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四环医药  
*SihuanPharm*

**Sihuan Pharmaceutical Holdings Group Ltd.**

**四環醫藥控股集團有限公司**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 0460)**

## **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022**

The board (the “**Board**”) of directors (the “**Directors**”) of Sihuan Pharmaceutical Holdings Group Ltd. (“**Sihuan Pharmaceutical**” or the “**Company**”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2022 (the “**Period**”) together with the comparative figures for the six months ended 30 June 2021. The interim condensed consolidated financial information has been reviewed by the external auditors of the Company, Messrs. Ernst & Young, in accordance with the International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board, and by the audit committee of the Company (the “**Audit Committee**”).

### **FINANCIAL HIGHLIGHT OF THE GROUP**

- For the Period, the revenue was approximately RMB1,464.2 million, representing year-on-year decrease of 23.2% compared to approximately RMB1,907.2 million for the six months ended 30 June 2021, mainly due to the impact of the continued development of the domestic epidemic and policy changes of the pharmaceutical industry in the first half of the year.
- For the Period, the gross profit was approximately RMB1,003.7 million, representing year-on-year decrease of 31.6% compared to approximately RMB1,467.1 million for the six months ended 30 June 2021.

- Due to the impact of the continued development of the domestic epidemic in the first half of the year, for the Period, the revenue and the segment profit of medical aesthetics business were approximately RMB98.6 million and approximately RMB41.6 million respectively, representing year-on-year decrease of 61.8% and 79.1% compared to approximately RMB257.9 million and approximately RMB199.0 million for the six months ended 30 June 2021 respectively.
- For the Period, the revenue of innovative drug business and other businesses was approximately RMB132.6 million, representing year-on-year decrease of 4.9% compared to approximately RMB139.5 million for the six months ended 30 June 2021.
- Due to the impact of the continued development of the domestic epidemic and policy changes of the pharmaceutical industry in the first half of the year, for the Period, the revenue and the segment profit of generic drugs business were approximately RMB1,233.0 million and approximately RMB683.1 million, representing year-on-year decrease of 18.3% and 25.4% compared to approximately RMB1,509.8 million and approximately RMB915.3 million for the six months ended 30 June 2021 respectively.
- As the Group continued to ramp up the investment in R&D, for the Period, the research and development expenses were approximately RMB457.3 million, representing year-on-year growth of 37.1% compared to approximately RMB333.6 million for the six months ended 30 June 2021.
- Due to the above reasons, for the Period, the operating profit was approximately RMB203.2 million, representing year-on-year decrease of 77.1% compared to approximately RMB886.0 million for the six months ended 30 June 2021.
- For the Period, the loss was approximately RMB95.9 million compared to the profit of approximately RMB594.2 million for the six months ended 30 June 2021.
- For the Period, the profit attributable to owners of the Company was approximately RMB40.4 million, representing year-on-year decrease of 93.4% compared to approximately RMB611.4 million for the six months ended 30 June 2021.
- For the Period, the basic earnings per share were RMB0.43 cents.
- For the Period, in thanking Shareholders' and investors' support, the Board declared an interim dividend of RMB0.1 cents per ordinary share and a special cash dividend of RMB3.2 cents per ordinary share.
- As at 30 June 2022, cash and cash equivalents were approximately RMB5,095.6 million, and for the Period, the final cash dividend and special cash dividend for 2021 declared and paid were approximately RMB1,007.6 million in aggregate.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Industry Overview

Looking back at the first half of 2022, the global economy was hit by multiple factors, which hampered its recovery. The overall situation became uncertain due to COVID-19 epidemic recurrence, heightened geopolitical risks arising from Russia-Ukraine conflict, China-U.S. rivalry, tightening of monetary policy and interest rate rises of the Federal Reserve, as well as other negative factors. As a result, high inflation spread across the globe, the market witnessed accelerated liquidity tightening, international capital flowed back to U.S. dollar and foreign capital sped up the reduction of their holding in China concept stocks, which dragged down the performance of Hong Kong stocks. Looking ahead to the second half of the year, it is expected that the impact of external risk factors that previously suppressed market performance will gradually recede, and interest rate reduction will be fully carried out. The Federal Reserve may revise up its inflation tracking targets under intensifying recession risks to ease the pressure on real economic growth and financial system stability, thus to improve the liquidity, and the market could gradually recover. On the domestic front, policies aiming to achieve stable growth and stimulate consumption will continue to produce effects while the epidemic is put under control in some areas. Monetary and fiscal policies are expected to loosen to drive economic recovery in the future and boost reflux of capital. As the fundamentals bottom out, corporate earnings may rebound in the second half of the year, further highlighting the valuation advantages of Hong Kong stocks.

During the first half of the year, the continuing and recurring outbreak of the epidemic in China, especially from late March to the end of May, severely affected domestic cities including Shanghai, leading to city lockdown, road closure, and unsmooth logistics. As a result, downstream end institutions in the medical aesthetics industry, which focused on offline consumption and were distributed in high-tier cities, halted their operations or closed down on a massive scale, and the impact has spread to the upstream of the industrial chain, resulting in the product supply of some enterprises in the upstream industrial chain being affected to varying degrees. Such situation did not change until June. As Shanghai lifted the lockdown, the government's policy package for stimulating consumption and ensuring economic growth was put into implementation in succession, in particular, a number of policies were rolled out in support of the medical aesthetics industry: for example, Shenzhen issued measures for the medical aesthetics industry to clearly encourage the development of medical aesthetics industry as well as high-quality standardized products. If the epidemic situation stabilizes in the second half of the year, it is expected to see a strong rebound in performance with a gradual pick-up in the medical aesthetics business in the second half of the year.

The pharmaceutical industry was also significantly affected by the epidemic. Despite the increase in demand related to the epidemic, the impact of the upstream end on production and delivery caused by the closure and control, and the decline in the number of hospital medical services caused by the control of personnel flow in the downstream end of related areas have all affected the overall performance in the first half of the year to varying degrees, especially in the areas with severe outbreak of COVID-19 epidemic, where the impact on related enterprises was more obvious. The price reduction of the sixth round of centralized procurement was officially implemented, which further squeezed the profit margins of many pharmaceutical companies, resulting in the pressure on the overall performance of the pharmaceutical industry in the first half of the year. With the relief of the epidemic in the second half of the year, the first domestic anti-COVID-19 oral medicine

was approved for marketing, the outpatient volume of hospitals began to recover, hospitals even fully resumed work, and the operating conditions of the pharmaceutical industry will gradually improve. At the same time, with the election results of the seventh batch of centralized procurement being announced, the average decrease in prices of drugs to be selected has reached 48%, which is believed to bring continuous downward pressure to related pharmaceutical companies. Therefore, achieving innovative transformation in business is the only path for Chinese generic drug companies to survive and sustain development.

## **The Group's Business**

As one of the leading companies in the traditional pharmaceutical industry, the Group fully understands the importance of and focuses on product innovative transformation, and began to lay out Xuanzhu Biopharm as early as in 2012, and Huisheng Biopharm and medical aesthetic business in 2014. With the forward-looking layout in medical aesthetic and biopharmaceuticals, our transformation and development took a big step forward with the tide when the market began to change obviously. With the medicine reform entering a deep-water zone, as well as the comprehensive advancement of fee control and price reduction, the two-wheel drive strategy of medical aesthetics plus biopharmaceutical of the Group was advanced at full speed. At the same time, in July 2022, the Group announced that it intends to propose the disposal of some or all generic drugs that do not meet performance expectations or do not meet long-term strategic development objectives and other non-core pharmaceutical or healthcare businesses and assets, so as to further focus its management and resources on the medical aesthetic sector with higher growth and profit margin, and the biopharmaceutical sector with high value growth, and help to maximize the shareholders' value, improve the efficiency of the Company's resources allocation, and enhance the long-term financial performance.

During the Period, despite the impact of the epidemic on our business segments to different extents, the Group has achieved corporate business transformation and development, accelerating the R&D of new products and the commercialization of approved products, and finalizing progress in capital market based on the Group's forward-looking layout and the two-wheel drive strategy of medical aesthetics and biopharmaceuticals. Leveraging its strategic deployment and adjustment on the long-term development, the Group has achieved a lot of good business progress during the Period.

During the Period, the Group's medical aesthetic platform, **Beijing MeiYan KongJian Biotechnology Co., Ltd.** (“**MeiYan KongJian**”) had successfully transformed from single product distribution sales model into a one-stop medical aesthetic platform with its product layout covering the whole life cycle. The Company is equipped with global layout, comprehensive and professional product matrix, excellent R&D and registration capabilities, cost-controlled local production facilities and diversified marketing and sales abilities and comprehensive sales channel coverage. During the Period, the overall sales revenue of the medical aesthetic platform was significantly affected by the epidemic, mainly because the downstream end institutions of medical aesthetic industry focused on offline consumptions, and they were mostly located in high-tier cities, while the epidemic control has led to travel restrictions of customers and limitations on the services hours and capacity of medical aesthetic institutions, resulting in the decrease of service volume, which was transmitted to the upstream of the industry chain. However, MeiYan KongJian continued to develop based on previous sales coverage, and it not only expanded the number of medical

aesthetic institutions covered, but also improved the quality of coverage, making greater efforts to the provision of high value-added service and sales support to medical aesthetic institutions. As of 31 July 2022, the sales channel of Letybo<sup>®</sup> had reached over 280 cities in 29 provinces, covering over 2,920 medical aesthetic institutions. In particular, Letybo<sup>®</sup> 50U was also on sale from this year, which added to the choice of small doses in the market. The Group also quickly promoted the R&D and registration of its products, with a number of products being approved one after another. Hyaluronic acid Persnica<sup>®</sup>, a product exclusively distributed by the Group and produced by Hugel, Inc. (“**Hugel**”) in South Korea, and nearly 20 Class II skin care dressing products self-developed by MeiYan KongJian have been approved by the National Medical Products Administration (the “**NMPA**”) for marketing. The Group also focused on expanding business layout by introducing overseas mid- to high-end products or through mergers and acquisitions, including the introduction of Sylfirm X<sup>™</sup>, a golden microneedle product manufactured by VIOL Co., Ltd (“**VIOL**”) in South Korea, and the acquisition of 60% equity interest in Shenzhen Yimei Medical Technology Co., (“**Shenzhen Yimei**”) during the Period, to implement its layout in the field of optoelectronic devices. In January 2022, the Group formed a joint venture with Bluepha Co., Ltd (“**Bluepha**”), a Chinese unicorn company in the field of synthetic biomaterials, to jointly develop PHA microspheres, the next-generation regenerative material, and bio-manufacturing-based regenerative medical materials, entering into the blue ocean of synthetic biology field in advance.

In addition, the Group has been focusing on the R&D of innovative oncology drugs and diabetes drugs with high technological barriers, and have successfully incubated and built two of China’s leading independent biopharmaceutical R&D platforms that integrate clinical research, clinical development, registration, production and sales: Xuanzhu Biopharmaceutical Technology Co., Ltd. (“**Xuanzhu Biopharm**”) and Jilin Huisheng Biological Pharmaceutical Co., Ltd. (“**Huisheng Biopharm**”). During the Period, both platforms made positive progress in product R&D:

**Xuanzhu Biopharm**, an innovative drug platform of the Group, is one of the companies with the most comprehensive layout in the breast cancer track in China. It has an independent and complete R&D system for high-level small molecule and macro molecules innovative drugs, as well as a product pipeline with rich layout. It possesses the capability of continuous independent innovation and continuous output, and can rely on the resources of the Group to quickly implement industrialization and commercialization systems and capabilities. In aspect of product pipeline, Xuanzhu Biopharm has over 25 innovative drugs under development, with development capabilities in the fields of small molecules and macro molecules, targeting areas such as oncology, metabolism and digestion, and has made a comprehensive layout for the main targets of breast cancer. As to Birociclib, a CDK4/6 inhibitor, its phase III clinical trials enrollment of Second-line treatment with Fulvestrant and its First-line treatment with AI are in progress, and its monotherapy is also in critical clinical stage; the New Drug Application (“**NDA**”) of the treatment for indication of peptic ulcer with Anaprazole Sodium has been accepted by the NMPA, and the treatment for indication of reflux esophagitis (RE) in adults has been approved for phase II clinical trials; in addition, nearly 10 products, including KM257, a bispecific antibody (the “**bispecific antibody**”) drug, XZP-3621, a drug for the treatment of non-small cell lung cancer (NSCLC), XZP-5955, a dual targeted NTRK/ROS1 inhibitor and XZP-5610, a drug for the treatment of Non-alcoholic Steatohepatitis (NASH) are in the clinical stage. The pipeline layout is complete and balanced in long, medium, and short terms, with strong capability to innovate continuously, in order to ensure that at least 1–2 products could apply for Investigational New Drug (“**IND**”) every year in the future. Except the self-developed product, Xuanzhu Biopharm also introduced a number of blockbuster products with

First-in-class (“**FIC**”) potential. Among them, the IND of AXL inhibitor developed in cooperation with SignalChem Lifesciences Corporation (“**SignalChem**”) has been approved, and the joint exploration experiments will be carried out on the Penpulimab PD-1 monoclonal antibody of CTTQ-Akeso (Shanghai) Biomed. Tech. Co., Ltd (“**CTTQ-Akeso**”), which further promotes the development of Xuanzhu Biopharm in the field of anti-oncology.

To further promote the upgrade and development of Xuanzhu Biopharm, the Group has submitted an application to The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and obtained the approval to spin off Xuanzhu Biopharm and apply for listing on the STAR Market of the Shanghai Stock Exchange during the Period. The Group believes that the spin-off and listing of Xuanzhu Biopharm will not only help Xuanzhu Biopharm further become an independent innovative drug R&D platform company, but also increase its financial flexibility and enhance its ability to raise external funds, to support the rapid growth and industrialization development of its business.

**Huisheng Biopharm** is a biopharmaceutical platform of the Group. It is also a newly-rising leading biopharmaceutical company in China, which has achieved full product coverage in the fields of diabetes and complications, with over 40 products in the pipeline at different stages, covering second-, third- and fourth-generation insulin and analogues, various traditional oral hypoglycemic drugs, new targets such as DPP-4, GLP-1 and SGLT-2, and drugs for complications. During the Period, the marketing applications for five products including class 1 innovative drug SGLT-2 inhibitor Janagliflozin, insulin aspart injection, insulin aspart 30 injection, insulin aspart 50 injection and mecobalamin injection of Huisheng Biopharm have been accepted; at present, the marketing applications for the blockbuster product, the fourth-generation insulin degludec injection, and vildagliptin tablets, have been accepted, as well as the insulin degludec and insulin aspart injection is in phase III clinical trials with all patients out.

In addition to the rapid progress of products, during the Period, Huisheng Biopharm completed Round A financing, obtaining the investment with a total of RMB500 million led by Jiangsu China Life Jiequan Equity Investment Center (L.P.) (the “**China Life Healthcare Fund**” or “**China Life Private Equity Investment**”), with a post-investment valuation reached RMB5 billion amidst the market downturn and tightened liquidity.

The business segment of **Sihuan Pharmaceutical CDMO** is an integrated CDMO service platform of high-quality active pharmaceutical ingredient (the “**API**”) + formulation meticulously incubated by the Group. Since 2020, the Group has actively revitalized its redundant API production resources and production capacity from its subsidiaries to optimize the ratio of input and output, and achieve business transformation and upgrade, which has achieved preliminary results. As of the first half of 2022, the Group has integrated its premium API/advanced intermediates production bases and Beijing Aohe Pharmaceutical Research Institute Co., Ltd. (“**Aohe Research Institute**”) for unified management to enhance its R&D technical strength and industrial transformation capabilities. Relying on a team highly experienced in the development and industrialization of high-end APIs, the Group has built a high-standard production management system, introduced professional management with over 10 years of industry experience and built a professional R&D team of nearly a hundred staff. The Group has implemented an integrated CDMO two-wheel drive strategy of API + formulation and is committed to providing global customers with leading integrated solutions focusing on special APIs and high-end CDMO business.

**In addition, leveraging on the three core capabilities of registration, production, sales, the Group helps and accelerates the launching and commercialization of the high-quality product pipelines of Sihuan medical aesthetics and pharmaceuticals segments.** The Group's rapid registration ability made it the first company to bring Korean botulinum toxin into the Chinese market and also enabled the Group to complete the registration of various self-developed varieties in a very short term. Secondly, the Group has a high-efficiency and low-cost production platform, and its business layout in production capacity and raw materials enables the Group to have a strong cost advantage to achieve rapid industrialization development. In addition, the Group also has the market-recognized medical academic marketing and sales abilities. On the professional and efficient academic marketing platform covering the whole China, the professional marketing team and business sales network of the Group can not only promote the continuously rapid penetration of existing products, but also endow the new launched products with strong "monetization" ability.

## **Results for the Period**

During the Period, the Group recorded a total revenue of RMB1,464.2 million, representing a year-on-year decrease of 23.2% over the total revenue of RMB1,907.2 million for the same period in 2021. The decrease was mainly due to the impact of the continued development of the domestic epidemic and policy changes of the pharmaceutical industry in the first half of the year.

The medical aesthetic business segment achieved a revenue of RMB98.6 million, representing a year-on-year decrease of 61.8%, mainly attributed to the decrease in consumptions caused by the inability to operate and provide service in downstream end due to the impact of the epidemic, and the impact has spread to the upstream of the industry chain resulting in less product supply. The generic drug business segment achieved a revenue of RMB1,233.0 million, representing a year-on-year decrease of 18.3%, mainly due to the impact of the continued development of the domestic epidemic and policy changes of the pharmaceutical industry in the first half of the year.

Due to the above reasons, during the Period, the Group achieved an operating profit of RMB203.2 million, representing a decrease of 77.1% over the operating profit of RMB886.0 million for the same period in 2021.

During the Period, the Group continued to ramp up the investment in R&D to create a pipeline of over 100 medical aesthetic and biopharmaceutical products. It rapidly promoted the R&D progress of the Group's product pipeline, accelerated the product industrialization and gradually realized value amplification. During the Period, the total R&D expenses amounted to RMB457.3 million, representing an increase of 37.1% as compared to the R&D expenses of RMB333.6 million for the same period in 2021.

Although the Group's R&D expenses increased significantly year on year, this also catalyzed a significant increase in the quantity and quality of the Group's product pipelines, which have contributed to a significant increase in the corporate value, financing capacity and corporate awareness of the Group's innovative drug platform. During the Period, Huisheng Biopharm completed Round A equity financing, which attracted a total investment amounted over RMB500 million, with a post-investment valuation of RMB5 billion. This was a further round of financing for the Group's biopharmaceutical segment following Xuanzhu Biopharm's Round B financing of RMB610 million in December 2021, which fully demonstrated the recognition of the R&D capabilities, product pipelines, management team, future industrialization and commercialization capabilities of the Group's two innovative and biological drug platforms from the capital market, as well as proved the high valuation of the product pipelines of the Group's two biopharmaceutical segments.

After supporting and completing a high level of R&D investment, and the timely completion of the payment of a dividend approximately RMB1,007.6 million in June of this year, as of 30 June 2022, the Group's balance in cash and cash equivalents plus wealth management products remained at approximately RMB5,246.0 million, and the total amount of cash and cash equivalents plus wealth management products, net of interest-bearing bank borrowings and other borrowings, was approximately RMB4,049.0 million. The Group's debt to capital ratio (i.e. a percentage of borrowings divided by equity attributable to owners of the Company) was 16.5%, which remained low.

## **Business Review**

### **1. Medical Aesthetic Business Segment: Accelerating the Approval of the Self-developed Pipeline and Achieving the Upgrade and Development from Product Distribution to the Integration of R&D, Production and Marketing**

In 2021, the Group successfully promoted strategic transformation and established a “one-stop” medical aesthetic platform with full product matrix, strong R&D and registration capabilities, low-cost localized production facilities, diversified marketing and sales abilities and comprehensive channel coverage by means of globalized layout. In the first half of 2022, the Group continued to excavate in the field of medical aesthetics, further diversified its product pipeline, and expanded in the key medical aesthetics field, as well as enhanced its product sales capabilities, increased its channel coverage, strengthened its services to downstream end institutions, and provided more sales supports and medical trainings.

During the Period, the revenue of MeiYan KongJian, the medical aesthetic business segment, reached RMB98.6 million, representing a year-on-year decrease of 61.8%, accounting for 6.7% of the Group's overall revenue, mainly due to a decrease in upstream shipments resulting from the suspension of downstream end business which was severely affected by the epidemic, disruption of logistics and sluggish consumption of consumers. The medical aesthetic business segment realized operating profit of RMB41.6 million, representing a decrease of 79.1% year-on-year.

MeiYan KongJian further upgraded its sales structure, optimized sales strategies, improved sales capabilities and enriched the service contents during the epidemic although sales were greatly affected by factors such as the closure of institutions and personnel travel restrictions due to the epidemic. Relying on the extensive coverage of institutional channels built in the past year, the focus of product sales of MeiYan KongJian this year is on in-depth exploration. During the Period, MeiYan KongJian improved its service quality for key accounts to further empower the sales channels and entered into strategic cooperation agreements with leading institutions, with the premise of ensuring annual sales, it provided more sales support solutions, carried out one-on-one customized services, held several operation strategy activities in major regions to promote communication with operation departments of medical aesthetic institutions, and cooperated with the institutions to carry out consumer side education to reduce their marketing costs. MeiYan KongJian also conducted refined management of the internal marketing and sales center during the Period by dividing the marketing and sales department into two divisions according to the characteristics of product sales. Division I will be responsible for the sales of blockbuster products of botulinum toxin Letybo<sup>®</sup> and hyaluronic acid Persnica<sup>®</sup>, and division II will be responsible for the sales of approved Class II products. It is also equipped with the



national marketing department and the medical department to assist in providing product-related brand promotion, brand reputation building, medical information support, doctor training and other services.

During the Period, the Group also adopted selection and upgradation strategy against its agents to eliminate those who did not meet performance expectations in certain regions. The sales model of some major regions and key institutions was changed to direct sales to further improve the provision and security of one-on-one customized services, ensuring to bring more suitable sales and operation solutions to medical aesthetic institutions and further promote the continuous growth in sales of MeiYan KongJian in the future. As of 31 July 2022, the Group had a total of approximately 80 sales staff, most of whom held key positions in marketing and training in multinational or domestic leading medical aesthetic and pharmaceutical companies such as Allergan, Galderma and Johnson & Johnson, etc., and have over 10 years of experience in average in the medical aesthetic industry. As of the end of July, the Group has cooperated with more than 25 agents in more than 280 cities nationwide, covering more than 2,920 medical aesthetic institutions. The proportion of leading 500 medical aesthetic institutions is fully covered.

Through the overall layout of “direct sales and distribution”, MeiYan KongJian not only has strengthened the ability to serve high-quality major customers to further empower the sales channels, but also kept continuous increase in the number of institutions covered. Furthermore, the doctor training system is gradually built through the medical department to improve and facilitate the resources binding of doctors. Leveraging on the Group’s strong sales gene and medical expertise in the pharmaceutical business in the past, the Group has achieved high-quality empowerment to the channels of medical aesthetic institutions. The Group believes that further upgrading and optimizing the sales model of MeiYan KongJian will drive the long-term continuous growth in performance.

During the Period, except for sales model upgrading and channel binding optimization, MeiYan KongJian never left behind its principle of “Product First” and continued to build its medical aesthetic product matrix and to provide non- or minimally invasive medical aesthetic comprehensive solutions through further layout in filling, supporting, supplementing, optoelectronic devices, skin care and other areas.

The modified sodium hyaluronate gel for injection (product name: Persnica<sup>®</sup>), which is exclusively distributed by the Group and produced by Hugel from South Korea, obtained Class III medical device certificate from the NMPA in April 2022. Hyaluronic acid Persnica<sup>®</sup> is a sterile, pyrogen-free, non-animal-derived, cross-linked sodium hyaluronate gel for mid-dermal injections in facial tissue to correct moderate to severe nasolabial folds. The product uses single-phase cross-linking technology, which has the advantages of good support, non-spreading displacement, uniform metabolism, long-lasting shaping, high viscosity value, high cross-linking degree and high shaping capacity. Hyaluronic acid Persnica<sup>®</sup> is a hyaluronic acid product produced by Across, a subsidiary of Hugel. The product is one of the most popular hyaluronic acid filler brands in South Korea, which is loved and sought after by young people.

In March 2022, MeiYan KongJian, a subsidiary of the Group, has recently reached an exclusive distribution agreement in relation to Cellbooster<sup>®</sup> series products with Suisselle SA (“**Suisselle**”) from Switzerland, and obtained the exclusive distribution rights for the products in mainland

China, Hong Kong, Macau and Taiwan. Cellbooster<sup>®</sup> series products are a new generation of skin booster injection, which are the high-end Swiss hyaluronic acid complex solution products, including four products of Cellbooster<sup>®</sup> Glow, Cellbooster<sup>®</sup> Lift, Cellbooster<sup>®</sup> Shape and Cellbooster<sup>®</sup> Hair, which are used for brightening skin tone, smoothing wrinkles, local shaping and preventing hair loss and hair graying, respectively. It is the first CE-marked stabilized complex due to Suisselle's unique patented physical cross-linking CHAC technology.

In January 2022, the first layout of the Group in the optoelectronic equipment market was implemented. MeiYan KongJian, a subsidiary of the Group, entered into an exclusive distribution agreement with VIOL from South Korea in respect of the SYLFIRM X<sup>™</sup> golden microneedle (黃金微針) product and obtained the exclusive distribution right of the product in Mainland China, Hong Kong and Macau. The SYLFIRM X<sup>™</sup> distributed by the Group is a new generation of golden microneedle, which has great advantages over other radiofrequency microneedle products currently on the market. It is also the first radiofrequency microneedle instrument with dual-wave action (continuous wave plus impulse wave) in the world, which can treat various skin problems at all layers from superficial to deep. With the rapid growth of China's radiofrequency medical aesthetics equipment market, it is believed that the new technology iterations brought by SYLFIRM X<sup>™</sup> will be a greater attraction to Chinese medical aesthetics institutions and beauty seekers.

In January 2022, the Group further expanded its product portfolio and entered into core areas. It signed an agreement with Bluepha, whereby the two parties will establish a joint venture to jointly develop PHA microspheres and bio-manufacturing-based regenerative medical materials, and the two parties will jointly complete the R&D, compliance declaration and subsequent commercial promotion of the products. PHA is an intracellular polyester synthesized by microorganisms and a natural high-molecular polymer. Whether for entering the scarce non- or minimally invasive medical aesthetics market as a new material or in terms of the safety of the material itself, PHA will be a good choice for non- or minimally invasive medical aesthetics. There is great development potential in the field of synthetic biology. It is predicted that in the field of commercial applications, the synthetic biology market is expected to grow rapidly at a CAGR of 30% by 2025. The strategic cooperation between the Group and Bluepha to jointly establish a joint venture gives the Group an opportunity to enter the huge industrial blue ocean of synthetic biology in advance and successfully take the first step in the vertical extension from the medical aesthetics industry end to the upstream raw material end, which will help the Group further improve its layout in the field of medical aesthetics and enhance the core competitiveness of the Group.

MeiYan KongJian has entered into an equity transfer agreement and a capital increase agreement with Shenzhen Yimei and its original shareholder to invest in Shenzhen Yimei by way of equity transfer and capital increase. After the completion, MeiYan KongJian will hold 60% of the equity interest in Shenzhen Yimei. Shenzhen Yimei has the patented technology of collimated ultrasound and superficial focused ultrasound two in one, and through independent research and development, it has become the first company in China to successfully apply this two-in-one patented technology to the approved medical device. At the same time, Shenzhen Yimei also introduces the world's leading cold and heat lipolysis system. This system uses the latest RET radio frequency technology to stimulate cell to rub, collide, vibrate and do other physical

movements to produce deep source heat, which raises the basal body temperature and increases the basal metabolic rate and immune capacity, thus promoting subcutaneous and visceral fat decomposition and metabolism. The Group will launch its R&D and production in the field of optoelectronic devices by leveraging the platform of Shenzhen Yimei.

During the Period, nearly 20 skin dressing patch products independently developed by the Group obtained the Class II medical device registration certificate issued by the NMPA, including three recombinant type III collagen gel dressing, skin repair dressing and medical skin repair dressing sheet products, four medical skin care dressing patch products, three medical scar repair products, two medical skin care and repair gel products, and eight gynecological dressing products. With focus on the two pain points of wound healing and scar repair after medical aesthetics treatment, these products can be used for post-laser repair and post-surgical wound repair, etc., and accelerate the repair and regeneration of damaged tissues in a targeted manner.

In order to realize the industrialization of products under research and development, MeiYan KongJian has set up three high-efficiency and low-cost production bases in China, with a total area of 16,000 square meters. Currently, 10 production lines have been set up, covering pre-filled products, lyophilized powder injection products, active equipment and dressings, etc. The production process is automated, and the production status is controllable in real time to ensure the ability to manage details and the traceability of the production process. All production workshops meet aseptic purification requirements and have a sound quality management system, and risk management is implemented for the whole life cycle of products to ensure safety, effectiveness and quality controllability of the products.

In 2022, with the further expansion of the Group's product matrix, the rapid advancement of product in R&D, clinical and registration stages, and the upgrading and optimization of sales services, the Group's medical aesthetics business will further become a leading medical aesthetics company in China that achieves full product coverage for the whole life cycle needs of beauty lovers.

**2. Innovative Drug and other business segments: Successfully achieved the innovative transformation from traditional generic drug companies to biopharmaceutical companies, and promote the upgrading and development toward a leading biopharmaceutical company in China at full speed**

The Group has continuously deepened the development of the biopharmaceutical segment, accelerated the rapid development of product R&D and capital market operation of Xuanzhu Biopharm and Huisheng Biopharm, and simultaneously promoted the further integration and development of CDMO business segment. During the Period, Xuanzhu Biopharm, a leading innovative drug enterprise focusing on oncology drugs, made breakthroughs in multiple product R&D, and simultaneously promoted the process of spin-off and listing on the STAR Market, continuing to promote innovative drives. The fourth-generation insulin degludec injection, a blockbuster product of Huisheng Biopharm, became the first domestic product that has applied for an NDA in China, further establishing the position of Huisheng Biopharm as the biopharmaceutical leader with full product coverage in the field of diabetes and complications. Sihuan further integrates and divests assets and resources of CDMO business, implements the integrated CDMO two-wheel drive strategy of API + formulation, and is committed to providing

global customers with leading integrated solutions with special APIs as the core and undertaking high-end CDMO businesses. The three platforms in the innovative drug and other business segment have developed side by side based on their respective advantages and paces, driving the Group to continue its innovation and transformation, and laying a solid foundation for building a leading biomedical company in China.

**During the Period, the Group's R&D expenses in innovative drug and other segments were RMB317.5 million, increasing 46.0% compared to the R&D expenses of RMB217.4 million for the same period in 2021.**

***2.1 Xuanzhu Biopharm: One of the companies with the most comprehensive layout in the breast cancer track in China and a leading biopharmaceutical company in China with comprehensive innovative drug development capabilities in the fields of small molecules and macro molecules***

As the locomotive of the Group's innovative transformation, Xuanzhu Biopharm, after ten years of development, has gathered an outstanding team of nearly 400 people led by returnee scientists. The company owns the ability to research and develop innovative drugs independently, and forms a complete R&D system. It has become one of the few platform-type innovative drug companies with comprehensive innovative drug development capabilities in the fields of small molecules and macro molecules in China.

During the Period, Xuanzhu Biopharm continued to advance the R&D progress of the products under development, and achieved R&D expenses of approximately RMB176.5 million.

Xuanzhu Biopharm's product pipeline is mainly driven by independent R&D and supplemented by introduction. Focusing on major diseases, big markets and multi-target layout of same diseases, it has over 25 products under development in areas such as oncology, metabolism and digestion. Moreover, Xuanzhu Biopharm has made a comprehensive layout for the main targets of breast cancer in the key track, and is one of the companies with the most comprehensive layout in the breast cancer track in China. During the Period, two indications of Birociclib (XZP-3287 CDK4/6 (cyclin-dependent kinases 4 and 6) inhibitor), the class I new drug candidate of Xuanzhu Biopharm, have entered into phase III clinical trials in combination with aromatase inhibitor and fulvestrant. Pre-clinical data showed that Birociclib has a unique pharmacokinetic profile, which penetrates the blood-brain barrier, and has the potential efficacy in breast cancer patients with brain metastases and patients with brain tumors. Moreover, due to the novel targeting mechanism of CDK4/6 inhibitor, Birociclib is able to demonstrate clinical benefits and market influence through multiple novel Birociclib-based combination therapies.

In July 2022, the marketing application for fulvestrant of Xuanzhu Biopharm was also accepted by NMPA. Fulvestrant injection is clinically indicated for the treatment of estrogen receptor positive (ER+) locally advanced and metastatic breast cancer. This blockbuster drug will be used in combination with CDK4/6 inhibitor Birociclib of Xuanzhu Biopharm, to treat advanced breast cancer. The combination of fulvestrant with CDK4/6 inhibitor can significantly improve the survival benefit of patients. The future launch of fulvestrant injection will further enhance the Group's strength in the field of oncology treatment.

In the same month, Xuanzhu Biopharm's self-developed Anaprazole Sodium Enteric Dissolve Tablets obtained approval from the NMPA on the investigational new drug (IND) application of phase II clinical trials for the treatment for new indication of reflux esophagitis (RE) in adults and the control of its associated symptoms (acid reflux, heartburn, retrosternal pain or discomfort, belching reflux, etc.). Anaprazole Sodium is the only new generation proton pump inhibitor independently developed in China. Its first indication for the treatment of duodenal ulcer has submitted for new drug application and accepted by the NMPA in 2021. Clinical data showed that the safety and symptom relief of the Group's developed Anaprazole Sodium are the best-in-class.

In May 2022, Xuanzhu Biopharm has successfully received IND approval from NMPA for its application of capsule XZB-0004, a highly potent and highly selective AXL inhibitor, in clinical trial on advanced solid tumors and hematologic malignancies. Xuanzhu Biopharm has entered into collaboration with SignalChem in September 2021, introducing the exclusive development and commercialization rights in the Greater China region. In addition, Xuanzhu Biopharm has entered into the cooperation agreement in relation to combination therapies with CTTQ-Akeso, pursuant to which, both parties agreed to jointly carry out exploration and experiments on the XZB-0004 and the Penpulimab PD-1 monoclonal antibody of CTTQ-Akeso, with an aim of developing their application of combination therapies for solid tumors. AXL inhibitor is a highly selective, oral, small molecule product. At present, preclinical data shows that it is a "Best-in-Class" inhibitor and has the potential to become a "First-in-Class" inhibitor. AXL inhibitor not only has single-agent efficacy in multiple solid and hematological tumor trials, but also can potentially be in combination with a variety of drugs under development at Xuanzhu Biopharm's pipeline for treatment of a number of refractory tumors.

In March 2022, the application for the class 1 macro molecules innovative drug XZP-KM257 (recombinant anti-HER2 domain II and domain IV bispecific antibody injection), independently developed by Xuanzhu Biopharm, has been approved successfully by the NMPA to initiate clinical trials for the treatment of advanced solid tumors with intermediate and high expression of HER2+. KM257 is a HER2/HER2 bispecific antibody of Xuanzhu Biopharm developed from the Mebs-Ig (Monoclonal-antibody Editing Bispecific Immunoglobulin) platform and Mab-Edit (Monoclonal-antibody Editing) technology platform independently developed by Xuanzhu Kangming, the macromolecule innovative drug company under Xuanzhu Biopharm. Possessing a brand-new mechanism, it is a bispecific antibody targeting two different domains of HER2 (domain II and domain IV), and highly innovative. HER2 bispecific antibody, the next-generation drug targeting HER2, is the focus of R&D for major domestic and foreign pharmaceutical companies. There are no HER2/HER2 bispecific antibody drugs on the global market yet, and all of them are in the clinical stage. Compared with other HER2/HER2 bispecific antibodies under development, KM257 has the potential to become the Best-in-class with its high stability and efficacy.

In June 2022, Xuanzhu Biopharm and Shanghai SPH New Asia Pharmaceutical Co., Ltd. ("**New Asia Pharmaceutical**") reached an agreement on exclusive license of APIs and formulations of two new anti-infection drugs, Benapenem and Plazomicin in the Greater China Territory (including Mainland China, Hong Kong SAR, Macau SAR and Taiwan). New Asia Pharmaceutical will obtain the exclusive rights of the APIs and

formulations of the said two products, including all rights in licensing, R&D, production and commercialization, and become the marketing authorization holder (MAH) of these two products in the Greater China Territory. Xuanzhu Biopharm will receive an upfront payment of RMB21 million and will be eligible to receive milestone payments of up to RMB419 million, as well as tiered royalties on sales of up to two digits. Fully leveraging the strengths of our partners Shanghai Pharmaceuticals Holding Co., Ltd. (“**Shanghai Pharma**”) and New Asia Pharmaceutical in product development, production and sales in anti-infection fields, the cooperation will form a good commercial synergy with New Asia Pharmaceutical in products under R&D and for sale, to maximize the future commercial value of the two products.

During the Period, the Board of the Company made an important decision unanimously to spin off the shares of Xuanzhu Biopharm for the proposed application of listing on the STAR Market of the Shanghai Stock Exchange. The Group believes that the spin-off will help Xuanzhu Biopharm further become an independent innovative drug R&D platform company with direct access to debt and equity capital markets, thereby increasing the financial flexibility of Xuanzhu Biopharm and enhancing its ability to raise external funds, to support the rapid growth and industrialization of its business. Meanwhile, the Group can also focus on cultivating and developing high-growth medical aesthetic business and other new businesses with existing capital and resources. In addition, as Xuanzhu Biopharm will remain as our subsidiary after completion of the proposed spin-off, the Group and its shareholders will continue to benefit from the future development and growth of Xuanzhu Biopharm.

## ***2.2 Huisheng Biopharm: The biopharmaceutical leader with full product coverage in the field of diabetes and complications***

Huisheng Biopharm is a biopharmaceutical company under the Group focusing on the field of diabetes and complications. After nearly 8 years of construction and development, the company now has a world-class R&D team of more than 200 people. With extensive experience in R&D of diabetes drugs, it has built and owned product pipelines of more than 40 products, covering second-, third- and fourth-generation insulins (covering basic, premixed and fast-acting products), various oral hypoglycemic drugs, new targets such as DPP-4, GLP-1 and SGLT-2, and drugs for complications, etc. It is currently one of the few companies in China that has achieved full product coverage in the field of diabetes and complications.

During the Period, Huisheng Biopharm rapidly advanced the R&D progress of multiple products and launched NDA of several blockbuster products, further moving from R&D to commercialization, with R&D expenses reaching approximately RMB130.8 million.

During the Period, the NDA of four blockbuster products of Huisheng Biopharm was accepted by NMPA, which further accelerated the commercialization of the biological product pipeline and promoted the development from R&D to commercialization of the company. At present, the NDA of the insulin degludec injection, the fourth-generation insulin analogue developed by Huisheng Biopharm, was accepted by NMPA. It is the first domestic fourth-generation insulin analogue, the insulin degludec, that has applied for an

NDA having been accepted in China after the original drug Tresiba<sup>®</sup>. Insulin degludec is a new generation of long-acting basal insulin analogue with unique long-acting mechanism and excellent glucose-lowering effect, featuring stable blood glucose concentration, low risk of hypoglycaemia, high safety and long-lasting effect. Clinical data show that the insulin degludec developed by Huisheng Biopharm has similar pharmacokinetics and pharmacodynamics to the original drug, and the phase III comparative study achieved the expected endpoint of the haemoglobin, which has similar clinical effect comparing to the original drug. At the same time, the product can also form a combination of insulin degludec and insulin aspart injection, as well as insulin degludec and lirglutide injection with other products in the product pipeline of Huisheng Biopharm. This will also help the Group to accelerate the development of its diabetes product pipelines, and is expected to further boost sales growth, enhance the Group's comprehensive strength and significantly strengthen the Group's core competitiveness.

At the same time, the NDA of Janagliflozin developed by Huisheng Biopharm has been accepted by the NMPA. It is the second domestic Class 1 innovative SGLT-2 inhibitor that has submitted an NDA in China and with the application having been accepted. Janagliflozin is an inhibitor of the sodium-glucose transport protein subtype 2 (SGLT-2), lowering overall glucose levels in the blood. The clinical data of Janagliflozin showed that it not only had significant anti-diabetic efficacy. Meanwhile, it has multiple benefits such as lowering blood pressure, reducing body weight and improving blood lipids with low risk of hypoglycemia and good overall safety. Through horizontal comparisons with phase III clinical data of marketed similar products, Janagliflozin showed similar and even better results.

Besides, the NDA of Insulin Aspart Injection, Insulin Aspart 30 Injection and Insulin Aspart 50 Injection developed by Huisheng Biopharm also have been accepted by the NMPA. Huisheng Biopharm is currently the only company in China that has simultaneously applied for the biologics license of all types of insulin aspart and with all applications having been accepted, fully demonstrating the comprehensiveness and integrity of the Company's R&D strategy to meet the clinical needs of different insulin treatment options for diabetic patients.

Since various products are on the marketing application stage, Huisheng Biopharm has been equipped with a strong production capacity to ensure the rapid implementation of industrialization development once they are launched. After the completion of all construction of the phase I and phase II biopharmaceutical bases, capacity of the two phases will total to 120 million units, supporting an annual output value of nearly RMB10 billion, with its size ranking among the top in China. By supporting the flexibility of production schedule and ensuring the stability between batches, Huisheng Biopharm will be able to fully meet the production requirements of future commercialization.

Backed by the Group, and with full-coverage and multi-level product layout, leading and blockbuster R&D pipelines, and strong and comprehensive strategic resources, Huisheng Biopharm is gradually becoming a biopharmaceutical leader providing comprehensive

solutions for diabetes and complications. This is also the characteristic that has fully appealed to the forward-thinking and exceptional investors in the market. During the Period, Huisheng Biopharm successfully completed its Round A financing, raising a total of RMB500 million, with a post-investment valuation of RMB5 billion. China Life Healthcare Fund is the lead investor of the financing.

Huisheng Biopharm is one of the two innovative drug platforms meticulously incubated by the Group. Targeting the diabetes and complications market with huge potential in China, in the future, with the gradual implementation of Huisheng Biopharm's product pipelines and the continuing emergence of innovative products, Huisheng Biopharm will become a biopharmaceutical leader in China to achieve full product coverage in the field of diabetes and complications, reaching continuous value amplification.

### ***2.3 CDMO of Sihuan Pharmaceutical: Implementing an integrated CDMO two-wheel drive strategy of API + Formulation to help launch innovative drug products and significantly enhance the competitive barrier of the innovative drug segment***

The CDMO business segment of Sihuan Pharmaceutical is an integrated CDMO service platform of high-quality API + formulation meticulously incubated by the Group. Since 2020, the Group has actively revitalized its redundant API production resources and production capacity from its subsidiaries to optimize the ratio of input and output, and achieve business transformation and upgrade, which has achieved preliminary results. In the first half of 2022, the Company has integrated its premium API/advanced intermediates production bases and Aohe Research Institute for unified management to enhance its R&D technical strength and industrial transformation capabilities. Relying on a team highly experienced in the development and industrialization of high-end APIs, the Company has built a high-standard production management system and implemented an integrated CDMO two-wheel drive strategy of API + formulation. The Company is committed to providing global customers with leading integrated solutions focusing on special APIs and high-end CDMO business.

During the Period, the CDMO business segment of Sihuan Pharmaceutical achieved revenue of approximately RMB132.6 million.

The CDMO business segment of Sihuan Pharmaceutical currently consists of two main businesses, CDMO and APIs, of which:

Sihuan Pharmaceutical has successfully transformed and upgraded its CDMO business in the first half of 2022. It has gradually developed from serving the leading CDMO companies in China for the customized production of advanced intermediates in the early days to providing CDMO services to end customers of pharmaceutical companies, including listed companies with international influence. Meanwhile, relying on the Group's pharmaceutical formulation companies, it has gradually formed an API + formulation integrated CDMO business. At present, the company has successfully introduced three heavyweight customers for its CDMO business to provide them with high quality CDMO solutions for addressing current global epidemics. The relevant products, if approved,



are expected to generate steady revenue growth for the company. To continue to expand the business development of the CDMO segment, the company continues to bring in professional management with over 10 years of industry experience and has built a professional R&D team of nearly 100 people, the size of which will also be expanded in the future. At the same time, thanks to the company's leading technologies, established quality management system and sustainability of supply, the company has strong customer development capability and the pharmaceutical formulation sector is currently experiencing rapid growth in the base of end-users and overseas international customers, which continues to drive the upgrading and development of this business segment.

In respect of the API business, Sihuan Pharmaceutical only served the Group's internal pharmaceutical companies at the early stage. Since 2020, the COVID-19 epidemic has caused continuous supply chain interruptions and increasing costs of APIs. Therefore, the Group reorganized original APIs business segment, optimized input and output ratio, and transformed and upgraded the business from general APIs to high-end special APIs. Currently, the Company has obtained domestic registration approval for multiple high-end special APIs. Meanwhile, in order to further strengthen the efforts on the business transformation and upgrading, the Group gradually disposed of some subsidiaries whose results and product services deviated from the long-term development objectives of the Group. This strategic upgrade layout will lead to a decline in revenue in the short term, but long-term corporate profitability and profit margin will therefore get improved. In addition, the business production line will focus more on high-end special APIs business and move towards the development of integrated CDMO formulation in the future.

At present, there are more than 20 special APIs registered in the API business segment of the Group, and a number of advanced intermediates products have been sold internationally, including 17 products at status A, 12 in evaluation and more than ten varieties will submit for filing continuously. Our products cover several major disease fields, including cardiovascular and cerebrovascular, neural and digestion, etc. Among them, there are Oxcarbazepine, Levetiracetam, Sacubitril Valsartan Sodium, Dabigatran Etextilate and other blockbuster varieties with huge demand in formulation. Meanwhile, the Company also launched multiple special API varieties and had them approved successively as planned, with rapid increase in the volume of several advantageous varieties by virtue of the demand due to the nationally centralized procurement, such as Lacosamide and Tenofovir Disoproxil, etc.

The Group is bullish about the historical opportunities of explosive growth for domestic CDMO companies brought by the rise of China's mega wave in innovative drugs. Faced with the currently surging market demand, backed by the Group's R&D and production technology advantages, cost advantages, perfect quality management and control system established over the past two decades, as well as the position as an overseas-listed company and the basic background under which it has been widely recognised by domestic and international customers, the CDMO business segment of Sihuan Pharmaceutical is expected to, relying on its guaranteed brand reputation, explore continuous business cooperation with existing customers, and expand to new end customers such as domestic and overseas large pharmaceutical companies to implement several cooperation projects, so as to further ensure rapid business growth.

**3. Generic drugs: Proposed disposal of some or all generic drugs that do not meet performance expectations or do not meet long-term strategic development objectives and other non-core traditional pharmaceutical or healthcare businesses and assets, so as to fully optimize and upgrade the Company’s asset structure and enhance its long-term financial performance**

Since 2008, with the “new medical reform” as the beginning point, China’s pharmaceutical industry and market have undergone profound changes over the past decade, during which significant changes in policy, economy, society, technology and other respects have implied the gradual journey to an end of the traditional model in China’s pharmaceutical industry, while the market is prepared to fully embrace a new pharmaceutical ecology. Over the past decade, the implementation of the “Healthy China” strategy, the promotion of the further reform of the medical and healthcare system under the “13th Five-Year Plan”, the introduction of blockbuster policies on consistency evaluation of generic drugs, self-inspection and verification on clinical trial data of drugs, classification reform in chemical drug registration, have shown both China’s ambition of drug innovation to build a nation with impressive pharmaceutical strengths, and a new landscape featured with concentration at the top level, innovation leading in the overall market.

In response to the changes in the market, industry and policies, and to face the challenges brought by the development, the Group, following a review of its business layout and medium- and long-term strategic development direction, intends to propose the disposal of some or all generic drugs that do not meet performance expectations or do not meet long-term strategic development objectives and other non-core pharmaceutical or healthcare businesses and assets. Meanwhile, the Group intends to complete the potential disposal in stages over the next 12–24 months, with the specific scope and implementation details of the potential disposal to be finalized depending on market conditions and negotiations with potential buyers.

The generic drug business has been the Group’s steady “cash cow” in the past. However, the Group’s generic drug business has completed its “historical mission” after a long period of platform cultivation and incubation over the past decade, during which the Group’s innovative drug and medical aesthetics businesses gradually matured with products beginning to generate revenues, and each platform starting to operate separately and gaining independent financing capabilities. The Group believes that after the selective disposal of the traditional generic business which bears declining profitability and is materially affected by policies, the overall profit structure of the Company will be optimized and improved efficiently; meanwhile, with the income from cash assets generated from the disposal of the relevant business, a series of “cages” are vacated for the Group to make room for innovative businesses and further focus its management and corporate resources on the medical aesthetics segment with high growth and profitability, and the biopharmaceutical segment with high value growth, so as to solidly implement the Group’s two-wheel drive strategy of “medical aesthetics + biopharmaceuticals”, improve the efficiency of the Group’s resource allocation and enhance the Group’s mid- to long-term financial performance.

In the first half of 2022, the Group has disposed of the 99.9% equity interest in Beijing Xuansheng Pharmaceutical Co., Ltd. (“**Beijing Xuansheng Pharmaceutical**”), at a consideration of RMB118 million. One of the main products held by Beijing Xuansheng Pharmaceutical is Roxatidine Acetate Hydrochloride for Injection (trade name: Jie’ao).

The disposal was mainly due to the potential competition between Beijing Xuansheng Pharmaceutical and Xuanzhu Biopharm as the Group is currently seeking to spin off Xuanzhu Biopharm for a separate listing on the STAR Market. Meanwhile, Beijing Xuansheng Pharmaceutical recorded a net loss of RMB95,000 in 2021 and may continue to suffer from loss under the impacts of the pharmaceutical industry policy. Thus, after the disposal of Beijing Xuansheng Pharmaceutical, the Group can not only focus its management and resources on the biopharmaceutical segment with high value growth, but also enhance the overall profitability of the Group by disposing the businesses that did not meet the performance expectations.

The Group's important strategic initiatives are in fact fully in line with the past developing trends and layout of leading international pharmaceutical giants. Through the reorganization and integration of key businesses and the separation of non-core businesses, the Group is able to focus more on two major strategic segments, namely the medical aesthetics and biopharmaceuticals and enhance the efficiency of resource allocation. In addition, these initiatives also bring more clarity to the Group's valuation system and fully demonstrate the long-term value that the innovative drugs plus medical aesthetics business system can bring to the Group after the disposal of the generics business, thus helping to maximize shareholders' value.

## **Prospects and Future Growth Strategies**

The Group will continue to focus on the two major business segments of medical aesthetics and biopharmaceuticals to further upgrade its corporate value in 2022 based on the high growth in 2021.

As the "star" business of the Group, MeiYan KongJian, a medical aesthetics platform, will accelerate the upgrading and development of 2.0 version for marketing and sales, strengthen its capacity as an international medical aesthetics platform integrated with R&D, production and sales, and with a full product matrix covering the life cycle of beauty seekers. It will continue to launch and register a number of products while continuously optimizing the layout of production capacity, enriching the content of marketing service, and enhancing the capability of connecting with quality major customers and the empowerment of sales channels, to further ensure the high growth of revenue, earnings, team and network coverage. Looking forward to the future development direction of the Group's medical aesthetic business, we will leverage on the development experience from international giant Allergan, and achieve the goal of building a leading platform of the domestic medical aesthetic industry through comprehensive product matrix, "self-developed + BD" dual engine-driven and overseas high-quality mergers and acquisitions.

Xuanzhu Biopharm will accelerate the spin-off and listing on the STAR Market while continuing to promote the product R&D and introduce industry-leading technology and blockbuster products. It will insistently adhere to independent R&D and continuous innovation. It aims at transforming the R&D investment into profit and from Biotech to Biopharma, so as to become a leading innovative drug company focusing on the field of tumor drugs as well as small molecules and macro molecules with the capabilities to develop comprehensive innovative drugs in China.

Huisheng Biopharm has successfully completed its Round A financing of RMB500 million, establishing its valuation to RMB5 billion. In the future, Huisheng Biopharm will advance the R&D of diabetes pipelines to guarantee the leading position of various innovative products in terms of the R&D and registration. Through a complete layout of multi mechanisms, multiple varieties of diabetes pipelines, it continues to provide full coverage and comprehensive treatment solutions. With its localized production and cost advantages and leveraging the sales advantages of Sihuan Pharmaceutical, it will further achieve the strategic goal of building a biopharmaceutical leader in the field of diabetes and complications with a full product matrix coverage.

Relying on the team with extensive high-end API development and industrialization experience, the Group will build high-standard production management system for CDMO business, implement the integrated CDMO two-wheel drive strategy of API + formulation, expand from the tailor-made production of advanced intermediates to providing CDMO services to pharmaceutical companies as end customers, transform and upgrade from the common API business to special high-end API business. Quality domestic and foreign customers will be constantly introduced as the Group is committed to providing global customers with leading integrated solutions with special APIs as the core and undertaking high-end CDMO businesses.

Generic drug segment of the Group will continuously implement the disposal of some or all generic drugs that do not meet performance expectations or do not meet long-term strategic development objectives and other non-core pharmaceutical or healthcare businesses and assets. However, for products and businesses that still have high growth or have key growth potential, they will continue to remain within the Group's system and serve as a stable source of cash income together with the medical aesthetics business. The Group believes that these strategic measures for the generic drug business segment will further improve the efficiency of the Group's resources allocation, enhance the mid- to long-term financial performance, allow the Company to focus on the medical aesthetics and biopharmaceutical business segments, so as to promote the further release of enterprise valuation.

## **Conclusion**

Sihuan Pharmaceutical always insists on being a friend of time and builds the Group's product pipeline with high-quality ingenuity. In 2022, the Group will focus on the medical aesthetics and biopharmaceutical businesses, divest and dispose of some or all generic drugs that do not meet performance expectations or do not meet long-term strategic development objectives and other non-core pharmaceutical or healthcare businesses and assets. Through continuous implementation of the two-wheel drive strategy of "medical aesthetics + biopharmaceuticals" with high efficiency, the Group will promote the further release of corporate value, and achieve the strategic goal of building China's leading medical aesthetic and biopharmaceutical company, and bring more and better investment returns to the respected shareholders and investors who have always been firmly believing in and supporting the Group.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	4	1,464,197	1,907,219
Cost of sales		<u>(460,508)</u>	<u>(440,096)</u>
<b>GROSS PROFIT</b>		<b>1,003,689</b>	<b>1,467,123</b>
Other income	4	81,690	80,005
Other gains – net	4	234,258	246,507
Impairment losses on property, plant and equipment		(98,097)	—
Distribution expenses		(229,642)	(260,923)
Administrative expenses		(320,311)	(278,664)
Research and development expenses		(457,267)	(333,565)
Other expenses		<u>(11,145)</u>	<u>(34,523)</u>
<b>OPERATING PROFIT</b>		<b>203,175</b>	<b>885,960</b>
Finance expenses	5	(99,400)	(15,778)
Share of profits and losses of investments accounted for using the equity method		<u>(47,733)</u>	<u>(50,699)</u>
<b>PROFIT BEFORE TAX</b>		<b>56,042</b>	<b>819,483</b>
Income tax expense	6	<u>(151,943)</u>	<u>(225,265)</u>
<b>(LOSS)/PROFIT FOR THE PERIOD</b>		<b><u>(95,901)</u></b>	<b><u>594,218</u></b>
<b>Attributable to:</b>			
Owners of the Company		40,376	611,424
Non-controlling interests		<u>(136,277)</u>	<u>(17,206)</u>
		<b><u>(95,901)</u></b>	<b><u>594,218</u></b>

		<b>Six months ended 30 June</b>	
		<b>2022</b>	2021
		<b>RMB'000</b>	<b>RMB'000</b>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>(LOSS)/PROFIT FOR THE PERIOD</b>		<b>(95,901)</b>	594,218
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>		<u>—</u>	<u>—</u>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD</b>		<u><b>(95,901)</b></u>	<u>594,218</u>
<b>Attributable to:</b>			
Owners of the Company		<b>40,376</b>	611,424
Non-controlling interests		<u><b>(136,277)</b></u>	<u>(17,206)</u>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD</b>		<u><b>(95,901)</b></u>	<u>594,218</u>
		<b>RMB</b>	<b>RMB</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<b>7</b>		
Basic earning per share for profit for the period		<u><b>0.43 cents</b></u>	<u>6.46 cents</u>
Diluted earning per share for profit for the period		<u><b>0.43 cents</b></u>	<u>6.42 cents</u>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		As at	
		30 June 2022	31 December 2021
	Notes	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	3,336,995	3,304,929
Right-of-use assets		801,038	787,773
Investment properties		221,058	224,269
Goodwill		28,352	28,352
Intangible assets		635,941	595,916
Investments accounted for using the equity method		788,525	705,533
Deferred tax assets		282,871	303,464
Financial assets at fair value through profit or loss	9	240,574	266,999
Other non-current assets		467,057	392,302
Pledged deposits		168,839	144,631
<b>Total non-current assets</b>		<u>6,971,250</u>	<u>6,754,168</u>
<b>CURRENT ASSETS</b>			
Inventories		700,684	715,298
Trade and other receivables	10	1,493,914	1,234,428
Financial assets at fair value through profit or loss	9	150,308	109,304
Cash and cash equivalents		5,095,645	5,682,425
<b>Total current assets</b>		<u>7,440,551</u>	<u>7,741,455</u>
<b>TOTAL ASSETS</b>		<u><u>14,411,801</u></u>	<u><u>14,495,623</u></u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	11	77,058	77,058
Share premium	11	3,882,304	3,882,304
Other reserves		(276,899)	(221,437)
Retained earnings		3,578,959	4,546,223
		<u>7,261,422</u>	<u>8,284,148</u>
<b>Non-controlling interests</b>		<u>840,877</u>	<u>865,918</u>
<b>Total equity</b>		<u><u>8,102,299</u></u>	<u><u>9,150,066</u></u>

		As at	
		30 June 2022	31 December 2021
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		221,311	222,390
Interest-bearing bank borrowings	12	670,238	813,216
Lease liabilities		47,121	31,463
Contract liabilities		7,075	9,969
Other non-current liabilities		2,305,701	1,766,684
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		<b>3,251,446</b>	<b>2,843,722</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	2,234,620	1,971,289
Interest-bearing bank borrowings	12	449,920	200,000
Contract liabilities		121,322	206,425
Income tax payable		215,475	111,247
Lease liabilities		11,362	5,193
Other current liabilities		25,357	7,681
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>3,058,056</b>	<b>2,501,835</b>
		<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>		<b>6,309,502</b>	<b>5,345,557</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>14,411,801</b>	<b>14,495,623</b>
		<hr/> <hr/>	<hr/> <hr/>



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the Company					Non- controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 1 January 2021 (audited)</b>	78,186	4,084,846	725,222	4,302,088	9,190,342	758,383	9,948,725
Profit/(loss) for the period	—	—	—	611,424	611,424	(17,206)	594,218
<b>Total comprehensive income/(loss) for the period</b>	—	—	—	611,424	611,424	(17,206)	594,218
Employee share award scheme: – Value of employee services (Note 15)	—	—	17,169	—	17,169	—	17,169
Dividends paid to non-controlling shareholders	—	—	—	—	—	(73,500)	(73,500)
Final 2020 dividend (Note 14)	—	—	—	(123,054)	(123,054)	—	(123,054)
Repurchase and cancellation of shares (Note 11)	(116)	(29,055)	—	—	(29,171)	—	(29,171)
Disposal of a subsidiary	—	—	(398)	274	(124)	(171)	(295)
Deemed dilution without change of control	—	—	135,310	—	135,310	87,934	223,244
Equity transfer without change of control	—	—	41,540	—	41,540	80,690	122,230
Capital contribution of subsidiaries	—	—	(654)	—	(654)	654	—
<b>As at 30 June 2021 (unaudited)</b>	<u>78,070</u>	<u>4,055,791</u>	<u>918,189</u>	<u>4,790,732</u>	<u>9,842,782</u>	<u>836,784</u>	<u>10,679,566</u>

Attributable to owners of the Company

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
<b>As at 1 January 2022 (audited)</b>	77,058	3,882,304	(221,437)	4,546,223	8,284,148	865,918	9,150,066
Profit/(loss) for the period	—	—	—	40,376	40,376	(136,277)	(95,901)
<b>Total comprehensive income/(loss) for the period</b>	—	—	—	40,376	40,376	(136,277)	(95,901)
Employee share award scheme:							
— Value of employee services (Note 15)	—	—	50,768	—	50,768	—	50,768
Final 2021 and special dividends (Note 14)	—	—	—	(1,007,640)	(1,007,640)	—	(1,007,640)
Special reserve for maintenance and production funds <sup>(i)</sup>	—	—	4,518	—	4,518	488	5,006
Recognition of redemption liabilities on a subsidiary's shares	—	—	(400,000)	—	(400,000)	—	(400,000)
Capital contribution by non-controlling shareholders of a subsidiary	—	—	289,252	—	289,252	110,748	400,000
<b>As at 30 June 2022 (unaudited)</b>	<u>77,058</u>	<u>3,882,304</u>	<u>(276,899)</u>	<u>3,578,959</u>	<u>7,261,422</u>	<u>840,877</u>	<u>8,102,299</u>

Note:

- (i) Pursuant to the relevant PRC regulations, the Group is required to transfer production and maintenance funds at fixed rates based on revenue, to a specific reserve account. The production and maintenance funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of production and maintenance funds utilised would be deducted from the specific reserve account.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	16	403,062	695,448
Income tax paid		(28,201)	(80,357)
<b>Net cash flows from operating activities</b>		<b>374,861</b>	<b>615,091</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital contribution to an associate		(165,000)	—
Purchases of items of property, plant and equipment		(264,673)	(320,033)
Purchases of intangible assets		(81,873)	(21,423)
Purchases of financial assets at fair value through profit or loss		(8,514,130)	(9,736,476)
Proceeds from disposal of financial assets at fair value through profit or loss		8,478,330	9,316,750
Proceeds from disposal of property, plant and equipment		12,676	445
Advances of loans to third parties		(29,300)	(141)
Advances of loans to an associate		(25,000)	(93,021)
Repayment of loans from associates		—	25,000
Repayment of loans from a third party		—	762
Disposal of a subsidiary, net of cash		109,286	—
Acquisition of subsidiaries and a business combination, net of cash acquired		—	(106,300)
Increase in pledged deposits		(24,208)	—
Interest received		31,462	39,082
<b>Net cash flows used in investing activities</b>		<b>(472,430)</b>	<b>(895,355)</b>

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<i>Notes</i>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of bank borrowings	<b>(32,757)</b>	(412,940)
Repayment of other borrowings	<b>(1,500)</b>	—
Proceeds from bank borrowings	<b>139,700</b>	501,767
Proceeds from other borrowings	<b>46,723</b>	—
Repurchase and cancellation of shares	<i>11</i> —	(29,171)
Principal portion of lease payments	<b>(8,527)</b>	(893)
Capital contribution by non-controlling shareholders of a subsidiary	<b>400,000</b>	223,244
Partial disposal of equity interests in subsidiaries without change of control	—	113,410
Dividends paid to Company's shareholders and non-controlling shareholders	<b>(1,007,640)</b>	(73,500)
Interest paid	<b>(25,210)</b>	(14,844)
<b>Net cash flows (used in)/from financing activities</b>	<b>(489,211)</b>	307,073
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(586,780)</b>	26,809
Cash and cash equivalents at beginning of the period	<b>5,682,425</b>	4,604,041
<b>Cash and cash equivalents at end of the period</b>	<b>5,095,645</b>	4,630,850
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>4,408,403</b>	2,708,288
Unpledged time deposits	<b>687,242</b>	1,922,562
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	<b>5,095,645</b>	4,630,850

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2022

## 1. CORPORATE AND GROUP INFORMATION

Sihuan Pharmaceutical Holdings Group Ltd. (the “**Company**”) was incorporated in Bermuda under the Bermuda Companies Act as an exempted company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together, the “**Group**”) are the research and development (“**R&D**”), manufacturing and sale of pharmaceutical and medical aesthetic products in the People’s Republic of China (the “**PRC**”).

The address of the Company’s registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of the principal place of business of the Group in Hong Kong is Room 4309, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, and the address of the principal place of business in Beijing is 22/F, Building 4, Zhubang 2000, West Balizhuang, Chaoyang District, Beijing 100025, the PRC.

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

### 2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2022 have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021.

The interim condensed consolidated financial information are presented in thousand Renminbi (“**RMB’000**”), unless otherwise stated. The interim condensed consolidated financial information was authorised for issue in accordance with a resolution of the directors on 30 August 2022.

### 2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised International Financial Reporting Standards (“**IFRSs**”) for the first time for the current period’s financial information.

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Annual Improvements to IFRSs 2018–2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) Annual Improvements to *IFRSs 2018–2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:
- IFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group. Or add the impact upon initial application
  - IFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

### 3. SEGMENT INFORMATION

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

- (a) the medical aesthetic products segment including the filling, shaping, supporting, supplementing, optoelectronic device, body sculpturing, skin care and others to provide non- or minimally invasive medical aesthetics comprehensive solutions;
- (b) the innovative medicine and other medicine segment; and
- (c) the generic medicine segment.

The chief operating decision-maker has been identified as the executive directors of the board of the Company. The executive directors of the board review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

#### Six months ended 30 June 2022

	<b>Medical aesthetic products <i>RMB'000</i> (Unaudited)</b>	<b>Innovative medicine and other medicine <i>RMB'000</i> (Unaudited)</b>	<b>Generic medicine <i>RMB'000</i> (Unaudited)</b>	<b>Total <i>RMB'000</i> (Unaudited)</b>
<b>Segment Revenue</b> (Note 4)				
Sales to external customers	98,612	132,598	1,232,987	1,464,197
Intersegment sales	—	14,042	8	14,050
	98,612	146,640	1,232,995	1,478,247
Reconciliation:				
Elimination of intersegment sales				(14,050)
Revenue				<u>1,464,197</u>
<b>Segment results</b>	<b>41,586</b>	<b>(498,070)</b>	<b>683,114</b>	<b>226,630</b>
Reconciliation:				
Unallocated other income				13,606
Unallocated other gains — net				3,089
Unallocated expenses				(124,831)
Unallocated finance expenses				(14,719)
Share of profits and losses of investments accounted for using the equity method				(47,733)
Profit before tax				<u>56,042</u>

**Six months ended 30 June 2021**

	Medical aesthetic products <i>RMB'000</i> (Unaudited)	Innovative medicine and other medicine <i>RMB'000</i> (Unaudited)	Generic medicine <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
<b>Segment Revenue</b> (Note 4)				
Sales to external customers	257,923	139,509	1,509,787	1,907,219
Intersegment sales	—	15,518	—	15,518
	<u>257,923</u>	<u>155,027</u>	<u>1,509,787</u>	<u>1,922,737</u>
Reconciliation: Elimination of intersegment sales				<u>(15,518)</u>
Revenue				<u><u>1,907,219</u></u>
<b>Segment results</b>	199,047	(268,836)	915,280	845,491
Reconciliation:				
Unallocated other income				9,818
Unallocated other gains — net				59,314
Unallocated expenses				(43,747)
Unallocated finance expenses				(694)
Share of profits and losses of investments accounted for using the equity method				<u>(50,699)</u>
Profit before tax				<u><u>819,483</u></u>

During the six months ended 30 June 2022, all sales were from distributors and there were no distributors of the Group from which the revenue amounted to 10% or more of the Group's revenue (six months ended 30 June 2021: Nil).



#### 4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue and other income is as follows:

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>2022</b> <i>RMB'000</i> <b>(Unaudited)</b>	<b>2021</b> <i>RMB'000</i> <b>(Unaudited)</b>
<b>Revenue</b>			
Revenue from contracts with customers:			
Sale of pharmaceutical and medical aesthetic products	<i>i</i>	<u>1,464,197</u>	<u>1,907,219</u>
<b>Other income</b>			
Interest income		74,141	68,720
Hospital services income		4,161	—
Research and development income		—	160
Gross rental income from investment property operating leases	<i>ii</i>	2,116	5,376
Sales of distribution rights	<i>iii</i>	994	3,105
Others		<u>278</u>	<u>2,644</u>
		<u>81,690</u>	<u>80,005</u>

Notes:

- (i) Total revenue from contracts with customers is derived from the sale of pharmaceutical and medical aesthetic products in Mainland China and is recognised as goods transferred at a point in time.
- (ii) The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing. An analysis of rental income is as follows:

	<b>Six months ended 30 June</b>	
	<b>2022</b> <i>RMB'000</i> <b>(Unaudited)</b>	<b>2021</b> <i>RMB'000</i> <b>(Unaudited)</b>
Geographical markets		
Mainland China	236	1,467
Hong Kong	<u>1,880</u>	<u>3,909</u>
	<u>2,116</u>	<u>5,376</u>

- (iii) The geographical market of all the sales of distribution rights is Mainland China. The performance obligation is satisfied over time as the distributors are granted for the rights to distribute the Group's products for certain period and advances are normally required on the inception of distribution agreement. Contracts for the sale of distribution rights are for periods of five years.

The following table shows the amounts of other income recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	(Unaudited)
Recognition of other income that was included in contract liabilities at the beginning of the reporting period:		
Sale of distribution rights	<u>994</u>	<u>275</u>

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2022</b>	2021
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	(Unaudited)
<b>Other gains — net</b>			
Government grants	<i>i</i>	<b>68,550</b>	180,421
Exchange losses, net		<b>(44,231)</b>	—
Gain on deemed dilution		<b>6,452</b>	59,228
Gain on disposal of a subsidiary		<b>211,592</b>	—
(Loss)/gain on changes in fair value of financial assets at FVTPL		<b>(21,339)</b>	6,830
Others		<u>13,234</u>	<u>28</u>
		<u><b>234,258</b></u>	<u>246,507</u>

Note:

- (i) The total government grants represented the subsidies received from the local government and no specific conditions were attached to them.

## 5. FINANCE EXPENSES

An analysis of finance expenses is as follows:

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2022</b>	2021
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	(Unaudited)
Interest expenses on:			
Interest-bearing bank and other borrowings	<i>12</i>	<b>27,072</b>	20,947
Redemption liabilities on subsidiaries' shares		<b>72,611</b>	—
Lease liabilities		<u>1,395</u>	<u>89</u>
Total interest expense on financial liabilities not at fair value through profit or loss		<b>101,078</b>	21,036
Less: Interest capitalised		<u>(1,678)</u>	<u>(5,258)</u>
		<u><b>99,400</b></u>	<u>15,778</u>

## 6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2021: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2022, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (six months ended 30 June 2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (six months ended 30 June 2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (six months ended 30 June 2021: 16.5%). The PRC subsidiaries of the Group have determined and paid the corporate income tax in accordance with the Corporate Income Tax Law of the PRC at the tax rate of 25% (six months ended 30 June 2021: 25%). Certain PRC subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for the six months ended 30 June 2022 and 2021 was provided for at a preferential tax rate of 15%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The income tax expense of the Group for the six months ended 30 June 2022 and 2021 is analysed as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current	132,429	223,035
Deferred	19,514	2,230
<b>Total tax charge for the period</b>	<b>151,943</b>	<b>225,265</b>

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to owners of the Company of RMB40,376,000 (six months ended 30 June 2021: RMB611,424,000), and the weighted average number of ordinary shares of 9,329,999,000 shares (six months ended 30 June 2021: 9,460,906,000 shares) in issuance during the period, as adjusted to reflect the repurchased shares during the period.

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

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>(Unaudited)</b>	(Unaudited)
<b>Earnings</b>		
Profit attributable to owners of the Company (RMB'000)	<u><b>40,376</b></u>	<u>611,424</u>
<b>Shares</b>		
Weighted average number of ordinary shares in issue for basic earnings per share (Share'000)	<u><b>9,329,999</b></u>	<u>9,460,906</u>
Effect of dilution – weighted average number of ordinary shares:		
Share options (Share'000) (i)	<u>—</u>	<u>57,687</u>
	<u><b>9,329,999</b></u>	<u>9,518,593</u>
Basic earnings per share for profit for the period (RMB cents)	<u><b>0.43</b></u>	<u>6.46</u>
Diluted earnings per share for profit for the period (RMB cents)	<u><b>0.43</b></u>	<u>6.42</u>

Note:

- (i) No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2022 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

## **8. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2022, the Group acquired assets at a cost of RMB290,156,000 (six months ended 30 June 2021: RMB331,137,000).

Assets with a net book value of RMB13,484,000 were disposed of by the Group during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB2,975,000), resulting in a net loss on disposal of RMB808,000 (six months ended 30 June 2021: RMB2,530,000).

During the six months ended 30 June 2022, an impairment loss of RMB98,097,000 (six months ended 30 June 2021: Nil) was recognised for certain property, plant and equipment in the generic medicines segment as a result of the significant loss incurred during the period. The recoverable amount was nil which has been determined at the level of the cash-generating unit based on a value-in-use calculation using cash flow projections. The cash-generating unit mainly consisted of property, plant and equipment allocated to the generic medicines segment. The discount rate applied to the cash flow projections is 15%.

## 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Set out below is an overview of financial assets, other than cash and cash equivalents, trade and other receivables, held by the Group as at 30 June 2022 and 31 December 2021:

		As at	
		30 June 2022	31 December 2021
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Non-current</b>			
Financial assets at fair value through profit or loss (“ <b>FVPL</b> ”):			
Unlisted equity investments, at fair value	<i>i</i>	240,574	266,999
<b>Current</b>			
Financial assets at FVPL:			
Wealth management products	<i>ii</i>	150,308	109,304
		390,882	376,303

Notes:

- (i) The amount represents equity investments in the unquoted equity shares of KBP Biosciences Holdings Limited, Lindeman Asia No.12 Investment Fund, DJS Antibodies Limited, PsiOxus Therapeutics Limited, Ascendum Healthcare Fund, Shenzhen MileBot Robotics Co., Ltd., Beijing Gretson Biomedical Technology Co., Ltd., Beijing Gerui Biomedical Technology Co., Ltd., and Beijing Xuansheng Pharmaceutical Co., Ltd. The Group intends to hold these equity shares for the foreseeable future and has not irrevocably elected to classify them as financial assets at fair value through other comprehensive income.
- (ii) The amount represents wealth management products issued by certain reputable banks in Mainland China with no fixed interest rate. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

## 10. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Trade receivables – third parties	774,695	651,490
Notes receivable	127,156	171,215
Loans to associates	206,986	208,111
Loans to third parties	13,450	—
Prepayments to suppliers	204,077	140,091
Amounts due from other related parties	9,600	9,600
Amount due from a joint venture	2,881	2,911
Amount due from an associate	224	—
Dividends receivable	40,727	—
Receivable for disposal of a subsidiary	103,367	—
Other receivables	108,760	114,481
	<u>1,591,923</u>	<u>1,297,899</u>
Provision of impairment on trade receivables	(74,090)	(43,640)
Provision of impairment on other receivables	(23,919)	(19,831)
	<u><u>1,493,914</u></u>	<u><u>1,234,428</u></u>

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	As at	
	30 June 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Within 3 months	502,032	426,782
3 to 6 months	30,260	35,746
6 to 12 months	134,013	137,682
More than 1 year	34,300	7,640
	<u>700,605</u>	<u>607,850</u>

## 11. SHARE CAPITAL AND SHARE PREMIUM

	Number of authorised ordinary shares <i>Share'000</i>	Number of issued and fully paid ordinary shares <i>Share'000</i>	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at 31 December 2020</b> (audited) (Hong Kong dollar ("HK\$") 0.01 per share)	100,000,000	9,465,682	78,186	4,084,846	4,163,032
<b>Movement for the six months ended 30 June 2021:</b>					
<b>Repurchase and cancellation of shares (i)</b>	—	(13,900)	(116)	(29,055)	(29,171)
<b>As at 30 June 2021 (unaudited)</b> (HK\$0.01 per share)	100,000,000	9,451,782	78,070	4,055,791	4,133,861
<b>As at 31 December 2021</b> (audited) and 30 June 2022 (unaudited) (HK\$0.01 per share)	<u>100,000,000</u>	<u>9,329,999</u>	<u>77,058</u>	<u>3,882,304</u>	<u>3,959,362</u>

Note:

- (i) During the six months ended 30 June 2021, the Company repurchased 13,900,000 shares of its own shares on the Stock Exchange at a total consideration, including expenses, of HK\$34,897,000 (equivalent to RMB29,171,000). As at 30 June 2021, these repurchased shares were cancelled.

## 12. INTEREST-BEARING BANK BORROWINGS

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
<b>Current</b>		
Secured bank borrowings	419,920	170,000
Unsecured bank borrowings	30,000	30,000
	<u>449,920</u>	<u>200,000</u>
<b>Non-current</b>		
Secured bank borrowings	670,238	813,216
	<u>1,120,158</u>	<u>1,013,216</u>

	As at	
	30 June 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)

Analysed into:

Bank borrowings:

Within the first year	449,920	200,000
Within the second to fifth years	140,415	327,324
Beyond five years	529,823	485,892
	<u>1,120,158</u>	<u>1,013,216</u>

Notes:

(a) Certain of the Group's bank borrowings are secured by:

- (i) Mortgages over the Group's leasehold land and property, plant and equipment with an aggregate carrying value of RMB768,810,000 (31 December 2021: RMB802,340,000);
- (ii) The pledge of certain of the Group's time deposits amounting to RMB140,000,000 (31 December 2021: RMB140,000,000); and
- (iii) A portion of equity interests in a subsidiary.

(b) All bank borrowings are denominated in RMB.

(c) The effective interest rates of the bank borrowings as at 30 June 2022 range from 3.45% to 4.90% (31 December 2021: 3.45% to 4.90%) per annum.

### 13. TRADE AND OTHER PAYABLES

	As at	
	30 June 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)

Trade payables	167,486	118,906
Payables for construction and purchase of equipment	148,635	104,838
Payable for acquisitions of subsidiaries	342,750	342,750
Payable for additional interest of a subsidiary	5,250	5,250
Payable for research and development expenses	32,583	19,295
Deposit payables	361,075	189,597
Accrued reimbursement to distributors	851,239	968,498
Salaries payable	62,463	80,750
Interest payables	8,919	8,735
Dividends payable	324	324
Other payables	253,896	132,346
	<u>2,234,620</u>	<u>1,971,289</u>



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

	<b>As at</b>	
	<b>30 June 2022</b>	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Within 6 months	126,242	86,623
6 months to 1 year	22,366	7,896
More than 1 year	18,878	24,387
	<u>167,486</u>	<u>118,906</u>

#### 14. DIVIDENDS

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Dividends declared and paid to owners of the Company during the period:		
Final cash dividend for 2021 of RMB1.3 cents (2021: Final cash dividend for 2020 of RMB1.3 cents) per ordinary share	121,290	123,054
Special cash dividend of RMB9.5 cents (2021: Nil) per ordinary share	886,350	—
	<u>1,007,640</u>	<u>123,054</u>

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Dividends declared to owners of the Company for the period:		
Interim cash dividend for 2022 of RMB0.1 cents (2021: Nil) per ordinary share	9,330	—
Special cash dividend of RMB3.2 cents (2021: Nil) per ordinary share	298,560	—
	<u>307,890</u>	<u>—</u>

A final cash dividend of RMB1.3 cents per ordinary share for the year ended 31 December 2021 and a special cash dividend of RMB9.5 cents per ordinary share amounting to RMB1,007,640,000 were approved by the shareholders at the annual general meeting of the Company held on 29 March 2022. Among which, RMB1,007,640,000 have been paid as at 14 June 2022.

On 30 August 2022, the board of directors declared an interim dividend of RMB0.1 cents (six months ended 30 June 2021: Nil) and a special cash dividend of RMB3.2 cents (six months ended 30 June 2021: Nil) per ordinary share, amounting to a total of approximately RMB307,890,000 (six months ended 30 June 2021: Nil).

## 15. SHARE-BASED PAYMENTS

### Share Incentive Scheme of Sihuan Pharmaceutical Holdings Group Ltd.

#### (a) Share award scheme

An award scheme for the purpose of incentivising the management of the Group (the “Employee Share Award Scheme” or the “Scheme” has been adopted by certain shareholders of the Company (namely, Plenty Gold Enterprises Limited (“**Plenty Gold**”), Dr. Che Fengsheng and Dr. Guo Weicheng) since 25 October 2010. On 25 January 2013, another shareholder of the Company (namely, MSPEA Pharma Holdings B.V.) also participated in the Employee Share Award Scheme. Trustee Co. (a private trust company established in the British Virgin Islands and wholly owned by Plenty Gold) has been appointed as the trustee to hold the reserved shares under the Employee Share Award Scheme. Plenty Gold, Dr. Che Fengsheng and Dr. Guo Weicheng, as settlors of a trust, have reserved and set aside a total of 33,750,000 shares; and MSPEA Pharma Holdings B.V. has reserved and set aside an additional 3,750,000 shares, all of which are being held by Trustee Co. as trustee for the Employee Share Award Scheme. The Employee Share Award Scheme involves granting existing shares held by Trustee Co., and no new shares will be issued pursuant to the Employee Share Award Scheme.

The Company measures the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognised in equity as a contribution from the major shareholders. No new shares will be issued by the Company under the Employee Share Award Scheme and there is no dilution impact on the earnings per share calculation as a result of the Employee Share Award Scheme.

Under the Employee Share Award Scheme, awards were granted to the eligible employees of the Company and are exercisable and will be converted into shares of the Company of a specific amount, held by Trustee Co., designated in each financial year during the period from the grant date up to the expiry date of the relevant awards granted.

The summary of the share awards granted to certain employees of the Group is as follows:

Grant date	Exercise price in HK\$ per share award	Number of awards granted '000
20 March 2012	3.19	14,150
27 September 2013	3.19	19,750
21 October 2013	0.70	2,050
		35,950

On 28 June 2016, the Group modified the Employee Share Award Scheme. The remaining 31,448,172 share options, which were granted to but not yet exercised by 234 employees under the Employee Share Award Scheme, were replaced by new share awards with an exercise price of HK\$1.57 per share award.

The following share awards were outstanding under the Scheme during the period:

	Weighted average exercise price HK\$ per share	2022 Number of awards '000	2021 Number of awards '000
At 1 January	—	—	964
Exercised during the period	—	—	(964)
At 30 June	—	—	—

The Company had no outstanding awards as at 30 June 2022 under this scheme (30 June 2021: Nil).

For the six months ended 30 June 2022, no expenses (six months ended 30 June 2021: RMB67,000) were charged to the interim condensed consolidated statement of profit or loss and other comprehensive income for share awards granted to employees with a corresponding change in equity.

**(b) Share option scheme**

The Company operates a share option scheme (the “**Share Option Scheme**”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company’s shareholders, and any non-controlling shareholder in the Company’s subsidiaries. The Scheme became effective on 26 August 2020 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

On 26 August 2020, the Company granted a total of 94,656,000 share options to the eligible participants of the Company to subscribe for a total of 94,656,000 ordinary shares of HK\$0.01 each in the share capital of the Company pursuant to the share option scheme of the Company adopted on 24 October 2017. All share options granted pursuant to the Share Option Scheme to the participants have a vesting period of three years after the grant date.

On 1 September 2021, the Company granted a total of 7,500,000 share options to the eligible participants of the Company to subscribe for a total of 7,500,000 ordinary shares of HK\$0.01 each in the share capital of the Company pursuant to the share option scheme of the Company adopted on 24 October 2017. All share options granted pursuant to the Share Option Scheme to the participants have a vesting period of three years after the grant date.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

The summary of the share options granted to certain employees of the Group is as follows:

<b>Grant date</b>	<b>Exercise price in HK\$ per share</b>	<b>Number of options granted '000</b>
26 August 2020	<b>0.97</b>	<b>94,656</b>
1 September 2021	<b>2.20</b>	<b>7,500</b>
		<b><u>102,156</u></b>

The following share options were outstanding under the Share Option Scheme during the period:

	<b>2022</b>		<b>2021</b>	
	<b>Weighted average exercise price HK\$ per share</b>	<b>Number of options '000</b>	<b>Weighted average exercise price HK\$ per share</b>	<b>Number of options '000</b>
At 1 January	<b>1.07</b>	<b>98,776</b>	0.97	94,656
Forfeited during the period	<b>0.97</b>	<b>(4,900)</b>	—	—
At 30 June	<b>1.08</b>	<b><u>93,876</u></b>	0.97	<b><u>94,656</u></b>

The exercise prices and expiry dates of the share options outstanding as at the end of the period are as follows:

Expiry date	Exercise price HK\$ per share	Number of options		Number of outstanding vested and exercisable options '000	
		'000		'000	
		2022	2021	2022	2021
25 August 2030	0.97	86,376	94,656	46,704	22,169
1 September 2031	2.20	7,500	—	—	—
		<u>93,876</u>	<u>94,656</u>	<u>46,704</u>	<u>22,169</u>

Out of the 93,876,000 (30 June 2021: 94,656,000) outstanding awards, 46,704,000 (30 June 2021: 22,169,000) awards were exercisable at 30 June 2022.

For the six months ended 30 June 2022, total expenses amounting to RMB6,187,000 (six months ended 30 June 2021: RMB8,199,000) were charged to the interim condensed consolidated statement of profit or loss and other comprehensive income for share options granted to employees with a corresponding change in equity.

At the end of the year, the Company had 93,876,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 93,876,000 additional ordinary shares of the Company and additional share capital of HK\$939,000 (equivalent to RMB786,000) (before issue expenses).

#### Share Incentive Schemes of Xuanzhu Biopharmaceutical Technology Co., Ltd.

On 26 June 2020, the board meeting of Xuanzhu Biopharmaceutical Technology Co., Ltd. (“Xuanzhu”) (a subsidiary of the Group) passed a resolution to adopt an employee share award plan (“Xuanzhu 2020 Share Incentive Scheme”) and 79,695,000 restricted shares of Xuanzhu were approved for eligible employees to subscribe at the price of RMB1.57 per share. These restricted shares have a contractual term of nil to three years.

On 10 September 2021, the board meeting of Xuanzhu passed resolutions to adopt an employee share award plan (“Xuanzhu 2021 Share Incentive Scheme”) including:

- 1) 49,642,300 restricted shares of Xuanzhu were approved for eligible employees to subscribe at the price of RMB1.2343 per share with a contractual term of three years;
- 2) The 29,900,000 shares of Xuanzhu, which were granted to executives under Xuanzhu 2020 Share Incentive Scheme, were replaced by a new contractual term of three years and an exercise price of RMB0.263 per restricted share;
- 3) The 44,045,000 restricted shares of Xuanzhu, which were approved to eligible employees under Xuanzhu 2020 Share Incentive Scheme, were modified with an exercise price of RMB0.263 per share; and
- 4) 46,888,350 restricted shares of Xuanzhu were approved for eligible employees to subscribe at the price of RMB0.263 per share with a contractual term of three years.

On 31 March 2022, the board meeting of Xuanzhu passed resolutions to adopt an employee share award plan (“**Xuanzhu 2022 Share Incentive Scheme**”) including:

- 1) 2,733,880 restricted shares of Xuanzhu were approved for eligible employees to subscribe at the price of RMB0.263 per share with a contractual term of three years; and
- 2) 124,120 restricted shares of Xuanzhu were approved for eligible employees to subscribe at the price of RMB1.2343 per share with a contractual term of three years.

The following share units were granted under share incentive schemes of Xuanzhu during the period:

	2022		2021	
	Weighted average subscription price RMB per share	Number of shares '000	Weighted average subscription price RMB per share	Number of shares '000
At 1 January	<b>0.938</b>	<b>169,887</b>	1.570	79,695
Granted during the Period	<b>0.305</b>	<b>2,858</b>	—	—
Forfeited during the Period	<b>0.776</b>	<b>(2,271)</b>	1.570	(14,100)
At 30 June	<b>0.930</b>	<b>170,474</b>	1.570	<b>65,595</b>

For the six months ended 30 June 2022, 2,271,000 shares (six months ended 30 June 2021: 14,100,000) have been forfeited.

The fair value of the restricted shares awards granted under the Xuanzhu 2022 Share Incentive Scheme was RMB5,387,000. For the six months ended 30 June 2022, the Group has recorded share-based compensation expenses of RMB37,428,000 (six months ended 30 June 2021: RMB2,578,000) in relation to share incentive schemes of Xuanzhu.

The fair value as at the grant date was determined using the market-value model. The following table lists the inputs to the model used:

	<b>Xuanzhu 2022 Share Incentive Scheme</b>
Grant date share price (RMB)	<b>2.19</b>
Subscription price (RMB)	<b>0.263–1.23</b>
Risk-free rate	<b>2.55%</b>
Volatility	<b>56.49%</b>

#### **Share Incentive Scheme of Jilin Huisheng Biological Pharmaceutical Co., Ltd.**

On 13 November 2020, the shareholders’ meeting of Jilin Huisheng Biological Pharmaceutical Co., Ltd. (“**Jilin Huisheng**”) (an indirect subsidiary of the Group) passed a resolution to adopt an employee share award plan (“**Jilin Huisheng Share Incentive Scheme**”) and 27,950,000 restricted shares of Jilin Huisheng were approved for eligible employees to subscribe at the price of RMB1.33 per share. These restricted shares have a contractual term of four years.

On 28 July 2021, the shareholders’ meeting of Jilin Huisheng passed the modification of the original contractual term of the Jilin Huisheng Share Incentive Scheme to all eligible employees, from four years to three years.

The following shares were granted under the Jilin Huisheng Share Incentive Scheme during the period:

	<b>2022</b>		<b>2021</b>	
	<b>Weighted average subscription price RMB per share</b>	<b>Number of shares '000</b>	<b>Weighted average subscription price RMB per share</b>	<b>Number of shares '000</b>
At 1 January	<b>1.33</b>	<b>24,395</b>	1.33	27,950
Forfeited during the period	<b>1.33</b>	<u><b>(210)</b></u>	—	<u>—</u>
At 30 June	<b>1.33</b>	<u><b>24,185</b></u>	1.33	<u>27,950</u>

For the six months ended 30 June 2022, 210,000 (six months ended 30 June 2021: Nil) shares have been forfeited.

For six months ended 30 June 2022, the Group has recorded share-based compensation expenses of RMB7,153,000 (six months ended 30 June 2021: RMB6,325,000) in relation to the Jilin Huisheng Share Incentive Scheme.

## 16. CASH GENERATED FROM OPERATIONS

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Profit before tax	56,042	819,483
Adjustments for:		
Depreciation of property, plant and equipment	143,983	123,239
Depreciation of investment properties	3,211	3,585
Depreciation of right-of-use assets	15,729	10,214
Amortisation of intangible assets	16,099	15,893
Write-down of inventories to net realisable value	10,729	—
Impairment losses of property, plant and equipment	98,097	—
Impairment losses of trade and other receivables	42,745	—
Special reserve for maintenance and production funds	5,006	—
Share of profits and losses of investments accounted for using the equity method	47,733	50,699
Gain on deemed dilution	(6,452)	(59,228)
Loss on disposal of property, plant and equipment	808	2,530
Loss on disposal of intangible assets	1,163	214
Gain on disposal of right-of-use assets	(24)	—
Gain on disposals of a subsidiary	(211,592)	—
Loss/(gain) on changes in fair value of financial assets at FVPL	21,339	(6,830)
Share-based payments	50,768	17,169
Interest expense	99,400	15,778
Interest income	(49,320)	(30,046)
Operating cash flows before working capital changes	345,464	962,700
Changes in operating assets and liabilities:		
Inventories	3,885	(69,822)
Trade and other receivables	(340,270)	(359,167)
Trade and other payables	481,980	161,737
Contract liabilities	(87,997)	—
Cash generated from operations	<u>403,062</u>	<u>695,448</u>

# Financial Review

## Revenue

Revenue of the Group for the Period decreased by 23.2% to approximately RMB1,464.2 million (six months ended 30 June 2021: RMB1,907.2 million). Among it, income from sales of generic medicine, which contributed to 84.2% of total revenue, was approximately RMB1,233.0 million (six months ended 30 June 2021: RMB1,509.8 million). It decreased by 18.3%, approximately RMB276.8 million. In addition, the revenue from medical aesthetic products decreased by 61.8% to approximately RMB98.6 million (six months ended 30 June 2021: RMB257.9 million), whereas the remaining revenue from innovative medicine and other medicine decreased by 4.9% to approximately RMB132.6 million (six months ended 30 June 2021: RMB139.5 million). The decrease in sales was resulted from the continuous decrease in sales of Key Monitoring List Products and the impact of the COVID-19 epidemic.

## Cost of sales

Cost of sales of the Group for the Period amounted to approximately RMB460.5 million (six months ended 30 June 2021: RMB440.1 million), accounting for approximately 31.5% of the total revenue.

## Gross profit

Gross profit for the Period amounted to approximately RMB1,003.7 million (six months ended 30 June 2021: RMB1,467.1 million) with a decrease of approximately RMB463.4 million, mainly due to the impact of the decrease in the revenue side. Overall gross profit margin decreased from 76.9% for the same period in the last year to 68.5% for the Period. The lower gross profit margin was mainly resulted from decreased sales of products which had better gross profit margins.

## Other gains — net

Other gains – net for the Period decreased by approximately RMB12.2 million to approximately RMB234.3 million (six months ended 30 June 2021: RMB246.5 million). It was mainly due to a decrease in government grants compared with the same period in the last year.

## Distribution expenses

Distribution expenses for the Period amounted to approximately RMB229.6 million (six months ended 30 June 2021: RMB260.9 million). The decrease of approximately RMB31.3 million compared with the same period in the last year was mainly due to the impact of the decrease in the income from sales.

## Administrative expenses

Administrative expenses for the Period increased by 14.9% to approximately RMB320.3 million (six months ended 30 June 2021: RMB278.7 million) as a result of an increase in overheads and activities of the Group.



## **R&D expenses**

R&D expenses for the Period amounted to approximately RMB457.3 million (six months ended 30 June 2021: RMB333.6 million) which represented an increase of 37.1%. It was mainly attributable to more efforts in R&D activities.

## **Other expenses**

Other expenses for the Period amounted to approximately RMB11.1 million (six months ended 30 June 2021: RMB34.5 million).

## **Profit before tax**

Profit before tax of the Group for the Period amounted to approximately RMB56.0 million (six months ended 30 June 2021: RMB819.5 million).

## **Income tax expense**

Income tax expense of the Group for the Period decreased by 32.6% to approximately RMB151.9 million (six months ended 30 June 2021: RMB225.3 million). The significant decrease was mainly attributable to lower profits generated compared with the same period in the last year.

## **Loss for the Period**

Due to the aforesaid, loss for the Period amounted to approximately RMB95.9 million (six months ended 30 June 2021: profit of RMB594.2 million).

## **Profit attributable to owners of the Company**

Profit attributable to owners of the Company for the Period amounted to approximately RMB40.4 million (six months ended 30 June 2021: RMB611.4 million).

## **Loss attributable to non-controlling interests**

Loss attributable to non-controlling interests for the Period amounted to approximately RMB136.3 million (six months ended 30 June 2021: RMB17.2 million), which is due to the loss on the Period caused by the increasing R&D activities in the innovative medicine and other medicine segment.

## **Liquidity and financial resources**

The Group maintained strong financial position. As at 30 June 2022, the Group's cash and cash equivalents amounted to approximately RMB5,095.6 million (31 December 2021: RMB5,682.4 million). As at the same date, bank borrowings of the Group amounted to approximately RMB1,120.2 million (31 December 2021: RMB1,013.2 million) and borrowings from non-controlling shareholders of a subsidiary of the Group amounted to approximately RMB76.8 million (31 December 2021: RMB31.5 million). Accordingly, the Group maintained net cash of over approximately RMB3,898.6 million (31 December 2021: RMB4,637.7 million). Approximately 75% of total amount of

borrowings were at floating rates and the remaining 25% were at fixed rates (31 December 2021: 78% floating; 22% fixed). The Group's debt-to-equity ratio, expressed as a percentage of borrowings over equity attributable to owners of the Company, was 16.5%.

In general, the Group places its excess cash into interest-bearing bank accounts. The Group may use extra cash for short-term investments for higher returns. Thus, the Group has entered into agreements with certain banks for surplus fund investment. According to the terms of the agreements signed, the total amount of investment conducted by the Group for the Period was approximately RMB8,514.1 million. The investments made by the Group were short-term in nature and mainly consisted of financial planning products purchased from certain state-owned banks. At their discretion, issuing banks for the above-mentioned financial planning products may invest in financial instruments such as government bonds, discounted bank acceptance bills and commercial acceptance bills and bank deposits. As at 30 June 2022, the Group recognised total financial assets at fair value through profit or loss of approximately RMB150.3 million, comprising principal of investment of approximately RMB149.5 million and approximately RMB0.8 million of interest income, in the consolidated statement of financial position. As at the date of this announcement, total amount of sold/redeemed investment principal amounted to approximately RMB43.9 million.

The Group had sufficient cash as at 30 June 2022. The Directors are of the opinion that the Group does not have any significant capital risk.

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Cash and cash equivalents	<b>5,095,645</b>	5,682,425

## **Inventories**

As at 30 June 2022, inventories amounted to approximately RMB700.7 million (31 December 2021: RMB715.3 million). The inventory turnover period for the Period was 277 days (six months ended 30 June 2021: 217 days). The slight decrease in inventories was attributable to the normal liquidation of inventory.

## **Trade and other receivables**

The Group's trade receivables and notes receivable include credit sales of its products to be paid by its distributors. Other receivables of the Group mainly consist of prepayments to suppliers and amounts due from related parties. As at 30 June 2022, the Group's trade and other receivables were approximately RMB1,493.9 million (31 December 2021: RMB1,234.4 million). The increase was mainly due to amounts due from third parties.

## **Property, plant and equipment**

The Group's property, plant and equipment include buildings, production and electronic equipment, vehicles and construction in progress. As at 30 June 2022, the net book value of the property, plant and equipment was approximately RMB3,337.0 million (31 December 2021: RMB3,304.9 million). The increase during the Period was mainly attributable to factory construction and purchase of new equipment.

## **Goodwill**

The Group's goodwill arose from the acquisition of subsidiaries and business combinations. As at 30 June 2022, the net carrying amount of goodwill was approximately RMB28.4 million (31 December 2021: RMB28.4 million).

## **Intangible assets**

The Group's intangible assets mainly comprise customer relationships, deferred development costs, product development in progress and trademark and software. The deferred development costs and product development in progress mainly related to the acquisition of several drug R&D projects and self-development of R&D projects. As at 30 June 2022, net intangible assets amounted to approximately RMB635.9 million (31 December 2021: RMB595.9 million).

## **Trade and other payables**

The Group's trade and other payables mainly consist of trade payables, deposit payables, accrued expenses and dividends payable. As at 30 June 2022, trade and other payables amounted to approximately RMB2,234.6 million (31 December 2021: RMB1,971.3 million). The increase of approximately RMB263.3 million was mainly attributable to the increase in deposit payables and other payables.

## **Contingent liabilities**

As at 30 June 2022, the Group had no material contingent liabilities (31 December 2021: Nil).

## **Off-balance sheet commitments and arrangements**

As at 30 June 2022, the Group had neither entered into any off-balance sheet arrangements nor commitments to provide guarantees for any payment obligations of any third party. The Group did not have any variable interests in any unconsolidated entities which provide financing or liquidity funding, or generate market risk or provide credit support, or engage in the provision of leasing or hedging or R&D services to the Group.

## **Capital commitment**

As at 30 June 2022, the Group's total capital commitment was approximately RMB392.3 million. It was mainly set aside for purchase of property, plant and equipment and intangible assets.

## **Credit risk**

Credit risk arises from cash and cash equivalents, trade receivables and other receivables.

All the cash equivalents and bank deposits are placed in certain PRC reputable financial institutions and high-quality international financial institutions outside Mainland China. All those irrevocable bank bills, classified as notes receivable, are issued by banks in the PRC with high credit rating. There was no recent history of default of cash equivalents and bank deposits in relation to these financial institutions.

In relation to trade receivables, the Group has no significant concentrations of credit risk and has policies in place to ensure that certain cash advance has been received upon the agreement of the related sales orders with customers. For those with credit periods granted, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. It also undertakes certain monitoring procedures to ensure that proper follow-up action is taken to recover overdue debts. The Group regularly performs ageing analysis, assesses credit risks and estimates the recoverability of the receivables based on historical data and cash collection history of groups of trade receivables bearing similar credit risk.

In relation to other receivables, the credit quality of the debtors is assessed by taking into account their financial position, relationship with the Group, credit history and other factors. Management will also regularly review the recoverability of these other receivables and follow up the disputes or amounts overdue, if any. The executive Directors are of the opinion that the default by counterparties is low. No other financial assets bear a significant exposure to credit risk.

## **Foreign exchange risk**

The Group's functional currency is RMB and financial instruments are mainly denominated in RMB. The Group has some cash balances denominated in United States Dollar, Euro and Hong Kong dollar ("HK\$"). It is expected that any fluctuation of these foreign currencies' exchange rates would not have material effect on the operation of the Group. In addition, dividend payment in foreign currencies converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government. The Group would closely monitor this risk exposure from time to time. During the Period, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

## **Treasury policy**

The Group finances its ordinary operations mainly with internally generated resources. The principal objective of the Group's capital management is to sustain its ability to continue as a going concern. The Group regularly reviews its capital structure to ensure that the Group has sufficient financial resources to support its business operations.

## **Capital expenditure**

The Group's capital expenditure mainly includes purchase of property, plant and equipment, prepaid land lease payments and intangible assets. For the Period, the Group's capital expenditure amounted to approximately RMB346.6 million, of which approximately RMB264.7 million and

RMB81.9 million were spent on purchase of property, plant and equipment and purchase of or self-development of intangible assets, respectively. For the Period, the Group's capital expenditure for R&D investment amounted to approximately RMB131.9 million, of which approximately RMB69.0 million was spent on property, plant and equipment. The remaining approximately RMB62.9 million related to the purchase of and self-development of intangible assets.

### **Material acquisition and disposal**

There was no material acquisition or disposal during the Period.

### **Future plans for material investments or capital assets**

Save as disclosed in this announcement, the Group did not have other plans for material investments and capital assets during the Period and up to the date of this announcement.

### **Pledge of assets**

As at 30 June 2022, the Group had pledged certain assets to secure banking facilities granted to subsidiaries. For further details, please refer to note 12 to the interim condensed consolidated financial information.

### **Events after the reporting period**

The Group had no significant events after the reporting period up to the date of the approval of the unaudited interim condensed consolidated financial information.

### **Human resources and remuneration of employees**

Human resources are indispensable assets to the Group's success in a challenging environment. The Group is committed to providing competitive remuneration packages to all the employees and regularly reviewing human resources policies, to encourage employees to work towards enhancing the value of the Company and promoting the sustainable growth of the Company. The Group has also adopted share option scheme and share award scheme to recognise and reward the contribution of the employees for the benefit of the Group's operations and future development.

The Group continues to promote the building of talent training and development system, and conducts online and offline training based on the competency standards for positions at different levels to promote the cultivation and development of talents in Sihuan and ensure continuous supply of various types of talents.

As at 30 June 2022, the Group had 3,896 employees. For the Period, the Group's total salaries and related costs were approximately RMB378.2 million (six months ended 30 June 2021: RMB342.6 million), including bonus of approximately RMB14.2 million (six months ended 30 June 2021: RMB9.4 million). Salaries for employees were determined based on their job nature, personal performance and the market trends. The Group provides basic social insurance and housing accumulation fund for company employees as required by the PRC law.

## **CORPORATE GOVERNANCE CODE**

The Company recognises the importance of corporate transparency and accountability. The Company is committed in achieving a high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures.

The Company has complied with all the applicable 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**”) throughout the Period.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules. Having made specific enquiries, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the Period.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

During the Period, the Company has, at all times, complied with the minimum requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors (representing at least one-third of the Board) and one of them should have appropriate professional qualifications or accounting or related financial management expertise.

## **AUDIT COMMITTEE**

As at the date of this announcement, the Audit Committee consists of three independent non-executive Directors (Mr. Patrick Sun, Mr. Tsang Wah Kwong and Dr. Zhu Xun), and is chaired by Mr. Patrick Sun who has a professional qualification in accountancy. The chairman of the Audit Committee has the appropriate professional qualification and experience in financial matters. The Audit Committee has reviewed the Group’s interim unaudited condensed consolidated financial information for the Period.

## **REVIEW OF ACCOUNTS**

Messrs. Ernst & Young, the Company’s external auditors, have reviewed the Company’s interim financial information for the six months ended 30 June 2022 in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## **INFORMATION FOR INTERIM CASH DIVIDEND AND SPECIAL CASH DIVIDEND**

The Board has resolved to declare an interim cash dividend of RMB0.1 cents per share (equivalent to HK0.1 cents per share) and a special cash dividend of RMB3.2 cents per share (equivalent to HK3.6 cents per share) for the Period. The interim cash dividend and special cash dividend will be payable on or around Thursday, 13 October 2022 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on Thursday, 6 October 2022.

## **CLOSURE OF THE REGISTER OF MEMBERS FOR DETERMINING THE ENTITLEMENT OF INTERIM CASH DIVIDEND AND SPECIAL CASH DIVIDEND**

The register of members of the Company will be closed from Wednesday, 5 October 2022 to Thursday, 6 October 2022, both days inclusive, for the purpose of determining Shareholders' entitlements to the interim cash dividend and special cash dividend. In order to qualify for the interim cash dividend and special cash dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on Monday, 3 October 2022.

## **PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE**

This announcement is published on the websites of the Company ([www.sihuanpharm.com](http://www.sihuanpharm.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The interim report of the Company for the Period will be dispatched to Shareholders and available on the above websites in due course.

Shareholders are encouraged to elect to receive shareholder documents electronically. You may at any time send written notice to the Company c/o the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong or via email at [sihuanpharm-ecom@hk.tricorglobal.com](mailto:sihuanpharm-ecom@hk.tricorglobal.com) specifying your name, address and request to change your choice of language or means of receipt of all shareholder documents.

By order of the Board  
**Sihuan Pharmaceutical Holdings Group Ltd.**  
**Dr. Che Fengsheng**  
*Chairman and Executive Director*

Hong Kong, 30 August 2022

*As at the date of this announcement, the executive Directors are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng (Deputy Chairman and Chief Executive Officer), Dr. Zhang Jionglong, Mr. Choi Yiau Chong and Ms. Chen Yanling; and the independent non-executive Directors are Mr. Patrick Sun, Mr. Tsang Wah Kwong and Dr. Zhu Xun.*