Secretary, Authorized Representative and Process Agent

Ms. NG Wing Shan has tendered her resignation as the joint company secretary of the Company (the “**Joint Company Secretary**”), an authorized representative of the Company (the “**Authorized Representative**”) under Rule 3.05 of the Listing Rules and an authorized representative for the acceptance of service of process and notices on behalf of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “**Process Agent**”) with effect from 25 February 2022 due to personal reasons; and Mr. WONG Wai Chiu has been appointed as the Joint Company Secretary, an Authorized Representative and the Process Agent in place of Ms. NG Wing Shan on the same day. Mr. PENG Qiyun will continue to serve as the other Joint Company Secretary.

Please refer to the announcement of the Company dated 25 February 2022 for details.

3. Azithromycin Tablets Approved to Launch

Azithromycin Tablets (specifications: 0.25g and 0.5g), a product acquired by the Company from Sunshine Lake Pharma, has undergone the assessment and approval process and obtained approval for launch from the NMPA. Azithromycin tablets are systemic antibiotics, which are mainly used to treat infections caused by sensitive bacteria, belongs to Class A (甲類品種) under the National Drug Catalog for Basic Medical Insurance, Work-Related Injury Insurance, and Maternity Insurance (國家基本醫療保險、工傷保險和生育保險藥品目錄) (2021 edition) and is also an item listed on the National Essential Drugs List (國家基本藥物目錄) (2018 edition). It has considerable clinical value and market prospect and will become one of the products of the Company for the treatment of anti-infectious disease after its launch. This can further enrich the Group's product portfolio, and will provide patients with a choice of medication with high quality and fair price.

Please refer to the announcement of the Company dated 8 March 2022 for details.

4. Proposed Adjustment of Remuneration of Mr. LI Xuechen

On 21 March 2022, the remuneration and evaluation committee of the Company has considered and the Board has considered and approved that the remuneration of Mr. LI Xuechen, an independent non-executive Director, be adjusted from RMB160,000 per annum to RMB340,000 per annum (the “**Proposed Adjustment**”). The Proposed Adjustment has been approved by the shareholders of the Company (the “**Shareholders**”) at the annual general meeting of the Company held on 2 June 2022.

Please refer to the announcements of the Company dated 21 March 2022 and 2 June 2022 for details.

5. Continuing Connected Transactions and Connected Transactions

On 27 April 2022, the Company and Shenzhen HEC Industrial Development Co., Ltd (深圳市東陽光實業發展有限公司) (“**Shenzhen HEC Industrial**”) entered into the Energy Purchase Framework Agreement, pursuant to which the Company agreed to purchase electricity and steam power required for its production from Shenzhen HEC Industrial. The Company estimates that the annual cap under the Energy Purchase Framework Agreement for the year ending 31 December 2022 is RMB56,000,000.

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into the APIs Purchase Agreement, pursuant to which the Company agreed to purchase certain active pharmaceutical ingredients (“**APIs**”) such as Aripiprazole, Rivaroxaban, Escitalopram Oxalate, Clarithromycin from Shenzhen HEC Industrial. The Company estimates that the annual cap under the APIs Purchase Agreement for the year ending 31 December 2022 is RMB40,000,000.

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into the Packaging and Production Materials Purchase Framework Agreement, pursuant to which the Company agreed to purchase specific packaging materials and production materials from Shenzhen HEC Industrial. The Company estimates that the annual cap under the Packaging and Production Materials Purchase Framework Agreement for the year ending 31 December 2022 is RMB36,000,000.

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into the Equipment Purchase and Civil Construction Framework Agreement, pursuant to which the Company agreed to purchase certain equipment and civil construction services from Shenzhen HEC Industrial. The Company estimates that the annual cap under the Equipment Purchase and Civil Construction Framework Agreement for the year ending 31 December 2022 is RMB37,000,000.

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into the Entrusted Processing Framework Agreement, pursuant to which the Company agreed to purchase pharmaceutical processing services for its certain pharmaceutical products, including Olmesartan Tablets, Moxifloxacin Hydrochloride Tablets, Clarithromycin Tablets, Aripiprazole Tablets, Levofloxacin Tablets, Rivaroxaban Tablets, Duloxetine Enteric-coated Capsules, Escitalopram Tablets, Xadiafil Tablets, Aripiprazole Orally Disintegrating Tablets, Entacapone Tablets, Febuxostat Tablets, Apixaban Tablets, Mitoglol Sustained Release Tablets, Atorvastatin Calcium Tablets, Rongliflozin and other APIs from Shenzhen HEC Industrial. The Company estimates that the annual cap under the Entrusted Processing Framework Agreement for the year ending 31 December 2022 is RMB103,066,200.

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into the Leasing and Other Services Framework Agreement, pursuant to which Shenzhen HEC Industrial will provide office buildings and warehouse leasing, inspection and testing service, conference accommodation and other services to the Company. The Company estimates that the annual cap under the Leasing and Other Services Framework Agreement for the year ending 31 December 2022 is RMB27,000,000.

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into the APIs and Pharmaceutical Products Sales Framework Agreement, pursuant to which the Company agreed to sell APIs such as Esomeprazole Magnesium, Oseltamivir Phosphate, Olanzapine, Entacapone, Febuxostat and chemical pharmaceutical products to Shenzhen HEC Industrial. The Company estimates that the annual cap under the APIs and Pharmaceutical Products Sales Framework Agreement for the year ending 31 December 2022 is RMB15,012,000.

On 27 April 2022, the Company and Shenzhen HEC Industrial entered into the Entrusted Production and Inspection Services Framework Agreement, pursuant to which the Company agreed to provide production and inspection services to Shenzhen HEC Industrial. The scope of the entrusted production and inspection services includes provision of production, inspection and testing services to Dong An Tai, Dong An Qiang, Peramivir, Galantamine, Baloxavir, Paliperidone Palmitate, other generic drugs, other new drugs, insulin degludec APIs and injection, insulin degludec/insulin aspart, insulin degludec/liraglutide injection and intermediates of generic drugs. The Company estimates that the annual cap under the Entrusted Production and Inspection Services Framework Agreement for the year ending 31 December 2022 is RMB59,000,000.

The above agreements and the transaction contemplated thereunder (including the respective proposed annual cap) have been approved by the Shareholders at the 2022 first extraordinary general meeting of the Company held on 22 August 2022.

For details of the transactions under the above-mentioned agreements, please refer to the announcements of the Company dated 27 April 2022 and 22 August 2022 and the circular of the Company dated 2 August 2022.

6. Update on Share Transfer by Controlling Shareholder of the Company

On 7 June 2022, the Company was informed by Guangdong HEC Technology Holding Co., Ltd.* (廣東東陽光科技控股股份有限公司) (the “**Parent Company**”) that, the remaining 111,901,200 H shares of the Company (equivalent to 12.72% of the issued share capital of the Company) held by the Parent Company have been transferred and registered under the name of HEC (Hong Kong) Sales Co., Limited.

Please refer to the announcements of the Company dated 31 August 2021, 11 November 2021, 10 December 2021, 20 December 2021, 30 December 2021 and 7 June 2022 for details.

VI. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

Up to the date of this announcement, there were no significant events after the Reporting Period.

BUSINESS PROSPECTS OF THE GROUP OF THE SECOND HALF OF THE YEAR

Looking forward to the second half of 2022, as the development direction of China's pharmaceutical industry is gradually shifting from generic drugs to innovation drugs, drug innovation has become the core competitiveness which supports the future development of enterprises. In order to capture opportunities in the fierce competition, pharmaceutical companies need to make continuous efforts in various aspects including product research and development, technical process improvement, production and supply chain management and sales management, while striving to grasp the initiative of industry competition and forming good sustainable advantages by grasping the market demand and trend of the pharmaceutical industry and consolidating and expanding the corresponding strategic target markets more effectively.

The Company will continually increase its investment in R&D and accelerate the transformation of drug R&D into clinical applications in the therapeutic areas of anti-infective, endocrine and metabolic diseases. In addition, the Company will continue to strengthen its product R&D and innovation capabilities, constantly introduce new products and enrich the existing product portfolio to enhance the market competitiveness of its products.

The Company will also continue to optimize its scientific and sustainable marketing strategy, strengthen academic promotion and drug promotion activities, further promote its core products in graded hospitals and primary medical markets, and strive to create a highly recognized business image and well-respected reputation in the domestic market, in order to lay a solid foundation for new products to be rapidly launched in the market in the future.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2022.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: nil).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the Company always strives to maintain a high level of corporate governance and complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) during the six months ended 30 June 2022.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions of the Company by the directors and supervisors of the Company.

Upon making specific enquiries to all of the directors and supervisors of the Company, all directors and supervisors confirmed that each of them has complied with the Model Code during the Reporting Period.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group’s 2022 interim results announcement, interim report and the unaudited financial statements for the six months ended 30 June 2022 prepared in accordance with the IFRSs.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the HKEXnews website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.hec-changjiang.com. The 2022 interim report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and will be published on the websites of the Company and the Stock Exchange in due course.

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

Hubei, the PRC
26 August 2022

As at the date of this announcement, the Board consists of Mr. JIANG Juncai, Mr. WANG Danjin, Mr. CHEN Yangui and Mr. LI Shuang as executive Directors; Mr. TANG Xinfa 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.