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YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司

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

(Stock Code: 01558)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2022, the Group has recorded:

- Revenue of RMB3,744.95 million, representing an increase of 309.83% as compared to the year ended 31 December 2021.
- Profit before interest, taxation, depreciation and amortization of RMB698.43 million, representing an increase of 502.63% as compared to the year ended 31 December 2021.
- Profit and total comprehensive income attributable to equity shareholders of the Company of RMB76.60 million, representing an increase of RMB664.25 million as compared to loss and total comprehensive income attributable to equity shareholders of the Company of RMB587.65 million for the year ended 31 December 2021.
- Basic and diluted earnings per share was RMB0.09 for the year ended 31 December 2022.

FINAL DIVIDEND

- The Board resolved not to recommend the payment of final dividend for the year ended 31 December 2022 (for the year ended 31 December 2021: Nil).

RESULTS HIGHLIGHTS

The board (the “**Board**”) of directors (the “**Directors**”) of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**” or “**we**”) for the year ended 31 December 2022 (the “**Reporting Period**”), prepared in accordance with the International Financial Reporting Standards (“**IFRSs**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2022

(Expressed in Renminbi)

	Note	2022 RMB'000	2021 RMB'000
Revenue	3	3,744,952	913,788
Cost of sales		<u>(898,878)</u>	<u>(430,089)</u>
Gross profit		2,846,074	483,699
Other net (losses)/income	4	(844,330)	85,961
Distribution costs		(1,216,590)	(521,667)
Administrative expenses		(338,452)	(358,402)
Research and development costs		(129,614)	(109,673)
Reversals/(recognition) on impairment loss of trade and other receivables		3,995	(3,176)
Other operating expenses		<u>(15)</u>	<u>(119)</u>
Profit/(loss) from operations		321,068	(423,377)
Finance costs	5(a)	<u>(281,646)</u>	<u>(243,807)</u>
Profit/(loss) before taxation	5	39,422	(667,184)
Income tax	6	<u>9,817</u>	<u>79,460</u>
Profit/(loss) for the year		<u>49,239</u>	<u>(587,724)</u>
Profit/(loss) and total comprehensive income for the year attributable to:			
Equity shareholders of the Company		76,603	(587,649)
Non-controlling interests		<u>(27,364)</u>	<u>(75)</u>
Profit/(loss) and total comprehensive income for the year		<u>49,239</u>	<u>(587,724)</u>
Earnings/(loss) per share	7		
Basic and diluted		<u>RMB0.09</u>	<u>RMB(0.67)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2022

(Expressed in Renminbi)

	<i>Note</i>	31 December 2022 RMB'000	31 December 2021 RMB'000
Non-current assets			
Fixed assets	8		
— Property, plant and equipment		3,169,613	2,858,808
— Ownership interests in leasehold land held for own use		349,152	357,747
		3,518,765	3,216,555
Intangible assets	9	2,920,646	3,271,990
Goodwill	10	—	75,896
Financial assets measured at fair value through profit or loss (FVPL)	11	—	1,789,621
Prepayments	12	295,760	64,825
Deferred tax assets		140,609	65,318
		6,875,780	8,484,205
Current assets			
Inventories		315,027	279,696
Trade and other receivables	13	1,036,916	546,791
Prepayments		59,433	7,776
Financial assets measured at FVPL	11	290,000	—
Non-current assets held for sale	11(i)	2,312,320	—
Restricted cash		76,781	91,992
Cash and cash equivalents		923,543	1,131,121
		5,014,020	2,057,376
Current liabilities			
Trade and other payables	14	1,718,222	911,680
Contract liabilities		75,386	74,903
Bank loans and other borrowings		223,343	48,477
Interest-bearing borrowings	15	2,906,963	—
Deferred income		8,195	4,379
Current taxation		8,672	198,625
		4,940,781	1,238,064
Net current assets		73,239	819,312
Total assets less current liabilities		6,949,019	9,303,517

	<i>Note</i>	31 December 2022 RMB'000	31 December 2021 RMB'000
Non-current liabilities			
Bank loans and other borrowings		691,529	544,900
Deferred income		187,489	137,730
Interest-bearing borrowings	15	<u>–</u>	<u>2,600,125</u>
		879,018	3,282,755
Net assets		6,070,001	6,020,762
Capital and reserves			
Share capital	16	879,968	879,968
Reserves		5,004,916	4,928,313
Total equity attributable to equity shareholders of the Company		5,884,884	5,808,281
Non-controlling interests		185,117	212,481
Total equity		6,070,001	6,020,762

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2022
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company					Non- controlling interests	Total equity
	Share capital	Capital reserve	Statutory reserve	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2021	879,968	1,105,582	328,696	2,576,857	4,891,103	212,556	5,103,659
Changes in equity for 2021:							
Loss and total comprehensive income for the year	-	-	-	(587,649)	(587,649)	(75)	(587,724)
Assets obtained from the controlling shareholder	-	1,504,827	-	-	1,504,827	-	1,504,827
Balance at 31 December 2021 and 1 January 2022	<u>879,968</u>	<u>2,610,409</u>	<u>328,696</u>	<u>1,989,208</u>	<u>5,808,281</u>	<u>212,481</u>	<u>6,020,762</u>
Changes in equity for 2022:							
Profit and total comprehensive income for the year	-	-	-	76,603	76,603	(27,364)	49,239
Balance at 31 December 2022	<u>879,968</u>	<u>2,610,409</u>	<u>328,696</u>	<u>2,065,811</u>	<u>5,884,884</u>	<u>185,117</u>	<u>6,070,001</u>

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2022
(Expressed in Renminbi)

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Operating activities		
Cash generated from/(used in) operations	1,955,336	(681,128)
The People's Republic of China (the "PRC") Corporate Income Tax ("CIT") (paid)/refunded	<u>(255,427)</u>	<u>18,618</u>
Net cash generated from/(used in) operating activities	<u>1,699,909</u>	<u>(662,510)</u>
Investing activities		
Interest received	6,739	11,346
Payment for the purchase of property, plant and equipment	(570,070)	(356,285)
Payment for development cost	(75,120)	(107,763)
Payment for the purchase of intangible assets	(207,875)	(115,636)
Decrease in restricted cash	15,211	129,199
Payment for purchase of financial assets measured at FVPL	(290,000)	–
Proceeds received from disposal of property, plant and equipment	<u>954</u>	<u>33</u>
Net cash used in investing activities	<u>(1,120,161)</u>	<u>(439,106)</u>
Financing activities		
Proceeds from bank loans	367,937	444,955
Proceeds from borrowings under sale and leaseback transactions	150,000	–
Repayments of bank loans	(162,275)	(157,678)
Payments for capital element of obligations arising from sale and leaseback transactions	(12,500)	–
Repurchase of convertible bonds	(971,386)	–
Interest paid	(112,743)	(99,798)
Other borrowing costs paid	(38,560)	–
Deposits paid for sale and leaseback transactions	<u>(7,500)</u>	<u>–</u>
Net cash (used in)/generated from financing activities	<u>(787,027)</u>	<u>187,479</u>
Net decrease in cash and cash equivalents	<u>(207,279)</u>	<u>(914,137)</u>
Cash and cash equivalents at 1 January	1,131,121	2,044,967
Effect of foreign exchange rate changes	<u>(299)</u>	<u>291</u>
Cash and cash equivalents at 31 December	<u>923,543</u>	<u>1,131,121</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL INFORMATION

This financial information has been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (“IASB”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. This financial information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

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

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended IFRSs are discussed below:

Amendments to IAS 16, Property, plant and equipment: Proceeds before intended use

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The amendments do not have a material impact on this financial information as the Group does not sell items produced before an item of property, plant and equipment is available for use.

Amendments to IAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Previously, the Group included only incremental costs when determining whether a contract was onerous. In accordance with the transitional provisions, the group has applied the new accounting policy to contracts for which it has not yet fulfilled all its obligations at 1 January 2022, and has concluded that none of them is onerous.

2 SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance on sales of pharmaceutical products. Therefore, management considers there to be only one operating segment under the requirements of IFRS 8, *Operating Segments*. In this regard, no segment information is presented for the year end 31 December 2022.

No geographic information is shown as the Group's operating profit is derived from activities of manufacture and sale of pharmaceutical products in the PRC.

3 REVENUE

The principal activities of the Group are manufacturing and sales of pharmaceuticals.

Disaggregation of revenue

Revenue represents the sales value of goods supplied to customers and the license fee. Revenue is after deduction of any trade discounts. The amount of each significant category of revenue is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from contracts with customers within the scope of IFRS 15		
Sales of anti-viral drugs	3,116,059	559,973
Sales of endocrine and metabolic drugs	113,497	77,633
Sales of cardiovascular drugs	150,114	96,148
Sales of anti-infectives drugs	87,190	80,689
Sales of other medical products and license fee	278,092	99,345
	<u>3,744,952</u>	<u>913,788</u>

The Group's customer base is diversified and includes three customers (2021: three) with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2022, including sales to entities which are known to the Group to be under common control with single customer. Revenue from these customers amounted to approximately RMB1,915,486,000 (2021: RMB445,983,000).

4 OTHER NET (LOSSES)/INCOME

	Note	2022 RMB'000	2021 RMB'000
Government grants			
— Unconditional subsidies		8,525	56,468
— Conditional subsidies		8,195	8,865
Interest income		6,739	11,346
Net loss on disposal of fixed assets		(820)	(19,072)
Fair value change on derivative financial instruments			
embedded in convertible bonds	15(iv)	(859,569)	(14,161)
Fair value change on investment in equity securities		522,699	19,237
Impairment loss on intangible assets	9	(212,943)	(25,984)
Impairment loss on goodwill	10	(75,896)	—
Net foreign exchange (loss)/gain	(i)	(241,432)	49,202
Others		172	60
		<u>844,330</u>	<u>85,961</u>

Note:

- (i) The amounts mainly represent foreign exchange (loss)/gain arising from the translation of interest-bearing borrowings which denominated in United States dollars in 2022 and 2021.

5 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Finance costs

	2022 RMB'000	2021 RMB'000
Interest on convertible bonds	257,329	243,352
Interest on bank loans and other borrowings	43,014	21,895
	<u>300,343</u>	<u>265,247</u>
Less: interest expense capitalised into construction in progress*	<u>(18,697)</u>	<u>(21,440)</u>
	<u>281,646</u>	<u>243,807</u>

- * The borrowing costs have been capitalised at a rate of 4.40%–5.39% per annum (2021: 4.90%–5.39%).

(b) Staff costs

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Salaries, wages, bonuses and benefits	612,185	321,399
Contributions to defined contribution retirement benefit schemes	<u>35,304</u>	<u>35,187</u>
	<u><u>647,489</u></u>	<u><u>356,586</u></u>

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the “Schemes”) organised by the local government authorities whereby the Group is required to make contributions to the Schemes based on certain percentages of the eligible employee’s salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Group has no other material obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

The Group’s contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current tax		
Provision for PRC CIT for the year	59,351	(66,776)
Under-provision for PRC CIT in respect of prior years	<u>6,123</u>	<u>11,989</u>
	<u><u>65,474</u></u>	<u><u>(54,787)</u></u>
Deferred tax		
Origination and reversal of temporary differences	<u><u>(75,291)</u></u>	<u><u>(24,673)</u></u>
Total income tax	<u><u>(9,817)</u></u>	<u><u>(79,460)</u></u>

(b) Reconciliation between income tax expenses and accounting profit/(loss) at applicable tax rates:

	<i>Note</i>	2022 RMB'000	2021 RMB'000
Profit/(loss) before taxation		<u>39,422</u>	<u>(667,184)</u>
Applicable tax rate	<i>(i)</i>	25%	25%
Notional tax on profit/(loss) before taxation		9,856	(166,796)
Under-provision for PRC CIT in respect of prior years		6,123	11,989
Tax effect of non-deductible expenses		46,891	6,358
Tax effect of preferential tax rate	<i>(ii)</i>	(33,446)	50,449
Tax effect of additional deduction of R&D expenses		(16,506)	(14,802)
Tax effect of additional deduction of expenditure for purchasing machinery and equipment		(13,779)	–
Tax effect of utilisations of tax losses for deferred tax asset not recognised in prior years		(36,571)	–
Tax effect of unused tax losses of deferred tax asset not recognised		<u>27,615</u>	<u>33,342</u>
Actual tax income		<u>(9,817)</u>	<u>(79,460)</u>

(i) The PRC CIT rate is 25%.

(ii) The PRC CIT Law allows enterprises to apply for the certificate of “High and New Technology Enterprise” (“**HNTE**”) which entitles the qualified companies to a preferential income tax rate of 15%. The Company was recognised as **HNTE** and enjoyed a preferential CIT rate of 15% for the years ended 31 December 2022 and 2021.

7 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity shareholders of the Company of RMB76,603,000 (2021: loss of RMB587,649,000) and the weighted average of 879,967,700 ordinary shares (2021: 879,967,700 ordinary shares) in issue during the year.

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share for the year ended 31 December 2022 and the year ended 31 December 2021 is same as the basic earnings/(loss) per share as potential conversion of the convertible bonds had an anti-dilutive effect on the basic earnings/(loss) per share.

8 FIXED ASSETS

(a) Reconciliation of carrying amount

	Plant and Buildings RMB'000	Machinery RMB'000	Office equipment and others RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Ownership interests in leasehold land held for own use RMB'000	Total RMB'000
Cost:								
At 1 January 2021	1,021,434	349,208	228,266	2,252	1,186,638	2,787,798	375,782	3,163,580
Additions	54,147	5,021	3,699	–	421,410	484,277	19,966	504,243
Transfer from construction in progress	504,805	402,180	119,591	12	(1,026,588)	–	–	–
Disposals	(4,699)	(3,677)	(2,430)	–	(13,516)	(24,322)	–	(24,322)
At 31 December 2021	1,575,687	752,732	349,126	2,264	567,944	3,247,753	395,748	3,643,501
Additions	9,490	4,964	5,468	–	434,616	454,538	–	454,538
Transfer from construction in progress	110,319	37,971	178,818	–	(327,108)	–	–	–
Disposals	–	(3,026)	(3,203)	–	–	(6,229)	–	(6,229)
At 31 December 2022	1,695,496	792,641	530,209	2,264	675,452	3,696,062	395,748	4,091,810
Accumulated depreciation:								
At 1 January 2021	(115,388)	(111,446)	(70,873)	(430)	–	(298,137)	(29,737)	(327,874)
Charge for the year	(33,969)	(32,051)	(29,793)	(211)	–	(96,024)	(8,264)	(104,288)
Written-back on disposals	878	2,412	1,926	–	–	5,216	–	5,216
At 31 December 2021	(148,479)	(141,085)	(98,740)	(641)	–	(388,945)	(38,001)	(426,946)
Charge for the year	(51,779)	(49,022)	(40,943)	(215)	–	(141,959)	(8,595)	(150,554)
Written-back on disposals	–	1,986	2,469	–	–	4,455	–	4,455
At 31 December 2022	(200,258)	(188,121)	(137,214)	(856)	–	(526,449)	(46,596)	(573,045)
Carrying amount:								
At 31 December 2022	1,495,238	604,520	392,995	1,408	675,452	3,169,613	349,152	3,518,765
At 31 December 2021	1,427,208	611,647	250,386	1,623	567,944	2,858,808	357,747	3,216,555

- (i) All property, plant and equipment owned by the Group are located in the PRC.
- (ii) As at 31 December 2022, the Group was applying for certificates of ownership for certain properties, with carrying value of RMB544,900,000 (2021: RMB415,843,000). The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant properties title certificates.
- (iii) As at 31 December 2022, amount of RMB159,322,000 (2021: RMB83,828,000) of the ownership interests in leasehold land held for own use, amount of RMB409,075,000 (2021: RMB258,397,000) of construction in progress, and amount of RMB609,044,000 (2021: RMB262,150,000) of plant and buildings were held in pledge for bank loans.
- (iv) The Group sold some of its machinery and equipment to external parties and leased them back for a term of 2 years. The Group determined the transfers to buyer-lessor were not considered as sales under IFRS15, thus the Group continues to recognise the underlying assets, and recognises financial liabilities for the considerations received. No gain or loss were recognised from the sale and leaseback transactions for the years ended 31 December 2022. As at 31 December 2022, the carrying amounts of the plant and buildings and machinery pledged for the aforementioned sale and leaseback transactions were RMB321,727,000 (2021: nil).

(b) Right-of-use asset

- (i) The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Included in fixed assets:		
— Ownership interests in leasehold land held for own use	<u>349,152</u>	<u>357,747</u>

- (ii) The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Depreciation charge of right-of-use assets by class of underlying asset:		
— Ownership interests in leasehold land held for own use	8,595	8,264
Expense relating to short-term leases	<u>6,905</u>	<u>7,847</u>

9 INTANGIBLE ASSETS

	Notes	Hepatitis C drugs		Other Drugs			Total RMB'000
		Patent RMB'000	Capitalised development costs RMB'000	Generic drug intellectual property rights RMB'000	Insulin intellectual property rights RMB'000	Capitalised development costs RMB'000	
Cost:							
At 1 January 2021		848,021	142,851	831,642	42,580	1,030,310	2,895,404
Addition through internal development		-	31,164	-	-	105,404	136,568
Addition and transfer from prepayment	12	-	-	638,115	-	-	638,115
Transfer from development costs to patents		-	-	-	108,383	(108,383)	-
At 31 December 2021		848,021	174,015	1,469,757	150,963	1,027,331	3,670,087
Addition through internal development		-	497	-	-	69,125	69,622
Addition and transfer from prepayment	12	-	-	20,381	-	-	20,381
Transfer from development costs to patents		-	-	-	110,106	(110,106)	-
At 31 December 2022		848,021	174,512	1,490,138	261,069	986,350	3,760,090
Accumulated amortisation:							
At 1 January 2021		(102,301)	-	(81,028)	(2,484)	-	(185,813)
Charge for the year		(67,481)	-	(111,851)	(6,968)	-	(186,300)
At 31 December 2021		(169,782)	-	(192,879)	(9,452)	-	(372,113)
Charge for the year		(67,481)	-	(143,694)	(17,229)	-	(228,404)
At 31 December 2022		(237,263)	-	(336,573)	(26,681)	-	(600,517)
Impairment loss:							
At 1 January 2021		-	-	-	-	-	-
Recognised in the year	(iii)	-	-	(25,984)	-	-	(25,984)
At 31 December 2021		-	-	(25,984)	-	-	(25,984)
Recognised in the year	10/(iii)	(20,399)	(22,599)	(169,945)	-	-	(212,943)
At 31 December 2022		(20,399)	(22,599)	(195,929)	-	-	(238,927)
Net book value:							
At 31 December 2022		590,359	151,913	957,636	234,388	986,350	2,920,646
At 31 December 2021		678,239	174,015	1,250,894	141,511	1,027,331	3,271,990

- (i) The amortisation charge for the year was included in the “cost of sales” and “general administration expenses” in the consolidated statement of profit or loss and other comprehensive income, except to the extent that they are included in the development cost not yet recognised as an expense.
- (ii) Development costs were either in-process research and development projects (“**IPR&D**”) acquired or development cost capitalised in accordance with the with the accounting policies for the research and development costs to the consolidated financial information.

As at 31 December 2022, the intangible assets under development were not yet ready for intended use.

- (iii) Due to the price of generic drugs decreased after they have been included in the national centralised procurement, new market competitors were introduced or the estimated distribution and production cost increased, the estimated recoverable amount of 11 (2021: 3) out of 29 generic drugs were less than their carrying amount as at 31 December 2022.

The differences were approximately RMB169,945,000 (2021: RMB25,984,000) in total based on the impairment evaluation result, which was recognised as impairment loss in the “other net (loss)/income” in the consolidated financial information.

10 GOODWILL

	<i>RMB'000</i>
Cost:	
At 1 January 2021, 31 December 2021 and 31 December 2022	<u>75,896</u>
Impairment losses:	
At 1 January 2021, 31 December 2021 and 1 January 2022	–
Recognised in the year	<u>(75,896)</u>
At 31 December 2022	<u><u>(75,896)</u></u>
Carrying amount:	
At 31 December 2022	<u><u>–</u></u>
At 31 December 2021	<u><u>75,896</u></u>

Goodwill is allocated to the Group’s cash-generating unit (“CGU”) identified according to country of operation and operating segment as follows:

	2022 <i>RMB’000</i>	2021 <i>RMB’000</i>
Patents, capitalised development costs and goodwill related to Hepatitis C (collectively referred to as “ Hepatitis C Asset Group ”)	<u>–</u>	<u>75,896</u>

Based on the result of impairment test of Hepatitis C Asset Group, the goodwill relating to the Hepatitis C Asset Group has been fully impaired and further impairment of the intangible assets in the Hepatitis C Asset Group amounting to RMB42,998,000 are also recognised in “other net (loss)/income” during the year ended 2022. The impairment loss of Hepatitis C Asset Group relates to the delayed progress of the IPR&D of Hepatitis C and the new market competitors introduced.

11 FINANCIAL ASSETS MEASURED AT FVPL

	<i>Note</i>	2022 <i>RMB’000</i>	2021 <i>RMB’000</i>
Non-Current			
— Unlisted equity securities	<i>(i)</i>	<u>–</u>	<u>1,789,621</u>
Current			
— Investment in a trust investment scheme	<i>(ii)</i>	<u>290,000</u>	<u>–</u>

- (i) The unlisted equity securities are shares in Sunshine Lake Pharma Co., Ltd.* (廣東東陽光藥業有限公司, “**Sunshine Lake Pharma**”), a company incorporated in Dongguan and engaged in R&D and which became the Company’s controlling shareholder in December 2021.

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

In December 2022, the Company (as the transferor), Shenzhen HEC Industrial (as the transferee) and Sunshine Lake Pharma (being the target company) entered into an equity transfer agreement (the “**Equity Transfer Agreement**”), pursuant to which, the Company agreed to transfer and Shenzhen HEC Industrial agreed to acquire the Target Equity held by the Company at a consideration of RMB2,312,320,000, which was determined with reference to the market value of total shareholders’ equity of Sunshine Lake Pharma prepared by an independent professional valuer.

As at 31 December 2022, the Equity Transfer Agreement has not taken effect as part of conditions precedent have not been fulfilled. The Group transferred the financial assets measured at FVPL of RMB2,312,320,000 into non-current assets held for sale.

- (ii) On 27 December 2022, the Group invested in a trust investment scheme established and managed by a trust company as the trustee with the principal of RMB290,000,000 and an initial investment period of nine months. Pursuant to the agreement, the trust scheme is designated to make the majority of its investments in debt and equity securities, while the principal and return of the investment are not guaranteed. Fair value of this investment as of 31 December 2022 was estimated to be RMB290,000,000.

12 PREPAYMENTS

	<i>Note</i>	2022 RMB'000	2021 RMB'000
Prepayments for intangible assets	(i)	109,691	–
Prepayments for property, plant and equipment		186,069	64,825
		295,760	64,825

- (i) In 2018 and 2019, the Company entered into two acquisition agreements with Sunshine Lake Pharma, which was a related party of the Group and has become the controlling shareholder of the Company since December 2021, to acquire 33 pharmaceutical products' know-how, intellectual property rights and ownership rights (the “**Target Products**”) from Sunshine Lake Pharma with a total consideration of RMB2,131,635,000, which comprised a prepayment of RMB1,065,817,000, several milestone payments totalling RMB577,888,000 and contingent payments of RMB487,930,000 subject to the future sales of the Target Products.

As at 31 December 2022, the Group had made accumulated payments of RMB1,599,828,000 (2021: RMB1,391,953,000) to Sunshine Lake Pharma. During the year ended 31 December 2022, RMB20,381,000 (2021: RMB638,115,000) was transferred to intangible assets after the National Medical Products Administration approvals for 1 (2021: 10) out of the Target Products has been obtained. After the transfers, the outstanding prepayment to Sunshine Lake Pharma as at 31 December 2022 was RMB109,691,000 (2021: outstanding payable amounted to RMB77,803,000).

13 TRADE AND OTHER RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	892,611	445,634
Bills receivable	124,377	48,504
Less: allowance for doubtful debts	<u>(11,171)</u>	<u>(15,097)</u>
	<u>1,005,817</u>	<u>479,041</u>
VAT recoverable	22,077	57,263
Other receivables	11,886	13,428
Less: allowance for doubtful debts	<u>(2,864)</u>	<u>(2,941)</u>
	<u>31,099</u>	<u>67,750</u>
Total	<u>1,036,916</u>	<u>546,791</u>

- (i) Bills receivable with carrying value of RMB10,667,000 (2021: RMB6,460,000) were pledged as securities of bank loans of the Group as at 31 December 2022.
- (ii) Bills receivable with carrying value of RMB38,370,000 (2021: RMB13,116,000) were pledged as securities of issuing bills payable by the Group as at 31 December 2022.

Ageing analysis

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	784,628	403,721
More than 3 months but within 1 year	221,137	69,403
More than 1 year	<u>52</u>	<u>5,917</u>
	<u>1,005,817</u>	<u>479,041</u>

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

14 TRADE AND OTHER PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payable	70,765	76,908
Bills payable	96,622	38,414
Amounts due to related parties	13,409	83,816
VAT and other taxes payable	151,926	52,130
Accrued payroll and benefits	185,638	88,216
Accrued expenses	740,417	233,664
Accrued royalty fee	261,585	100,916
Other payables for purchasing fixed assets	172,111	198,936
Other payables	25,749	38,680
	<u>1,718,222</u>	<u>911,680</u>
Financial liabilities measured at amortised cost	<u>1,718,222</u>	<u>911,680</u>

An ageing analysis of the trade and bills payable based on the invoice date is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 1 month	72,397	19,264
Over 1 month but within 3 months	54,071	28,910
Over 3 months but within 1 year	39,179	52,270
Over 1 year	1,740	14,878
	<u>167,387</u>	<u>115,322</u>

15 INTEREST-BEARING BORROWINGS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Convertible bonds		
— Non-current	—	2,600,125
— Current	2,906,963	—
	<u>2,906,963</u>	<u>2,600,125</u>

- (i) On 20 February 2019, the Company issued a tranche of 1,600 H share convertible bonds with an aggregate principal amount of USD400,000,000 (equivalent to approximately RMB2,702,320,000 translated at the then exchange rate). Each number of bond has a face value of USD250,000 and a maturity date of 20 February 2026. The bonds bear interest at 3.0% per annum payable semi-annually in arrears on 30 June and 31 December of each year. The bondholders have the right to convert the bonds to the Company's ordinary shares at a price of HK\$14 per conversion share, which subject to adjustment in relation to the adjusted net profit for the year ended 31 December 2021. The bonds are unsecured.

As the convertible bonds do not contain an equity component, the conversion option embedded in the convertible bonds above is measured at fair value and the liability component is carried at amortised cost. No conversion of the convertible bonds has occurred up to 31 December 2022.

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

The Group had obtained 8 waiver letters from the bondholders. The latest waiver letter dated 30 September 2021 and pursuant to such letter, the bondholders agreed to waive their right to issue an early redemption on the convertible bonds until 1 January 2023.

- (iii) On 26 September 2022, the Company repurchased certain convertible bonds in the aggregate principal amount of USD95,337,821 with total consideration of USD127,317,844 (equivalent to RMB912,907,000).
- (iv) The convertible bonds recognised in the consolidated statement of financial position of the Group are analysed as follows:

	Liability component <i>RMB'000</i>	Derivative component <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2021	2,253,219	221,598	2,474,817
Change on derivative financial instruments embedded in convertible bonds	–	14,161	14,161
Accrued interest	243,352	–	243,352
Interest paid	(77,902)	–	(77,902)
Exchange gain	(54,303)	–	(54,303)
At 31 December 2021	<u>2,364,366</u>	<u>235,759</u>	<u>2,600,125</u>
Change on derivative financial instruments embedded in convertible bonds	–	859,569	859,569
Accrued interest	257,329	–	257,329
Interest paid	(78,485)	–	(78,485)
Exchange loss	239,811	–	239,811
Repurchase of convertible bonds	(658,709)	(312,677)	971,386
At 31 December 2022	<u>2,124,312</u>	<u>782,651</u>	<u>2,906,963</u>

16 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

No dividends have been declared or paid by the Company during the year ended 31 December 2021 and 2022.

(b) Share capital

	2022		2021	
	<i>Number of shares</i>	<i>RMB'000</i>	<i>Number of shares</i>	<i>RMB'000</i>
Ordinary shares, issued and fully paid:				
As at 1 January and 31 December	<u>879,967,700</u>	<u>879,968</u>	<u>879,967,700</u>	<u>879,968</u>

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY REVIEW

In 2022, under the relaxation of a series of national policies, the social and economic performance gradually improved while the pharmaceutical industry resumed its development. In addition, with the moderation of medical insurance policies and clearer tender rules, the subsequent policies for pharmaceutical industry is expected to be stable, and China's pharmaceutical ecosystem will enter into a positive cycle and usher in thriving industry development opportunities.

In recent years, the innovative drug industry in China has been highly valued by the government and supported by national industrial policies. At present, with the optimization of the policy environment of the innovative drugs and the country's gradual improvement of the intellectual property rights infrastructure, innovative activities began to thrive and prosperous development in domestic innovative drug research and development is observed, thereby accelerating the development of the domestic innovative drug industry. Benefiting from favourable policy and rapid industrial development, the number and variety of innovative drugs approved in China have increased sharply. Pursuant to the National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2022) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2022年)》) issued by the National Healthcare Security Administration and the Ministry of Human Resources and Social Security, which has been officially implemented on 1 March 2023, 111 types of drugs are added in such new version of the national Medical Reimbursement Drug List. With the normalization of adjustment to Medical Reimbursement Drug List and the institutionalization of national negotiation on innovative drugs, the market size of China's innovative drugs will be steadily expanding. The research and development of innovative drugs is of great significance to China as an innovative country. The invention of drugs with independent intellectual property rights not only has a better therapeutic effect on major diseases, but also reduces the dependence on new foreign drugs. Therefore, the innovative drug industry has a higher rate of return, as well as economic and social benefits.

Looking forward, due to the enhancement in domestic national income level and the people's increasing expectation for the quality and effectiveness of drugs, the demand for effective drugs from domestic pharmaceutical companies is expected to surge. Therefore, pharmaceutical companies with strong commercialization capabilities, reasonable research pipelines, compatible R&D capabilities and funding levels, remarkable clinical trial results and strong pharmaceutical innovation capabilities will have better development potential and investment value.

II. BUSINESS REVIEW

1. Summary of Overall Results

During the year ended 31 December 2022, the Group achieved a revenue of RMB3,744.95 million, representing an increase of 309.83% as compared to that of 2021. The increase was primarily attributed to the gradually normalized footfall and daily social activities as well as the good recovery momentum in flow of people, the number of diagnosis and treatment activities and the volume of drug prescriptions in frontline medical institutions in 2022, resulting in a significant recovery of the sales of Kewei, the core product of the Group.

In terms of specific performance, revenue generated from Kewei, the core product of the Company, reached RMB3,092.71 million, representing an year-on-year increase of 457.66% as compared to the corresponding period of 2021. For the year ended 31 December 2022, revenue from Kewei (Oseltamivir Phosphate), Ertongshu (Benzbromarone Tablets), Oumeining (Telmisartan Tablets), Olmesartan Tablets and Clarithromycin Tablets (being the Company's core products) accounted for 82.58%, 2.63%, 1.68%, 1.18% and 0.90% of the total revenue, respectively. At the same time, as new pharmaceutical products are successively approved to be launched, they further enrich the Group's product portfolio and offer an array of quality and affordable drug choices for patients.

2. R&D PROGRESS

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

1. Endocrine and metabolic diseases area

In the area of endocrine and metabolic diseases, the Group is dedicated to the R&D of insulin products and has a comprehensive product line, which covers both the second and the third generations of insulin.

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

Projects	R&D investment amount (RMB'000)	Expensed R&D investment amount (RMB'000)	Capitalised R&D investment amount (RMB'000)	Percentage of R&D investment in revenue (%)	Percentage of R&D investment in operating costs (%)
Isophane Protamine Recombinant Human Insulin Injection (Pre-mixed 30R)	6,579.79	0	6,579.79	0.18%	0.73%

The Group has established a complete R&D system for insulin series products in accordance with standards on biosimilar drugs adopted in Europe and the United States with quality equivalent to originator drugs. The Recombinant Human Insulin Injection, Insulin Glargine Injection, Insulin Aspart Injection and Insulin Aspart 30 Injection developed by the Group were approved to launch, and the results of clinical trials show that the statistics of those injection are highly consistent in terms of efficacy, safety and stability when compared with the originator biologics. The Group also has a comprehensive product line, which covers both the second and the third generations of insulin, that meets the clinical medication needs of doctors and patients. Moreover, the product line adopts a yeast expression system which is advanced in technology and easy for large scale production.

The new drug application of Isophane Protamine Recombinant Human Insulin Injection (Pre-mixed 30R) developed by the Group has been accepted by the China National Medical Products Administration (the “NMPA”).

In addition, in order to further enrich the product line of the Group in the field of diabetes, the Group have acquired multiple drugs for diabetes from Sunshine Lake Pharma, all of which have been approved to launch, except for Rongliflozin L-Pyroglyutamic Acid under Phase III clinical stage and Liraglutide under the pending submission stage of new drug application. Such products are expected to be launched in a rapid manner and generate considerable sales in the future, which will further increase the integrated strengths of the Group and improve the revenue structure of the Group.

Projects	Acquired/ R&D investment amount (RMB'000)	Expensed R&D investment amount (RMB'000)	Capitalised R&D investment amount (RMB'000)	Percentage of R&D investment in revenue (%)	Percentage of R&D investment in operating costs (%)
	Rongliflozin L-Pyroglyutamic Acid	39,887.19	0	39,887.19	1.07%
Liraglutide	17,697.37	0	17,697.37	0.47%	1.97%

3. Sales Performance Review

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

- The revenue of Kewei (Oseltamivir Phosphate) Granules amounted to RMB2,585.15 million, accounting for 69.03% of the total revenue;
- The revenue of Kewei (Oseltamivir Phosphate) Capsules amounted to RMB507.55 million, accounting for 13.55% of the total revenue;
- The revenue of Ertongshu (Benzbromarone Tablets) amounted to RMB98.42 million, accounting for 2.63% of the total revenue;
- The revenue of Oumeining (Telmisartan Tablets) amounted to RMB62.92 million, accounting for 1.68% of the total revenue;
- The revenue of Olmesartan Tablets amounted to RMB44.26 million, accounting for 1.18% of the total revenue; and
- The revenue of Clarithromycin Tablets amounted to RMB33.60 million, accounting for 0.90% of the total revenue.

The total revenue of the Group's above-mentioned six core products accounted for 88.97% of the total revenue of the Group during the Reporting Period.

Kewei, the Company's core product, is the first-line drug for treatment of influenza in the PRC, which can be used in the treatment and prevention of Influenza A and Influenza B and is listed in the Influenza Treatment Guidance (2020 version) (《流行性感冒診療方案(2020年版)》) and the National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2022 Version) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2022年)》).

During the Reporting Period, the Group adjusted the division of labour of the sales teams in accordance with the market demand, i.e. a self-operated sales team responsible for the academic promotion of core drugs in graded hospitals and primary medical institutions, a new retail sales team responsible for all drugs in chain pharmacies, non-bidding markets and online hospitals, and a centralized sales team responsible for centralized procurement of drugs by the PRC government. During the Reporting Period, the Company has started to expand its online pharmacy channel and cooperated with a number of well-known online channel operators. As of 31 December 2022, the Group has a total of 1,726 staff in its sales teams. The establishment and development of these multi-channel sales teams shall lay a solid foundation to the sales volume of the Group's product portfolio in all sales channels.

4. Production Review

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

At the same time, the Group is concerned about production safety and environmental protection. In respect of production safety, to ensure no occurrence of any material safety incidents, the Group has implemented safety education, strengthened safety risk management and promoted the establishment of safety standards. In respect of environmental protection, the Group takes environmental protection as its mission and adheres to green production. Specific measures were taken to deal with various pollutants generated during the production process so as to achieve the recycle of resources and environmental protection at the same time.

III. OPERATING RESULTS AND ANALYSIS

1. Revenue

For the year ended 31 December 2022, the Group recorded revenue of RMB3,744.95 million, representing an increase of 309.83% as compared to the corresponding period of 2021. During the Reporting Period, the sales volume of the Group's core product, Kewei, amounted to RMB3,092.70 million, representing an increase of 457.66% as compared to the corresponding period of last year. The increase in sales volume of Kewei was mainly attributed to the gradually normalized footfall and daily social activities as well as the good recovery momentum in flow of people, the number of diagnosis and treatment activities and the volume of drug prescriptions in frontline medical institutions in 2022.

The table below sets forth the revenue of the Group by therapeutic areas as a percentage of total revenue.

	Drugs Registration Classification	Year ended 31 December				Change compared with last year (%)
		2022 (RMB'000)	%	2021 (RMB'000)	%	
Anti-viral drugs		3,116,059	83.21%	559,973	61.28%	456.47%
— Kewei (Oseltamivir Phosphate) Granules	Class 5 active chemical drug	2,585,151	69.03%	469,477	51.38%	450.64%
— Kewei (Oseltamivir Phosphate) Capsules	Class 6 active chemical drug	507,554	13.55%	85,109	9.31%	496.36%
Endocrine and metabolic drugs		113,497	3.03%	77,633	8.50%	46.20%
— Ertongshu (Benzbromarone Tablets)	Class 4 active chemical drug	98,424	2.63%	77,134	8.44%	27.60%
Anti-infectives drugs		87,190	2.33%	80,689	8.83%	8.06%
— Linluoxing (Moxifloxacin Hydrochloride Tablets)	Class 4 chemical drug	29,653	0.79%	20,466	2.24%	44.89%
— Clarithromycin Tablets	Class 6 chemical drug	33,599	0.90%	25,543	2.80%	31.54%
Cardiovascular and cerebrovascular drugs		150,114	4.01%	96,148	10.52%	56.13%
— Olmesartan Tablets	Class 4 chemical drug	44,257	1.18%	37,148	4.07%	19.14%
— Xinhanining (Amlodipine Tablets)	Class 4 chemical drug	9,803	0.26%	4,783	0.52%	104.96%
— Oumeining (Telmisartan Tablets)	Class 2 chemical drug	62,922	1.68%	49,683	5.44%	26.65%
Others		278,092	7.42%	99,345	10.87%	179.93%
Total		3,744,952	100%	913,788	100%	309.83%

2. Cost of Sales

The Group's cost of sales consists of (i) cost of raw materials, primarily including cost of active pharmaceutical ingredient (API), ancillary materials and packaging materials; (ii) labour cost, primarily including salaries and benefits of our staff directly involved in manufacturing of our products; (iii) manufacturing cost, primarily including depreciation of machinery, equipment and plant and cost of labour protection materials, fuel, machine oil and maintenance; and (iv) patent fees paid to third parties in relation to various patents and licences.

The Group's cost of sales increased by 109.00% to RMB898.88 million for the year ended 31 December 2022 from RMB430.09 million for the year ended 31 December 2021, which was mainly due to the increase in sales volume of the Company's core product Kewei during the Reporting Period.

3. Gross Profit

For the year ended 31 December 2022, the Group's gross profit was RMB2,846.07 million, representing an increase of 488.40% as compared with RMB483.70 million for the year ended 31 December 2021. It was mainly due to the increase in sales volume of the Company's core product Kewei during the Reporting Period.

4. Other Net Losses/Income

Other net expenses/income of the Group mainly included (1) government subsidies, primarily representing amortization of government subsidies for the construction of the production line for Kewei recognized by instalments in accordance with accounting standards, and other subsidies or incentives granted by the local government; (2) interest income; (3) net foreign exchange; (4) fair value change on convertible bonds embedded in conversion option; (5) net profit or loss of disposal of fixed assets; (6) impairment loss on intangible assets and goodwill; and (7) other miscellaneous gains.

For the year ended 31 December 2022, the Group's other net losses were RMB844.33 million, representing a decrease of RMB930.29 million as compared to other income of RMB85.96 million for the year ended 31 December 2021, which was due to the fair value change and exchange loss arising from convertible bonds, and impairment losses on intangible assets and goodwill.

5. Expenses Analysis

For the year ended 31 December 2022, the Group's total expenses amounted to RMB1,962.31 million, representing an increase of 58.67% as compared to RMB1,236.73 million for the year ended 31 December 2021. The main components of the Group's expenses are as follows:

	Year ended 31 December		Change compared to last year (%)
	2022 (RMB'000)	2021 (RMB'000)	
Distribution costs	1,216,590	521,667	133.21%
Administrative expenses	338,452	358,402	-5.57%
Research and development cost	129,614	109,673	18.18%
(Reversal)/recognition of impairment loss on trade and other receivables	(3,995)	3,176	-225.79%
Finance costs	281,646	243,807	15.52%
	<u>1,962,307</u>	<u>1,236,725</u>	<u>58.67%</u>

Distribution costs mainly consist of (1) marketing expenses relating to conducting academic promotion activities and other marketing activities; (2) travelling expenses for marketing purposes; (3) labour cost; and (4) other expenses. The increase in distribution costs was mainly due to (i) the corresponding increase in marketing costs driven by increasing sales scale of the Group's products; and (ii) an increase in marketing expenses and travelling expenses relating to the organization of academic promotion activities and other marketing activities.

Administrative expenses mainly consist of (1) salary and welfare benefits for the management and administrative personnel; (2) depreciation and amortization costs relating to our office facilities and land use rights; and (3) other miscellaneous expenses. The decrease in administrative costs was mainly due to the decrease in miscellaneous costs, staff cost and depreciation cost incurred for the new workshops have not been put into production.

For the year ended 31 December 2022, the Group's total investment in R&D amounted to RMB199.24 million, representing 5.32% of the revenue and a decrease of 19.08% as compared to the corresponding period of last year, among which expenses were RMB129.61 million and capitalized expenditures were RMB69.62 million.

Finance costs mainly consist of interest expense for bank loans and convertible bonds.

6. Profit/Loss Before Taxation

For the year ended 31 December 2022, the Group's profit before taxation amounted to RMB39.42 million in total, representing an increase of RMB706.60 million as compared to the loss before taxation of RMB667.18 million for the year ended 31 December 2021, which was mainly due to the increase in sales volume of core product Kewei.

7. Other Operating Expenses

For the year ended 31 December 2022, other operating expenses of the Group amounted to RMB0.01 million, which was mainly donation expenditure.

8. Income Tax

For the year ended 31 December 2022, the income tax credit of the Group amounted to RMB9.82 million, and the income tax credit of RMB79.46 million for the year ended 31 December 2021. The decrease in income tax credit was mainly due to the increase of profit before taxation.

9. Profit for the Reporting Period

For the year ended 31 December 2022, the Group recorded a net profit amounted to RMB49.24 million, representing an increase of 108.38% as compared to the net loss of RMB587.72 million for the year ended 31 December 2021, which was mainly due to the increase in sales volume of core product Kewei.

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

For the year ended 31 December 2022, profit and total comprehensive income attributable to equity shareholders of the Company was RMB76.60 million, representing an increase of RMB664.25 million as compared to loss and total comprehensive income attributable to equity shareholders of the Company of RMB587.65 million for the year ended 31 December 2021, which was mainly due to the gradually normalized footfall and daily social activities as well as the good recovery momentum in flow of people, the number of diagnosis and treatment activities and the volume of drug prescriptions in frontline medical institutions in 2022, resulting in a significant recovery of the sales and a substantial increase in sales volume of Kewei, the core product of the Group.

IV. FINANCIAL POSITION

1. Overview

As at 31 December 2022, the Group's total assets amounted to RMB11,889.80 million, with total liabilities of RMB5,819.80 million and shareholders' equity of RMB6,070.00 million.

As at 31 December 2022, the Group's capital is derived from sales of product and are used in production halls construction, distribution and administrative management etc. The management has clear goals and records in budget, financial and operating performance, and actively monitors them and regularly evaluates internal control measures.

2. Net Current Assets

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

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Current assets		
Inventories	315,027	279,696
Trade and other receivables	1,036,916	546,791
Prepayments	59,433	7,776
Financial assets measured at FVPL	290,000	–
Non-current assets held for sale	2,312,320	–
Restricted cash	76,781	91,992
Cash and cash equivalents	923,543	1,131,121
Total current assets	5,014,020	2,057,376
Current liabilities		
Trade and other payables	1,718,222	911,680
Contract liabilities	75,386	74,903
Bank loans and other borrowings	223,343	48,477
Interest-bearing borrowings	2,906,963	–
Deferred income	8,195	4,379
Current taxation	8,672	198,625
Total current liabilities	4,940,781	1,238,064
Net current assets	6,949,019	9,303,517

For the year ended 31 December 2022, the Group recorded the total current assets of RMB5,014.02 million, as compared to RMB2,057.38 million for the year ended 31 December 2021. During the Reporting Period, the current assets increased due to the increase in sales; and the investment in equity interest in Sunshine Lake Pharma was reclassified from non-current asset to current asset as the equity transfer agreement signed and expected to dispose within one year.

3. Intangible Assets

For the year ended 31 December 2022, the Group's intangible assets was RMB2,920.65 million, representing a decrease of RMB351.34 million as compared to RMB3,271.99 million for the year ended 31 December 2021. The decrease in intangible assets was mainly due to the amortization and impairment loss was recognised for some generic drugs and Hepatitis C Asset Group.

4. Gearing Ratio and Quick Ratio

Gearing ratio represents total interest-bearing borrowings as at a record date divided by total shareholders' equity as at the same record date. Quick ratio represents current assets excluding inventories as at a record date divided by current liabilities as at the same record date.

The gearing ratio and the quick ratio of the Group as at 31 December 2022 were 62.96% and 0.95 times, respectively. The gearing ratio and the quick ratio of the Group as at 31 December 2021 were 53.04% and 1.44 times, respectively.

5. Bank Loans and other borrowings

For the year ended 31 December 2022, all bank loans and other borrowings of the Group were denominated in RMB. For the year ended 31 December 2022, the Group's loans balance included RMB776.93 million of bank loan and RMB 137.94 million of obligation arising from sales and lease back transactions, representing an increase of RMB321.49 million as compared to RMB593.38 million for the year ended 31 December 2021. The Group is in good liquidity position with sufficient funding and has no repayment risk.

6. Capital Expenditure

In order to meet the production demand for our products, the Group constructed plants and buildings, purchased administration offices, machines and equipment, acquired the ownership of approvals for purchasing, manufacturing and launching certain pharmaceutical products in 2022 with an aggregate capital expenditure of RMB853.06 million.

7. Contingent Liabilities

The Group had no significant contingent liabilities, litigation or arbitration of material importance as at 31 December 2022.

8. Pledge of Assets

As at 31 December 2022, land use rights held for own use amounting to RMB159.32 million (2021: RMB83.83 million), fixed assets held for own use amounting to RMB930.77 million (2021: RMB262.15 million) and construction in progress amounting to RMB409.08 million (2021: RMB258.40 million) held by the Group were pledged for bank loans and other borrowings.

As at 31 December 2022, the Group had a total amount of RMB49.04 million bill receivables that were pledged as securities for the issuance of new banks' acceptance bills and bank loans (2021: RMB19.58 million).

9. Employee and Remuneration Policies

(1) Human Resource Summary

For the year ended 31 December 2022, the Group had a total of 4,167 employees. The staff costs, including Directors' emoluments but excluding any contributions to pension scheme, were approximately RMB612.18 million for the year ended 31 December 2022.

by age:

Age Distribution	Number	Percentage
30 or below	897	21.53%
31–50 (inclusive)	3,150	75.59%
Above 50	120	2.88%
Total	4,167	100%

by education:

Education Level	Number	Percentage
Master or above	88	2.11%
Bachelor	1,346	32.30%
Associate	1,460	35.04%
Vocational or below	1,273	30.55%
Total	4,167	100%

(2) *Remuneration Policy*

The objective of the Group's remuneration policy is to motivate and retain talented employees to ensure the Group's development. Such policy is determined by taking into consideration factors such as remuneration in respect of the overall remuneration standard in the industry and employee motivation. The management of the Company will review the remuneration policy of employees of the Group on a regular basis.

(3) *Employee Benefits*

The Group strictly complies with the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), under which it contributes various social insurance premiums and housing provident fund for employees. In addition to the statutory requirements of the PRC, the Group has established corresponding systems such as the Corporate Annuity Plan, Housing Welfare and Children's Welfare, and set up public welfare facilities such as kindergarten and infirmary room. In the future, the Group will provide employees with more benefits and protections in accordance with its development progress.

V. FUTURE OUTLOOK

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with the shareholders of the Company (the “**Shareholders**”) is essential for enhancing investor relations and investors’ understanding of the Group’s business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable the Shareholders and investors to make the best investment decisions. The general meeting of the Company provides a platform for direct communication between the Board and the Shareholders.

The Company sets out the following contact details for the Shareholders to communicate with the Company:

Telephone number : 86-0769-81768866

Company website : www.hec-changjiang.com

E-mail address : pengqiyun@hec.cn

FINAL DIVIDEND

The Board resolved not to recommend the payment of final dividend for the year ended 31 December 2022 (for the year ended 31 December 2021: Nil).

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

In order to ascertain Shareholders' entitlement to attend and vote at the annual general meeting of the Company for the year of 2022 to be held on Friday, 2 June 2023 (the "AGM"), the register of members of the Company will be closed from Tuesday, 30 May 2023 to Friday, 2 June 2023 (both days inclusive), during which no transfer of shares will be registered.

In order to qualify for attending and voting at the AGM, all unregistered H shareholders of the Company shall lodge transfer documents together with the relevant share certificates with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Monday, 29 May 2023. The record date for the entitlement to attend and vote at the AGM is Tuesday, 30 May 2023.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2022.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on the Stock Exchange, the Company always strives to maintain a high level of corporate governance and had complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing Securities on the Stock Exchange (the "**Listing Rules**") for the year ended 31 December 2022.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

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

Upon making specific enquiries to all the Directors and supervisors, all Directors and supervisors of the Company confirmed that each of them had fully complied with the Model Code during the year ended 31 December 2022.

AUDITORS

The financial figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been compared by the Group’s auditor, KPMG (“KPMG”), Certified Public Accountants, to the amounts set out in the Group’s consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance conclusion has been expressed by KPMG.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) comprises of two independent non-executive Directors, namely Mr. TANG Jianxin and Ms. XIANG Ling, and a non-executive Director, namely Mr. TANG Xinfu. With professional qualification and experience in finance, Mr. TANG Jianxin was appointed as the chairman of the Audit Committee. The primary duties of the Audit Committee are to make independent recommendations on the effectiveness of our financial reporting procedures, internal control and risk management systems and maintaining good relationship with external auditors of the Group, so as to assist the Board in supervising the audit process and perform other responsibilities and related duties assigned by the Board. The Audit Committee has met with the external auditors of the Company and internal auditors, and reviewed their plans, audit procedures, their results of audits and reviews of the risk management and internal supervision system.

The Audit Committee has reviewed the Group’s 2022 annual results announcement and the financial statements for the year ended 31 December 2022 prepared in accordance with the IFRSs.

OTHER SIGNIFICANT EVENTS

1. Metoprolol Succinate Sustained-release Tablets Approved for Launch

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

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

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

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

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

3. **Azithromycin Tablets Approved for Launch**

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

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

4. **Proposed Adjustment of Remuneration of Mr. LI Xuechen**

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

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

5. **Continuing Connected Transactions and Connected Transactions**

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

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

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

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

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

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

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

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

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

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

As at the nine months ended 30 September 2022, the transaction amount under the Packaging and Production Materials Purchase Framework Agreement has amounted to approximately RMB28,767,200, representing utilization of approximately 79.9% of the original annual cap of RMB36,000,000, leaving only approximately one-fifth of the original annual cap available for the production to be carried out in the fourth quarter of 2022. In order to satisfy the production needs of the Group for the fourth quarter of 2022, the Directors proposed to increase the annual cap under the Packaging and Production Materials Purchase Framework Agreement for the year ended 31 December 2022. After taking into account of the expected sales volume of the drugs manufactured by the Group and the inventories of the Group, the Company has made an upward adjustment of the annual cap for the year ended 31 December 2022 under the Packaging and Production Materials Purchase Framework Agreement by RMB9,000,000. Accordingly, the annual cap under the Packaging and Production Materials Purchase Framework Agreement for the year ended 31 December 2022 was revised as RMB45,000,000.

Please refer to the announcement of the Company dated 27 October 2022 for details.

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

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

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

7. Partial Repurchase of the H Share Convertible Bonds

Pursuant to the terms and conditions of the instrument (the “**Bond Instrument**” and such terms and conditions, being the “**Conditions**”) dated 20 February 2019 in respect of the US\$400,000,000 3.0% H Share convertible bonds issued by the Company (the “**Bonds**”), the Company may at any time and from time to time purchase the Bonds at any price in the open market or otherwise. In accordance with the Conditions, the Company entered into a bond purchase agreement with holders of the Bonds (the “**Sellers**”) on 8 September 2022, pursuant to which the Company agreed to purchase certain Bonds (i) in the aggregate principal amount of US\$95,337,821 from the Sellers at the total purchase price of US\$127,317,844, or (ii) in the aggregate principal amount of US\$110,675,641 from the Sellers at the total purchase price of US\$147,906,079. The total purchase price was determined with reference to the calculation formula in respect of Early Redemption Amount under the Bond Instrument. The said repurchase was completed on 26 September 2022.

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

8. Pledge of Shares by Controlling Shareholder of the Company

As at 14 October 2022, as informed by HEC (Hong Kong) that it has pledged the 226,200,000 H shares in the issued share capital of the Company held by it, representing approximately 25.71% of the issued share capital of the Company as of the date of this announcement (the “**Pledged H Shares**”), in favour of an independent third-party lender for a loan provided by the independent third-party lender to Sunshine Lake Pharma (the “**Loan**”). The Loan is used for the acquisition of H shares of the Company by HEC (Hong Kong), which has been completed on 29 December 2021. Meanwhile, an independent third-party custodian was appointed by HEC (Hong Kong) to hold the Pledged H Shares on trust.

Please refer to the announcements of the Company dated 31 August 2021, 11 November 2021, 10 December 2021, 20 December 2021, 30 December 2021, 22 April 2022 and 14 October 2022 for details.

9. Insulin Aspart Injection Approved for Launch

Insulin Aspart Injection, independently researched and developed by the Company, has undergone the assessment and approval process and obtained approval for launch from the NMPA. Insulin Aspart Injection is the third generation of fast-acting mealtime Insulin, which is currently a commonly used drug for mainstream insulin intensive therapy. It is mainly used for controlling the postprandial blood glucose level of diabetic patients and is suitable for patients who have a poor blood glucose control despite receiving oral hypoglycemic drug treatment. Insulin Aspart Injection being successfully approved to launch marks the completion of the Group’s basic layout in the insulin industry, and will be beneficial for the expansion of the Group’s business of treating endocrine and metabolic diseases and further enrich the Group’s product portfolio.

Please refer to the announcement of the Company dated 18 October 2022 for details.

10. Insulin Aspart 30 Injection Approved for Launch

Insulin Aspart 30 Injection, independently researched and developed by the Company, has undergone the assessment and approval process and obtained approval for launch from the NMPA. Insulin Aspart 30 Injection is a premixed insulin, out of which, 30% is soluble insulin aspart and 70% is protamine insulin aspart. Insulin Aspart 30 Injection is suitable for the treatment of diabetes and can be injected with meals. The higher attainment rate of glycosylated hemoglobin (Hb A1c) enables better control of both fasting and postprandial blood glucose. It has significant advantages in improving glycemic control, reducing the risk of hypoglycemia, improving compliance and saving medical costs, so it is more suitable for high-risk patients with impaired perception of hypoglycemia. Insulin Aspart 30 Injection being successfully approved to launch will be beneficial for the expansion of the Group's business of treating endocrine and metabolic diseases and further enrich the Group's product portfolio.

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

11. Major and Connected Transaction in relation to the Disposal of Equity Interest in Sunshine Lake Pharma

On 23 December 2022, the Company (as the transferor), Shenzhen HEC Industrial (as the transferee) and Sunshine Lake Pharma (being the target company) entered into an equity transfer agreement, pursuant to which the Company agreed to transfer and Shenzhen HEC Industrial agreed to acquire the capital contribution in the amount of RMB27,720,405 (representing 9.9134% of equity interest) of Sunshine Lake Pharma held by the Company at a consideration of RMB2,312,319,650. The transaction is subject to the approval by the independent Shareholders at the 2023 first extraordinary general meeting of the Company to be held on 28 March 2023.

Please refer to the announcements of the Company dated 23 December 2022 and 10 March 2023 and the circular of the Company dated 10 March 2023 for details.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

1. Partial Repurchase of the H Share Convertible Bonds

The Company entered into a bond purchase agreement with the Sellers on 13 January 2023, pursuant to which the Company agreed to purchase certain Bonds (1) in the aggregate principal amount of US\$28,911,534 from the Sellers at the total purchase price of US\$40,000,000 on or before 31 January 2023 (the “**First Trench Repurchased Bonds**”); and (2) in the aggregate principal amount of US\$43,118,778 from the Sellers at the total purchase price of US\$60,000,000 on or before 28 February 2023 (the “**Second Trench Repurchased Bonds**”). The total purchase price was determined after arm’s length negotiation between the Company and the Sellers.

On 27 February 2023, the Company further entered into a supplemental agreement with the Sellers in respect of the Second Trench Repurchased Bonds (the “**Supplemental Agreement**”), under which the Company and the Sellers agreed to revise the date of repurchase of part of the Second Trench Repurchased Bonds. Pursuant to the Supplemental Agreement, the Company agreed to complete the repurchase of the Second Trench Repurchased Bonds from the Sellers on or before 15 March 2023. The total purchase price for the Second Trench Repurchased Bonds remained unchanged at US\$60,000,000.

Please refer to the announcements of the Company dated 13 January 2023 and 27 February 2023 for details.

2. Continuing Connected Transactions

On 10 February 2023, the Company and Shenzhen HEC Industrial entered into the Leasing and Other Services Framework Agreement, pursuant to which Shenzhen HEC Industrial will provide leasing of office buildings, warehouse, inspection and testing services, conference accommodation and other services to the Company during the three years ending 31 December 2025. The proposed annual caps under the Leasing and Other Services Framework Agreement for the three years ending 31 December 2025 are RMB12,383,300, RMB12,999,500 and RMB13,003,300, respectively.

On 10 February 2023, the Company and Shenzhen HEC Industrial entered into the APIs and Pharmaceutical Products Sales Framework Agreement, pursuant to which the Company agreed to sell APIs such as Esomeprazole Magnesium, Oseltamivir Phosphate, Olanzapine, Entacapone and Febuxostat to Shenzhen HEC Industrial during the three years ending 31 December 2025. The proposed annual caps under the APIs and Pharmaceutical Products Sales Framework Agreement for the each of three years ending 31 December 2025 are RMB18,000,000, RMB20,000,000 and RMB22,000,000, respectively.

On 27 February 2023:

- (1) the Company and Shenzhen HEC Industrial entered into the Energy Purchase Framework Agreement, pursuant to which the Company agreed to purchase electricity and steam power required for its production from Shenzhen HEC Industrial during the three years ending 31 December 2025. The proposed annual caps under the Energy Purchase Framework Agreement for the each of the three years ending 31 December 2025 are RMB50,400,000, RMB56,750,000 and RMB56,750,000, respectively.
- (2) the Company and Shenzhen HEC Industrial entered into the APIs Purchase Agreement, pursuant to which the Company agreed to purchase certain APIs such as Aripiprazole, Rivaroxaban, Escitalopram Oxalate, Clarithromycin from Shenzhen HEC Industrial during the three years ending 31 December 2025. The proposed annual caps under the APIs Purchase Agreement for each of the three years ending 31 December 2025 are RMB38,946,300, RMB53,786,800 and RMB75,442,100, respectively.
- (3) the Company and Shenzhen HEC Industrial entered into the Packaging and Production Materials Purchase Framework Agreement, pursuant to which the Company agreed to purchase packaging materials for packaging and production of the drugs manufactured by the Group from Shenzhen HEC Industrial during the three years ending 31 December 2025. The proposed annual caps under the Packaging and Production Materials Purchase Framework Agreement for each of the three years ending 31 December 2025 are RMB40,600,000, RMB40,600,000 and RMB40,600,000, respectively.
- (4) the Company and Shenzhen HEC Industrial entered into the Equipment Purchase and Civil Construction Framework Agreement, pursuant to which the Company agreed to purchase certain equipment and civil construction services from Shenzhen HEC Industrial during the three years ending 31 December 2025. The proposed annual caps under the Equipment Purchase and Civil Construction Framework Agreement for each of the three years ending 31 December 2025 are RMB27,050,000, RMB7,900,000 and RMB7,900,000, respectively.
- (5) the Company and Shenzhen HEC Industrial entered into the Entrusted Processing Framework Agreement, pursuant to which the Company agreed to purchase processing services for its certain pharmaceutical products, including Olmesartan Tablets, Moxifloxacin Tablets, Clarithromycin Tablets, Aripiprazole Tablets, Levofloxacin Tablets, Rivaroxaban Tablets, Duloxetine Enteric-coated Capsules, Escitalopram Oxalate Tablets, Xadiafil Tablets, Aripiprazole Orally Disintegrating Tablets, Entacapone Tablets, Rongliflozin and other APIs from Shenzhen HEC Industrial during the three years ending 31 December 2025. The proposed annual caps under the Entrusted Processing Framework Agreement for each of the three years ending 31 December 2025 are RMB94,805,500, RMB108,832,000 and RMB139,468,200, respectively.

- (6) the Company and Shenzhen HEC Industrial entered into the Equipment Sales Framework Agreement, pursuant to which the Company agreed to sell specific pharmaceutical production equipment (including Glatter fluidized bed), quality inspection equipment and other equipment to Shenzhen HEC Industrial. The proposed annual cap under the Equipment Sales Framework Agreement for the year ending 31 December 2023 is RMB30,496,500.
- (7) the Company and Shenzhen HEC Industrial entered into the Entrusted Production and Inspection Services Framework Agreement, pursuant to which the Company agreed to provide production and inspection services to Shenzhen HEC Industrial during the three years ending 31 December 2025. The scope of the entrusted production and inspection services includes provision of production, inspection and testing services to Dong An Tai, Dong An Qiang, Dong An Rui (東安瑞), Dong Tong Shen (東通神), other generic drugs, other new drugs, insulin degludec/insulin aspart, insulin degludec/liraglutide injection and intermediates of generic drugs. The proposed annual caps under the Entrusted Production and Inspection Services Framework Agreement for each of the three years ending 31 December 2025 are RMB105,230,000, RMB68,992,000 and RMB49,250,000, respectively.

The abovementioned (1) Energy Purchase Framework Agreement, (2) APIs Purchase Agreement, (3) Packaging and Production Materials Purchase Framework Agreement, (4) Equipment Purchase and Civil Construction Framework Agreement, (5) Entrusted Processing Framework Agreement, (6) Equipment Sales Framework Agreement and (7) Entrusted Production and Inspection Services Framework Agreement and the transactions contemplated thereunder (including the respective annual caps) are subject to the approval by the independent Shareholders at an extraordinary general meeting of the Company, details of which will be announced by the Company in due course.

Please refer to the announcements of the Company dated 10 February 2023 and 27 February 2023 for details.

3. Third Agreement in relation to the Partial Repurchase of the H Share Convertible Bonds

On 9 March 2023, the Company entered into a third bond purchase agreement with the Sellers, pursuant to which the Company agreed to purchase certain Bonds (the “**Partial Repurchase of Bonds**”) (i) in the aggregate principal amount of US\$38,547,623 from the Sellers at the total purchase price of US\$54,075,477 on or before 3 April 2023; and (ii) in the aggregate principal amount of US\$194,161,057 from the Sellers at the total purchase price of US\$278,191,332 on or before 30 June 2023. The total purchase price for the Partial Repurchase of Bonds was determined after arm’s length negotiation between the Company and the Sellers.

As of the date of this announcement, the Partial Repurchase of Bonds has not yet been completed. Upon completion of the Partial Repurchase of Bonds, the principal amount of the Bonds will be repurchased in full and the Seller will no longer have any interest in the Bonds and/or any rights arising thereof. Accordingly, no further Shares will be issuable by the Company pursuant to the terms of the Bonds after the completion of the Partial Repurchase of Bonds.

Please refer to the announcement of the Company dated 9 March 2023 for details.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

APPRECIATION

The Group would like to express its appreciation to all the staff for their outstanding contribution towards the Group's development. The Board wishes to sincerely thank the management of the Company for their dedication and diligence, which are the key factors for the Group to continue its success in future. Also, the Group wishes to extend its gratitude for the continued support from the Shareholders, customers, and business partners. The Group will continue to deliver sustainable business development, so as to create more values for all Shareholders.

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

Hubei, the PRC
24 March 2023

As at the date of this announcement, the Board consists of Mr. JIANG Juncai, Mr. WANG Danjin, Mr. CHEN Yangui and Mr. LI Shuang as executive Directors; Mr. TANG Xinfa as a non-executive Director; and Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen as independent non-executive Directors.

* *For identification purpose only*