四环医药
SihuanPharm

**Sihuan Pharmaceutical Holdings Group Ltd.**
**四環醫藥控股集團有限公司**
*(incorporated in Bermuda with limited liability)*
**(Stock Code: 0460)**

# ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the "**Board**") of directors (the "**Directors**") of Sihuan Pharmaceutical Holdings Group Ltd. ("**Sihuan Pharmaceutical**" or the "**Company**") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2023 (the "**Period**") together with the comparative figures for the six months ended 30 June 2022. The interim condensed consolidated financial information has been reviewed by the external auditors of the Company, Messrs. Ernst & Young, in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board, and by the audit committee of the Company (the "**Audit Committee**").

## FINANCIAL SUMMARY OF THE GROUP

- For the Period, the revenue was approximately RMB1,055.7 million, representing a year-on-year decrease of 27.9% compared to approximately RMB1,464.2 million for the six months ended 30 June 2022, mainly due to the impact of the policy changes of the pharmaceutical industry in the Mainland China.

- For the Period, the gross profit was approximately RMB747.7 million, representing a year-on-year decrease of 25.5% compared to approximately RMB1,003.7 million for the six months ended 30 June 2022.

- For the Period, the revenue and the segment profit of medical aesthetics business were approximately RMB194.0 million and approximately RMB62.9 million respectively, representing a year-on-year increase of 96.8% and 51.2% compared to approximately RMB98.6 million and approximately RMB41.6 million for the six months ended 30 June 2022 respectively.

- Due to the impact of policy changes of the pharmaceutical industry, for the Period, the revenue and the segment profit of generic drugs business were approximately RMB845.7 million and approximately RMB356.7 million, representing a year-on-year decrease of 31.4% and 47.8% compared to approximately RMB1,233.0 million and approximately RMB683.1 million for the six months ended 30 June 2022 respectively.

- For the Period, the total research and development ("**R&D**") expenses amounted to approximately RMB294.0 million, representing a decrease of 35.7% as compared to the R&D expenses of approximately RMB457.3 million for the same period in 2022. This was mainly due to the completion of phase III clinical trials of the Group's various self-developed products (including innovative drugs, biopharmaceutical drugs and generic drugs), which are expected to obtain registration approval by the end of 2023; meanwhile, multiple drugs under R&D of Huisheng Biopharmaceutical Co., Ltd. (formerly known as Jilin Huisheng Biopharmaceutical Co., Ltd.) ("**Huisheng Biopharm**"), a subsidiary that focuses on the field of diabetes and complications, have been completed and have submitted application for registration.

- Due to the above reasons, for the Period, the operating profit was approximately RMB146.2 million, representing a year-on-year decrease of 28.1% compared to approximately RMB203.2 million for the six months ended 30 June 2022.

- For the Period, the loss was approximately RMB118.9 million compared to that of approximately RMB95.9 million for the six months ended 30 June 2022.

- For the Period, the loss attributable to owners of the Company was approximately RMB49.6 million, representing a year-on-year decrease of 222.8% in profit (approximately RMB90.0 million) compared to a profit of approximately RMB40.4 million for the six months ended 30 June 2022.

- For the Period, the basic loss per share were RMB0.53 cents.

- As at 30 June 2023, cash and cash equivalents were approximately RMB3,734.0 million, in addition, wealth management products recognized in the consolidated statement of financial position amounted to approximately RMB776.0 million, and during the Period, the final cash dividend for 2022 declared and paid was approximately RMB298.6 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Industry Overview

*Innovation and transformation development is a necessary path for pharmaceutical enterprises to maintain a favorable development trend in the future.*

In the first half of 2023, the global economy continued to be challenging due to geopolitical risks and the negative impacts of significant interest rate hikes by developed economies in Europe and the United States, high inflation, and bank liquidity risks. Since the beginning of the year, with the release of epidemic control, "consumer recovery" has become a popular term in the market. In the short term, the domestic medical aesthetics consumer market led the post-epidemic recovery with its characteristic of "demand has not disappeared, only delayed consumption", and achieved a high growth rate in the first quarter. Subsequently, it benefited from the features of high repeat purchase, high stickiness, and specialised multi-treatment to achieve steady growth in the second quarter. In the long term, as the penetration rate of medical aesthetics continues to increase, market education, technological upgrades, and the sinking of consumption will continue to have an impact, the top medical aesthetics organisations will continue to benefit.

During the period, as this is the year in which the Covid-19 control measures have been relaxed at home and abroad, the potential of the domestic pharmaceutical industry is being released under the background of population ageing, technological innovation and upgrading and deepening healthcare reform. From the perspective of industry policy, in recent years, while encouraging the research and development of new drugs and accelerating the review and evaluation of new drugs, the state has begun to regulate and focus on enhancing the research and development strength of pharmaceutical enterprises, with emphasis on the research and development of drugs with clinical value as the guide and with patient benefits as the core. In April 2023, the Center of Drug Evaluation ("**CDE**") National Medical Products Administration ("**NMPA**") issued the "Regulations of the Drug Review Centre on Accelerating the Application and Evaluation of Innovative Drugs for Marketing Approval (Trial)" to encourage the research and creation of new drugs, drugs for children, and drugs for rare diseases, and to speed up the evaluation and approval of innovative drug varieties.

From the market level, the domestic pharmaceutical market was slightly affected by the epidemic in January, and then showed a clear trend of recovery, the first quarter revenue growth rate was the highest in the stage. From the profitability level, with the centralised procurement policy, national discussion and other "policy bottom" appeared, the overall profitability of the industry began to stabilise, as the impact of centralised procurement policy on an increasing number of traditional pharmaceutical companies has bottomed out. With the accelerated inclusion of innovative drugs into the national medical insurance catalog and other industry policy support, medical reimbursement negotiations into the deep water, the logic of volume for price highlighted. Under the policy support, the increased investment in research and development (R&D) has significantly improved the speed and quality of domestic innovative drug research and development, and the time interval between the approval of innovative drug varieties and their entry into the health insurance scheme has been continuously shortened, and more and more pharmaceutical enterprises

have entered into the harvesting period of innovative drugs, which will also welcome performance recovery and valuation reshaping. A number of pharmaceutical companies have begun to realize the results of their innovation and transformation, and the proportion of innovative drugs continues to rise. Under the influence of centralized procurement policy, medical reimbursement negotiation and other policy regularization, 'innovation + medical reimbursement' is still the core driving force for growth, and innovation and transformation development is already a necessary path for pharmaceutical enterprises to maintain a good development trend in the future.

In 2023, with the gradual dissipation of the impact of the epidemic and the further maturation of the medical reimbursement cost-control policy, the pharmaceutical manufacturing industry is gradually recovering. With the speeding up of the domestic new drug review and approval, the launching of domestic innovative drugs is accelerating in 2023. Domestic Biopharma R&D investment continues to grow rapidly, the R&D expense rate is increasing year by year close to the level of some MNCs, innovative drug R&D is entering an intensive harvesting period, and the number of innovative drugs on the market will grow even faster in the future. The launch of some blockbuster products will also bring important catalysts to these innovative drug companies, which will empower their sales performance. With the successive launch of innovative drugs, a number of companies are accelerating the process of commercialisation of new products of innovative drugs.

**Interim Business Update 2023**

*Innovative transformation achievements accelerating, financial headwinds gradually cleared.*

1. **Further implementation of the Group's strategic measures in innovation-driven transformation and upgrading to "Innovative Pharmaceuticals + Medical Aesthetics", and achieved a number of results.**

   The Group has adhered to the implementation of the dual-wheel drive strategy of "Innovative Pharmaceuticals + Medical Aesthetics". At present, the Group not only owns two innovative biopharmaceutical platforms, Xuanzhu Biopharmaceutical Technology Co., Ltd. ("**Xuanzhu Biopharm**") and Huisheng Biopharmaceutical, which have good independent research and development capability and rich and high-value innovative biopharmaceutical product pipelines, but also owns a medical aesthetic platform Meiyan Space, with a comprehensive product pipeline which covers the needs of the whole life cycle of the beauty seekers. Through the full implementation and execution of the dual-drive strategy, the Group has further consolidated its strategic goal of becoming a leading medical aesthetic and biopharmaceutical company in China.

With the relaxation of epidemic control and the gradual rebound of the market, the Group has accelerated the research and development of new innovative and biopharmaceutical products and the commercialization of approved products. Leveraging on the Group's strategic layout and planning for long-term corporate development, the Group's pharmaceutical business segments achieved a number of high-quality business progresses during the period:

- On 3 January 2023, the Group issued an announcement that, the Group's non-wholly owned subsidiary, Huisheng Biopharm has successfully completed the round A+ financing by way of capital increase of RMB580 million from Series A+ investors (consisting of Jilin Baixing Bairong Investment Center (Limited Partnership), Jilin Province Private Equity Co., Ltd., Jilin Province Technology Investment Fund Co., Ltd. and Wuxi Shangwei Venture Capital Partnership (L.P.)). After the completion of the Capital Increase, the overall post-investment valuation of Huisheng Biopharm was RMB5.58 billion.

- On 26 January 2023, the Group issued an announcement that, the "non-PVC Solid Liquid Double Chamber Bag for Ceftazidime/Sodium chloride injection" and "non-PVC Solid Liquid Double Chamber Bag for Cefuroxime Sodium/Sodium Chloride Injection" (the "non-PVC Solid-Liquid Double Chamber Bag Product") jointly developed by the Group and its associate company Beijing Ruiye Pharmaceutical Co., Ltd., are included in the NDRL 2022.

- On 27 January 2023, the Group issued an announcement that, Midazolam Oromucosal Solution produced by the Group's subsidiary, Jilin Sihuan Aokang Pharmaceutical Co., Ltd., is included in the NDRL 2022.

- On 8 February 2023, the Group issued an announcement that, Jilin Sihuan Pharmaceutical Co., Ltd., the subsidiary of the Group, and Shanghai Vinnerna Biosciences Co., Ltd. (上海旺實生物醫藥科技有限公司) entered into an agreement in relation to the cooperation regarding the manufacturing and supply of Deuremidevir Hydrobromide Tablets (氫溴酸氘瑞米德韋片) (product code: VV116/JT001, trade name: MINDEWEI (民得維®)), an oral nucleoside analog anti-SARS-CoV-2 Category 1 innovative drug.

- On 24 March 2023, the Group issued an announcement that, XZP-KM501 developed by Xuanzhu Biopharm, a non-wholly owned subsidiary of the Group, has been approved by the NMPA of the Peoples Republic of China to initiate clinical trials for the treatment of solid tumors with HER2 positive expression (including medium and low expression). The approval of KM501 to initiate clinical trials marks the first antibody-drug conjugate ("**ADC**") drug of Xuanzhu Biopharm has entered the clinical development stage.

- On 27 March 2023, the Group issued an announcement that, Recombinant Human CD80 Mutant – Fc Fusion Protein Injection (product code: XZP-KM602) and selective DNA Dependent Protein Kinase (DNA-PK) Inhibitor (product code: XZP-6877 tablets), developed by Xuanzhu Biopharm, a non-wholly owned subsidiary of the Group, have been approved by the NMPA to initiate clinical trials for the treatment of advanced solid tumors.

- On 14 April 2023, the Group issued an announcement that, the abstract of phase II clinical results of class 1 innovative drug under development Birociclib, was submitted by Xuanzhu Biopharm, a non-wholly owned subsidiary of the Group, to the American Society of Clinical Oncology (ASCO) Annual Meeting on 10 February 2023 and was recently selected for presentation in a Poster Session on 4 June 2023. The phase I clinical data demonstrated that Birociclib, a novel selective CDK4/6 inhibitor, has the potential to overcome endocrine therapy resistance in hormone receptor-positive (HR+) breast cancer patients. Birociclib monotherapy also exhibited efficacy in patients with advanced breast cancer who have failed in multiple lines of treatment.

- On 16 April 2023, the Group issued an announcement that, the active pharmaceutical ingredient (the "**API**") of Esomeprazole Sodium developed by Jilin Huikang Pharmaceutical Co., Ltd., a subsidiary of the Group, has obtained registration approval from the NMPA, while its result of joint review and approval with the formulation is "A".

- On 18 April 2023, the Group issued an announcement that, the Group's subsidiary for innovative pharmaceuticals Xuanzhu Biopharm has completed all patient enrollment of Anaprazole Sodium Enteric Solution Tablets, its independently developed drug, in phase II clinical trials for the treatment in new indication of reflux esophagitis (RE) and its associated symptoms control in adults. Xuanzhu Biopharm plans to initiate phase III clinical trials of the same indication by the end of 2023.

- On 26 April 2023, the Group issued an announcement that, the Phase III clinical trial of Birociclib (XZP-3287, CDK4/6 inhibitor), a class 1 innovative drug under development by the Group's non-wholly owned subsidiary Xuanzhu Biopharm, used in combination with Fulvestrant in advanced breast cancer patients with Hormone Receptor – 4 Positive (HR+)/Human Epidermal Growth Factor Receptor 2 Negative (HER2-) who progressed from endocrine therapy, its interim analysis reached expected objectives. In addition, the Phase II clinical trial application of Birociclib used in combination with abitherone acetate and prednisone in the treatment of advanced or metastatic prostate cancer has been accepted by the CDE of the NMPA.

- On 9 May 2023, the Group issued an announcement that, New Drug Application ("**NDA**") of the Insulin Degludec and Insulin Aspart Injection, developed by the Group's non-wholly owned subsidiary, Huisheng Biopharm, has recently been accepted by the NMPA. It is the first biosimilar of insulin degludec and insulin aspart injection that has been applied for NDA and accepted in China.

- On 1 June 2023, the Group issued an announcement that, the Mecobalamin Tablets (specification: 0.5mg), a peripheral neuropathy drug developed by the Group's non-wholly owned subsidiary, Huisheng Biopharm, has obtained drug registration approval from the NMPA, and is deemed to have passed the consistency evaluation on quality and efficacy of generic drugs. Mecobalamin Tablet is Huisheng Biopharm's first anti-diabetes' complication drug approved for marketing, which marks the new milestone of Huisheng Biopharm's ant-diabetes' complication drugs from research and development to commercialization.

- On 13 June 2023, the Group issued an announcement that, the Investigational New Drug (IND) application of Semaglutide Injection, developed by the Group's non-wholly owned subsidiary, Huisheng Biopharm, for the treatment of type 2 diabetes has been accepted by the NMPA. It is the first Glucagon Like Peptide-1 (GLP-1) analog submitted by Huisheng Biopharm for IND application.

- On 26 June 2023, the Group issued an announcement that, the Anaprozole Sodium Enteric-coated Tablet , a Proton Pump Inhibitor (PPI) independently developed by the Group's non-wholly owned subsidiary, Xuanzhu Biopharm, has obtained drug registration approval from the NMPA for the treatment of duodenal ulcer. It is the first drug of Xuanzhu Biopharm approved for marketing, which marks a new milestone for Xuanzhu Biopharm from R&D to commercialization.

- On 3 July 2023, the Group issued an announcement that, the Phase II IND application of Birociclib, a class 1 innovative drug under development by the Group's non-wholly owned subsidiary Xuanzhu Biopharm, used as monotherapy or in combination with Abitherone Acetate and Prednisone in the treatment of metastatic prostate cancer has been approved by the NMPA. Pre-clinical studies indicate that the combination of Birociclib and Abitherone acetate has a significant synergistic anti-tumor effect on prostate cancer cells.

- On 4 July 2023, the Group issued an announcement that, Semaglutide Injection, developed by the Group's non-wholly owned subsidiary, Huisheng Biopharm, has been approved by the NMPA to initiate clinical trials for the treatment of type 2 diabetes.

- During the period from January to July 2023, the Group issued an announcement that, a number of generic products of its subsidiaries have been granted with drug registration approval by the NMPA, which are deemed to have passed the consistency evaluation on quality and efficacy of generic drugs. These generic products include (not limited to) Dopamine Hydrochloride Injection (specification: 2.5ml: 50mg; 5ml: 100mg), a generic drug for the treatment of shock, developed by the Group's subsidiary Jilin Zhen'ao Pharmaceutical, Azithromycin for Suspension (specification: 0.1g), an anti bacterial infection drug developed by the Group's subsidiary Jilin Sihuan Pharmaceutical, and the anti fungal infection drug Fluconazole and Sodium Chloride Injection (specification: 100ml: 0.2g fluconazolee and 0.9g sodium chloride; 50ml: 0.1g fluconazolee and 0.45g sodium chloride) developed by the Group's subsidiary Honghe Pharmaceutical, etc.

**2. Benefiting from rapid recovery of domestic medical aesthetics consumption, the Group's medical aesthetics platform Meiyan Space has been successfully upgraded and developed through its 3.0 version of sales reform, achieving a significant rebound of sales revenue in its medical aesthetics business, and a number of strategic initiatives have achieved stage-by-stage success.**

During the period, on the sales side, Meiyan Space, through the promotion of a number of marketing programs, focused on strengthening the ability of its direct sales team to serve the medical aesthetics institutions, accurately covering multiple levels of industry physicians, operation personnel, consultants, marketers, and administrators. By strengthening communication with organizations on the product side, medical side, and operation side, we have successfully opened up the 3.0 era of fine-tuned operation of medical aesthetics. As of 15 August 2023, Meiyan Space's sales network has covered 337 cities and more than 4,000 medical aesthetics institutions. On the product side, as the exclusive agent of Hugel, South Korea, Meiyan Space officially launched the hyaluronic acid Persnica® to the market, and by forming a "golden combination" with the botulinum toxin Letybo®, it has already gained recognition and acceptance from medical aesthetic institutes and consumers in the early days of its launch. On the production side, Meiyan Space continues to improve the layout of production capacity, further promote the establishment of production bases and improve the production line, and comprehensively improve its quality management system. As a result, Meiyan Space has taken a big step forward to build an internationalized medical aesthetics platform which integrates R&D, production and sales network and has a comprehensive product matrix covering the whole life cycle of beauty seekers.

**3. The research and development of the Group's innovative pharmaceuticals segment has been speeding up, accelerating the upgrade from "Bio-tech" to Bio-pharma, with a number of self-developed new products to be approved for marketing during the year.**

In addition, the Group's two leading self-developed biopharmaceutical platforms, Xuanzhu Biopharm and Huisheng Biopharm, which were carefully incubated by the Group with integrated clinical research, clinical development, registration, production and sales network, have made positive progress in product research and development and new drug approval applications respectively during the period, that successfully promoted the rapid development and expansion of the Group's new business segment of biopharmaceuticals.

During the period, the R&D progress of several products of Xuanzhu Biopharm was advancing rapidly. Its flagship product, Birociclib, a CDK4/6 inhibitor for breast cancer, was undergoing Phase III clinical enrollment in combination with an aromatase inhibitor for first-line treatment, and the Phase III clinical trial for second-line treatment in combination with Fulvestrant has met expected objectives in its interim analysis and applied for NDA in July. The Phase II efficacy evaluation of the single agent endline registrational clinical trial is ongoing. During the period, the application for Phase II clinical trial of Birociclib in combination with Abiraterone Acetate and Prednisone for the treatment of advanced and metastatic prostate cancer was accepted by the Center for Drug Evaluation of the NMPA, which is the first domestic self-developed CDK4/6 inhibitor scheduled to be launched for the clinical study for the treatment of advanced prostate cancer. In addition, the Phase II clinical trial of Xuanzhu Biopharm's self-developed Anandrazole Sodium for the treatment of Reflux Esophagitis (RE) in adults with a new indication and the control of its related symptoms (acid reflux, heartburn, retrosternal pain or discomfort, and belching reflux, etc.) has completed the enrollment of all the test subjects. Xuanzhu Biopharm plans to initiate Phase III clinical trials for the same indications by the end of 2023. Currently, Xuanzhu Biopharm has more than 20 products approved for clinical trials, while more than 10 drug candidates are in the pre-clinical research and development stage, with a well-balanced long, medium and short pipeline layout, and strong sustainability of innovation.

During the period, Huisheng Biopharm successfully further realized its strategic goal of becoming a leading biopharmaceutical company with full product coverage in the therapeutic areas of diabetes and its complications. During the period, Huisheng Biopharm has obtained approvals for the NDA of 3 products (4 product lines) and is in the process of applying for NDA of another 11 products, including self-developed Class 1 innovative drug SGLT-2 inhibitor Gagliflozin Tablets, new Insulin Analogs Degulo Insulin Injection, Degulo Menthol Bi-Insulin Injection, and Menthol Insulin series products. In addition, Huisheng Biopharm also continued to accelerate the progress of product research and development. During the period, a total of 4 products have entered the mid- to late-stage clinical phase, and 1 product's IND application has been approved (i.e. Simeglutide Injection), 1 product has been submitted for IND application and was accepted by NMPA in July (i.e. Deglutide Insulin/Liraglutide injection), and the remaining 10 drugs are still at the stage of pre-clinical research.

**4. Gradually divest and dispose of some generic pharmaceuticals and other non-core pharmaceutical or healthcare business and assets that do not meet performance expectations or do not meet long-term strategic objectives.**

As the pharmaceutical environment continued to be affected by epidemics and policy changes, the Group continued to carry out organizational restructuring adjustments during the period in order to fully implement its two-wheel drive strategy of "Innovative Pharmaceuticals + Medical Aesthetics" and accelerate the upgrading of its pharmaceutical business to innovative drugs. The Group's generic pharmaceutical segment is in the process of divesting and disposing of some of its generic pharmaceuticals and other non-core pharmaceutical or healthcare businesses and assets that do not meet performance expectations or do not meet long-term strategic objectives. A number of projects are currently in progress.

**5. Continuously consolidate and strengthen the Group's three core competencies of "registration + production + sales" to create a solid economic moat of the Company.**

As at the end of the interim period, the Group has a pipeline of over 40 medical aesthetic products and more than 30 innovative biopharmaceutical products, as well as three core capabilities of registration, production and sales to facilitate and accelerate the commercialization of the high-quality product pipelines of medical aesthetics and pharmaceuticals segments. The Group's rapid registration ability made it the first company to bring Korean botulinum toxin into the Chinese market and also enabled the Group to complete the registration of various self-developed products in a very short term. Besides, the Group has high-efficiency and low-cost production platforms, and its business layout in production capacity and raw materials enables the Group to have a favorable cost advantage to achieve rapid industrialization development. In addition, the Group also has the market-recognized strong medical academic marketing and sales abilities. On the nationwide professional and efficient academic marketing platform, the professional marketing team and business sales network of the Group can not only promote the continuously rapid penetration of existing products, but also endow the new launched products with strong "monetization" ability.

**Interim Results Update**

*Financial headwinds gradually cleared, continuing to spend heavily on R&D effectively boosts quality and efficiency of the Group.*

During the Period, the Group recorded a total revenue of approximately RMB1,055.7 million, representing a year-on-year decrease of approximately 27.9% as compared with total revenue of RMB1,464.2 million for the same period in 2022.

Among them, the medical aesthetic segment achieved a revenue of approximately RMB194.0 million, representing a year-on-year increase of approximately 96.8%, mainly because with the full liberalization of domestic epidemic control and the gradual recovery of consumer demand, the Group's medical aesthetics platform Meiyan Space has successfully upgraded and developed through its 3.0 version of sales reform and achieved stage-by-stage success; and achieved a gross profit of approximately RMB135.2 million, representing a year-on-year increase of approximately 76.0%; while the gross profit margin decreased by 8.2 percentage points to 69.7%, mainly because Meiyan Space increased the product brand promotion activities in order to accelerate the growth of product sales and the increase of market share. During the Period, the medical aesthetic segment achieved a segment result of approximately RMB62.9 million, representing a year-on-year increase of 51.2%.

The generic medicine segment achieved a revenue of approximately RMB845.7 million, representing a year-on-year decrease of approximately 31.4%, mainly attributed to the impact of the price reduction as a result of centralized procurement and the decline in prices and sales volumes of certain generic medicines as a result of certain products being newly included in the key monitoring catalogue; and achieved a gross profit of approximately RMB605.4 million, representing a year-on-year decrease of 34.8%, with a year-on-year decrease of 3.7 percent points to 71.6% in gross profit margin, mainly attributed to the impact of industry policies such as centralized procurement policy. During the Period, the generic medicine segment achieved a segment result of approximately RMB356.7 million, representing a year-on-year decrease of 47.8%.

Innovative medicine and other medicine achieved a revenue of approximately RMB16.0 million, representing a year-on-year decrease of 87.9%, mainly attributed to the divestment of certain API companies of the Group at the end of 2022, which resulted in a corresponding year-on-year decrease in the revenue from the API segment. During the Period, innovative medicine and other medicine segment recorded a segment loss of approximately RMB344.0 million, mainly attributable to the business attribute of this business segment with innovative research and development business as the principal, which requires continuous and substantial research and development expenses in each year.

During the Period, the Group continued to invest heavily in R&D to create a pipeline of over 100 medical aesthetic and biopharmaceutical products. It rapidly promoted the R&D progress of the Group's product pipeline, accelerated the product industrialization and gradually realized value amplification. During the Period, the total R&D expenses amounted to approximately RMB294.0 million, representing a year-on-year decrease of 35.7% as compared to the R&D expenses of approximately RMB457.3 million for the same period in 2022. This was mainly due to the successive completion of phase III clinical trials for the Group's various self-developed products (including innovative drugs, biopharmaceutical drugs and generic drugs), which are expected to obtain registration approval by the end of 2023; meanwhile, multiple drugs under R&D of Huisheng Biopharm, a subsidiary that focuses on the field of diabetes and complications, have been completed and have submitted application for registration.

Given the above, the operating profit of the Group for the Period amounted to RMB146.2 million, representing a year-on-year decrease of 28.1% as compared to the profit of RMB203.2 million for the same period in 2022. The loss before tax for the Period amounted to approximately RMB33.1 million, representing a year-on-year decrease of RMB89.1 million from the profit of RMB56.0 million for the same period in 2022.

During the Period, the loss attributable to owners of the Company amounted to approximately RMB49.6 million, representing a year-on-year decrease of 222.8% in profit. The decrease was mainly attributable to the fact that the loss shown in the Group's interim condensed consolidated financial information was attributable to the increasingly considerable R&D investment and loss incurred annually by the innovative drug business segment of the Group (mainly Xuanzhu Biopharm and Huisheng Biopharm), and as the proportion of the Group's equity interests in the companies under the innovative drug business segment gradually decreased due to equity financing or spin-off and listing, the loss attributable to owners of the Company should also decrease accordingly.

Notwithstanding the significant decline in operating profit in the Group's interim results, which was attributable to the considerable R&D investment and the continued decline in the generic pharmaceutical business due to the impact of industry policies, the continuous R&D investment and the strategic transformation towards medical aesthetics and innovative drugs also catalyzed a significant increase in the quantity and quality of the Group's product R&D pipelines, which have contributed to a significant increase in the corporate value, financing capacity and corporate awareness of the Group's innovative drug platform. Specifically, Xuanzhu Biopharm successfully completed its Round A and Round B financing totaling RMB1.57 billion with a post-investment valuation of RMB7 billion, after which, its application for listing was accepted by the STAR Market of the Shanghai Stock Exchange in March. Besides, Huisheng Biopharm successfully completed its Round A and Round A+ financing totaling RMB1.08 billion with a post-investment valuation of RMB5.58 billion. The successful equity financing of several subsidiaries of the Group fully demonstrated the recognition of the R&D capabilities, product pipelines, management team, future industrialization and commercialization capabilities of the Group's innovative drug platform from the capital market, as well as proved the high valuation of the product pipelines of the Group's biopharmaceutical segment.

The Group persevered to maintain strong financial position. As of 30 June 2023, the Group's cash and cash equivalents plus wealth management products amounted to approximately RMB4,510.0 million in total, among which, cash and cash equivalents amounted to approximately RMB3,734.0 million (31 December 2022: RMB3,828.9 million). In addition, wealth management products recognised in the consolidated statement of financial position amounted to approximately RMB776.0 million. The total amount of cash and cash equivalents plus wealth management products, net of interest-bearing bank borrowings and other borrowings, was approximately RMB3,188.2 million. During the period, the Group also persevered to maintain a net cash inflow of RMB28.3 million in terms of its operating cash flow.

The Group's banking borrowings to equity ratio (i.e. a percentage of banking borrowings divided by equity attributable to owners of the Company) was 28.9%, which continued to remain low.

**Interim Update of Each Business Segment**

**1. Medical Aesthetic Business Segment: Sales rebound with a lighter footprint to emerge as a new growth driver for the Group**

Since the beginning of 2023, the Group's medical aesthetic platform Meiyan Space, through its 3.0 marketing version of the business upgrading and development, as well as the implementation of pipeline inventory clearance in the second half of 2022, successfully realizing a light load. During the period, Meiyan Space optimized its marketing strategy to "direct sales + agent sales" model, enhancing the service capacity to head medical aesthetic institutions, and through a number of high-quality marketing activities, including the "Letybo Cup Super Operator Challenge", the "China Association for Integration" publicity campaign, and the "Semi-Monthly Talks" online course series, it precisely covered the medical aesthetic industry at multiple levels, including doctors, operators, consultants, marketers and managers. The Group strengthened in-depth business cooperation with medical aesthetic institutions in multiple dimensions, including the product side, the medical side and the operation side, thus opening up the 3.0 era of medical aesthetic fine-tuned operation. With the full liberalization of domestic epidemic control and the gradual recovery of consumer demand in 2023, the upgrading and development of the medical aesthetics business segment of the Group has achieved a stage-by-stage success during the period, with a significant rebound in sales revenue, which has become the second track of the Group's revenue growth. During the period, the medical aesthetics business segment generated revenue of RMB194.0 million, representing a year-on-year increase of 96.8%, and realized a segment result of RMB62.9 million, representing a year-on-year increase of 51.2%.

Meiyan Space is a medical aesthetics subsidiary of the Group. Focusing on the high-growth and low-penetration medical aesthetics market experiencing explosive growth in China. Meiyan Space has successfully established a "one-stop" new medical aesthetics platform in China and is dedicated to building a leading company featuring full medical aesthetics product matrix in China by leveraging the rigour and innovation of pharmaceutical companies through globalized layout and localized production, comprehensive and professional medical aesthetics product matrix, strong product R&D and registration capabilities as well as diversified marketing channel ability.

The Group has a forward-looking layout in the medical aesthetics field, and entered into an exclusive distribution agreement in China with Hugel, Inc., a leading biomedical company in South Korea, in relation to Botulinum Toxin Letybo® and Hyaluronic Acid in 2014. Letybo® has been successfully approved for marketing in China as the first botulinum toxin product imported from South Korea in October 2020. After years of development, Meiyan Space has built a complete product matrix across medical aesthetics value chain with "self-development + BD" dual engine drivers. Taking the coverage of the whole life cycle needs of beauty enthusiasts as the starting point, its product layout covers a variety of high-quality medical aesthetics products, including the filling, shaping, supporting, supplementing, optoelectronic device, body sculpturing, skin care and others. Meiyan Space is equipped with strong in-house R&D and technology transformation capabilities, and its current R&D pipelines has more than ten self-developed class III medical aesthetics products and tens of class II medical aesthetics products. Besides, Meiyan Space has established the Meiyen Laboratory in Los Angeles, the United States, to conduct innovative technology introduction, independent research and development of new generation medical aesthetics products and biomaterial, and the technology transformation and manufacture in China. Leveraging the global resources of Sihuan Pharmaceutical, the parent company, Meiyan Space has strong product registration, manufacture and sales capabilities and is able to accelerate the launch of new products. At present, Meiyan Space has completed the construction of two domestic manufacture bases with a gross floor area of 16,000 square meters. It has currently planned for 9 production lines equipped with optimized quality management system and is able to implement effective risk management in the whole life cycle of products. Most members in the sales team of Meiyan Space come from multinational medical aesthetics and pharmaceutical enterprises with rich sales experience for medical aesthetics products. They work closely with tens of agents, and as of 15 August 2023, the sales network covered 337 cities and over 4,000 medical aesthetics institutions nationwide, and with full coverage of Top 500 medical aesthetic institutions.

On the product side, Meiyan Space has a comprehensive product pipeline covering the whole life cycle needs of beauty seekers. Through the two-pronged approach of self-research + BD, Meiyan Space has created six categories of product matrix of "Botulinum Toxin + Hyaluronic Acid + Regeneration + Photovoltaic + Body Sculpting + Medical Skin Care products" with a leading position covering the whole life cycle needs of medical aesthetics, Currently, Meiyan Space have more than 40 self-developed + exclusively distributed high-quality medical aesthetic products, many of which have been approved and will be launched in the market one after another soon. Last year, Meiyan Space obtained the exclusive China distribution rights of Cellbooster® series products with Suisselle SA from Switzerland, and SYLFIRM XTM golden microneedle (黃金微針) product with VIOL from South Korea, and some other overseas high-quality medical aesthetics products, which are in the process of clinical and registration. More than 10 Class III medical device products independently developed by Meiyan Space, including the first generation of "PLLA filler" and the second generation of "PCL filler", Human Collagen Protein, Micellar Hydration Injection and other light medical aesthetic injections, are also expected to be approved for marketing in the next two years. During the period, Jingyan Bio, the Group's joint venture with Beijing Bluepha, a domestic synthetic biology unicorn company, has jointly developed several PHA microspheres and biomanufacturing-based regenerative medical materials, which are expected to be formally introduced into the clinic by the end of the year.

During the period, as the exclusive agent of Hugel, South Korea, Meiyan Space officially launched the Hyaluronic acid Persnica™ to the market. Hyaluronic acid Persnica™ is a modified sodium hyaluronate gel for injection produced by Hugel from South Korea, it is a sterile, pyrogen-free, non-animalderived, cross-linked sodium hyaluronate gel for mid-dermal injections in facial tissue to correct moderate to severe nasolabial folds. Hyaluronic acid Persnica™ uses singlephase cross-linking technology, which has the advantages of good support, non-spreading displacement, uniform metabolism, long-lasting shaping, high viscosity value, high cross-linking degree and high shaping capacity. It is safer in using BDDE, with the highest level of cross-linking with less BDDE used, resulting in stronger shaping capability, and gentle when injected, with no foreign body sensation and more natural shaping effect after injection. BDDE is completely removed during the manufacturing process through multiple and long-term dialysis process, ensuring the product is completely safe, and will not result in any allergies and side effects. By forming a "golden combination" with the Botulinum Toxin Letybo®, Hyaluronic acid Persnica™ has been successfully launched currently. Under the market situation of the "red sea" market of Hyaluronic Acid products, Meiyan Space actively adopts the sales strategy of strategic cooperation with the leading medical aesthetics chain groups, with the unique product advantages of Hyaluronic acid Persnica™, Meiyan Space managed to attract the leading medical aesthetics chain institutions in different regions of the country to start in-depth cooperation, and to ensure the growth of sales volume of Persnica™ via the innovative and unique strategic partnership model. It is expected that Persnica™ will bring new drive and support for Meiyan Space's revenue growth in the future.

On the sales side, during the period, Meiyan Space continued to upgrade its sales structure to 3.0 marketing version, while continuously optimizing its sales strategy, improving its sales capabilities and enriching its service provision of the direct sales team to the medical aesthetics institutions, and promoting in-depth strategic alliance with the leading medical aesthetics group and the leading aesthetics hospitals. At the beginning of the year, Meiyan Space successfully completed the signing of annual strategic cooperation agreements with 49 medical aesthetics chain groups and 32 regional leading medical aesthetics institutions. These strategic cooperation agreements cover a total of 722 large and medium-sized medical aesthetic hospitals and medical aesthetic chain institutions across the country, giving a full voice to Botulinum Toxin Letybo® in the core regions and within those leading medical aesthetic institutions. During the same period, Meiyan Space synchronously launched the "Spark Plan", which makes full use of the ample manpower resources of its sales agent companies to help Meiyan Space's direct sales team to serve deeply the large number of small and medium-sized medical aesthetic institutions.

On the market side, during the period, Meiyan Space took the initiative to promote a number of marketing activities (including but not limited to the following):

- Since the end of last year, Meiyan Space launched the Slogan of "Comfortable, Natural and non-Stretchy", and promoted the clinical application programs such as "Le V Heavy Lifting Injection" (樂V大提拉打法)", "Le V Slight Lifting Injection" (樂V小提拉打法), "Le V Skin Tightening Injection" (樂V緊致素打法), etc., and the "Cocktail Blended Treatment" (雞尾酒複配法), which reduces the pain score in the course of the treatment from 8 to 2 without altering the clinical efficacy. The pain during the injection process has been greatly relieved, allowing more and more patients to have a more comfortable injection experience.

- Meiyan Space and Hugel Inc. from South Korea hand in hand, are committed to creating international innovation and leading medical aesthetic products adapted to the needs of China's beauty seekers, adhering to the quality, responsibility and security for shaping beauty, helping people to have a young, fashionable, three-dimensional uplift of the exquisite life. During the period, Meiyan Space launched 232 training sessions on clinical application of Botulinum Toxin Letybo®, covering more than 1,000 medical aesthetics doctors and consultants, and made full use of Xiaohongshu (小紅書), Dianping (大眾點評) and other channels to promote the relevant contents;

- In terms of academic collaboration, Meiyan Space actively participates in Injectables & Micro Invasive Aesthetic Medical Annual Meeting hosted by Chinese Non-government Medical Institutions Association(CNMIA), 2023 International Medicion of Anti-aging and Aesthetics Congress (IMAAC ZIYALAN), the 10th Chinese Annual Meeting of Minimally Invasive Aesthetic Medical, the 14th Mevos International Congress of Aesthetic Surgery and Medicine (2023) Hangzhou, and carries out academic exchanges of botulinum toxin in clinical application.

- Especially in the 14th Mevos International Congress of Aesthetic Surgery and Medicine (2023) Hangzhou, Meiyan Space successfully held the "2023 Letybo Cup Mevos Super Operator Challenge", which attracted 81 medical aesthetic institutions including top 10 medical aesthetic groups, such as MYLIKE, YESTAR, LANCY, BEAUCARE CLINICS (BCC), and AIST, etc. Everyone gathered together to share the value growth solution of Korean Botulinum Toxin Letybo®, which attracted high attention from the industry. The live broadcast of the day was watched by 88,000 people, and the MEVOS Letybo® homepage achieved nearly 300,000 visits, with a total exposure of more than 3 million across the network.

- In terms of industry development, Meiyan Space and Hugel Inc. from South Korea, the manufacturer of Botulinum Toxin Letybo®, jointly participated in the theme forum of "2023 Medical Beauty Safety Compliance Year" organized by 2023 Medical American Frontier New Product Medical Conference, and discussed the prospect of compliant operation of products together with industry experts such as the Deputy Secretary General of Chinese Association of Plastics and Aesthetics, relevant leaders of health. people.cn, the managing director of BCC Group, and the director of the Injecting Centre of Chinese Academy of Medical Sciences Plastic Surgery Hospital, etc.

- In response to the national regulatory and compliance requirements for Botulinum Toxin product, joined hands with Chinese Association of Plastics and Aesthetics, Meiyan Space launched a publicity campaign for medical aesthetic institutions in ten provinces and cities of China to promote the lawful practice of medical aesthetics and information disclosure of China's medical aesthetics industry, covering 600+ doctors and operations nationwide, and to promote the compliance of Botulinum Toxin Letybo® dual product specifications.

- Building up the "golden combination" product portfolio of the Botulinum Toxin Letybo® and Hyaluronic acid Persnica™. Five events of "Driving Beauty of Twin Star Letybo® and Persnica™ " were held across the country, covering 300+ medical aesthetic institutions and generating a great deal of excitement; On 30 May, Meiyan Space invited a number of national industry experts were to go to the HELF (Hugel Expert Leaders Forum) conference in Bangkok, Thailand to explore the academic frontiers; during the meeting, Meiyan Space and Hugel Inc. from South Korea joined hands to organise the "Master Anatomy Training Class", more than 40 healthcare experts (HCPs) from Mainland China, Taiwan and Hong Kong SAR of China were invited to learn and exchange ideas in the meeting. Adhering to the principle of "empowering institutions with soft power and accompanying business operations to grow together".

With the help of a number of efficient and effective marketing campaigns and marketing strategies, Meiyan Space has successfully accomplished the qualitative improvement and leap in the first half of the year by clearing the channel inventory of Botulinum Toxin Letybo® and significantly increasing the volume of terminal sales. During the period, Korean Botulinum Toxin Letybo® won the Botulinum Toxin Brand of the Year Award at "the 3rd Spotlight Awards 2022", and won the 2022-2023 Elite Brand Partner Award from the Chinese Association of Plastics and Aesthetics and the CNMIA. Meiyan Space has also been honoured as a partner of "Scanning Code Verification" Industry Self-discipline Activity by the Chinese Association of Plastics and Aesthetics.

With the full implementation of the new marketing strategy of "Direct Sales + Distribution", during the period, Meiyan Space has set up several direct sales teams in Beijing, Shanghai, Shenzhen, Henan and other key regions, and the numbers of sales team members has nearly doubled compared to last year. As of 15 August 2023, Meiyan Space has over 50 sales staff, most of them held key positions in marketing and training in multinational or domestic leading medical aesthetic and pharmaceutical companies such as Allergan, Galderma and Johnson & Johnson, etc., and have over 10 years of experience in the industry. Meanwhile, Meiyan Space continues to improve the management of distributors. With the product launch of Hyaluronic acid Persnica™®, Meiyan Space's distributor team increased from 13 to 19, and the distributors' sales team also increased from 260 people to nearly 400 people. Meiyan Space is also actively introducing talents, setting up different marketing strategies and teams for different product lines, so that several teams can grow together and progress together. The Group believes that, through the continuous upgrading and optimization of the sales model of Meiyan Space, the Group's medical aesthetics performance will achieve long-term sustainable growth.

**2. Innovative Pharmaceuticals and Other Business Segments: Accelerating the progress of R&D and commercialization of high-quality product pipelines, and promoting the upgrading and development to a leading biopharmaceutical company in China at full speed**

The Group has continued to further develop its biopharmaceutical business and accelerated the rapid development of Xuanzhu Biopharm and Huisheng Biopharm, in terms of product R&D as well as capital market performance. During the period, Xuanzhu Biopharm, a leading innovative drug company focusing on oncology drugs, made breakthroughs in the R&D of a number of products and simultaneously pushed forward its independent listing process on the Science and Technology Innovation Board (STAR Market), continuously driving innovation. The rapid progress of R&D and NDA process for several key products of Huisheng Biopharm has further established its leading position in realizing full product coverage in the therapeutic areas of diabetes and its complications. The platforms in the innovative pharmaceuticals and other business segment are making steady progress in accelerating the R&D progress and commercialization of their quality product pipelines, further realizing the Group's goal of innovation and transformation, and forging the upgrading and development of the Group into an innovative biopharmaceutical company at full speed.

During the period, the Group incurred a segment result of a loss of RMB344.0 million in the innovative and other pharmaceuticals segment, of which the research and development expenditure amounted to RMB214.2 million, representing a decrease of 32.5% as compared with the research and development expenditure of RMB317.5 million for the same period in 2022.

### *2.1 Xuanzhu Biopharm: One of the companies with the most comprehensive layout for the treatments of breast cancer in China, a leading biopharmaceutical company in China with diverse internal R&D capabilities of innovative drugs in both small and large molecules biologicals*

Xuanzhu Biopharm, as the engine of the Group to realize transformation to innovation and also an novel drug platform of the Group, is an innovative pharmaceutical company rooted in China with the vision of globalization. Focusing on critical illness areas such as digestion disorders, oncology and non-alcoholic steatohepatitis (NASH), etc. Xuanzhu is committed to continuous development and commercialization of class 1 innovative drugs with core independent intellectual property rights, to solve the unmet medical needs. After over 10 years of development, Xuanzhu Biopharm has gathered an outstanding team of nearly 400 people led by returnees scientists, and the core personnel have worked in MNCs or domestic leading pharmaceutical companies such as BI, Roche, and BCHT. The company has the ability to develop innovative drugs independently, and has formed a complete research and development (R&D) system, with the ability to innovate and produce continuously. Meanwhile, Xuanzhu Biopharm has both small molecules drugs and large molecules biologicals R&D systems, dual-engines to drive the development of the company, forming a rich product pipeline rare in China that covers multiple types of small molecule drugs, monoclonal antibodies, bispecific antibodies, ADC, etc. At present, Xuanzhu Biopharm has developed over 20 candidate innovative drugs at different stages and established an independent and complete integrated R&D system, including multiple main targets of breast cancer, and is one of the companies with the most comprehensive layout of the breast cancer treatments in China.

During the period, facing complex and volatile market environment, Xuanzhu Biopharm persisted in advancing product research and development vigorously, fully engaged in listing on the Science and Technology Innovation Board, actively carrying out commercial layout, and has achieved multiple results in pipeline progress, listing process, commercial arrangement, etc. It has earned increasing amount of attention and recognition from the industry and the market, the overall strength and competitiveness of the company continues to grow.

Xuanzhu Biopharm's product pipeline are mainly based on internal R&D, with license-in as a supplement, focusing on major unmet medical needs, large markets, and multiple targets along the same disease. It has laid out more than 20 products under research in the fields of oncology, NASH, digestion disorders, etc. and has made a comprehensive layout in breast cancer for main targets, becoming one of the companies in China with the most comprehensive layout in breast cancer. During the period, a total of three innovative drugs have obtained IND approval and clinical researches to ensue, including XZP-KM501 (HER2 bispecific antibody ADC), XZP-KM602 (immune CD80 fusion protein), and XZP-6877 (DNA-PK chemotherapeutic sensitization), all of which are leading innovative drugs with no similar products approved for market worldwide; the primary clinical phase I data of XZP-3621 for the treatment of ALK positive advanced non-small cell lung cancer patients shows that it has reached the predetermined clinical endpoint, and the certainty of approval for marketing in the future has increased.

## 25+ Innovative Drugs under Development, with Comprehensive Layout for Main Targets of Breast Cancer

Focusing on Oncology, NASH and Digestion, the pipeline layout is complete and balanced in long, medium, and short terms, with strong capability to innovate continuously

| Category | Drug Name | Target | Category | Independent R&D/License-in | Indications | Pre-clinical | IND | Clinical | | | NDA/ ANDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Phase I | Phase II | Phase III | |
| Core drugs | Anaprozole sodium (KBP-3571) | PPI | Innovative chemical drug | Internal R&D | Duodenal Ulcer (DU) | | | | | | |
| | | | | | Reflux Esophagitis (RE) | | | | | | |
| | Biociclib (XZP-3287) | CDK4/6 | Innovative chemical drug | Internal R&D | HR+/HER2-Advanced Breast Cancer(Combined with Fulvestrant) | | | | | | |
| | | | | | HR+/HER2-Advanced Breast Cancer(Combined with AI) | | | | | | |
| | | | | | HR+/HER2-Advanced Breast Cancer | | | | | | |
| | | | | | **Advanced Prostate Cancer** | | | | | | |
| | XZP-3621 | ALK | Innovative chemical drug | Internal R&D | First-line treatment for ALK+ advanced NSCLC | | | | | | |
| | | | | | End-line treatment for ALK+ advanced NSCLC | | | | | | |
| Main drugs | Fulvestrant | SERD | Generic drug[1] | License-in[2] | HR+ and/or ER+ breast cancer | | | | | | |
| | XZP-KM257 | HER2/HER2 | Innovative biological drug | Internal R&D | **HER2+ solid tumor (breast cancer, gastric cancer, bladder cancer, CCA, etc.)** | | | | | | |
| | XZP-5955 | NTRK/ROS1 | Innovative chemical drug | Internal R&D | Locally Advanced NSCLC with ROS1 fusion | | | | | | |
| | | | | | Locally Advanced solid tumors with NTRK fusion | | | | | | |
| | XZP-5610 | FXR | Innovative chemical drug | Internal R&D | Non-alcoholic Steatohepatitis (NASH) | | | | | | |
| | | | | | PBC | | | | | | |
| | XZB-0004 | AXL | Innovative chemical drug | License-in[3] | NSCLC (combined PD-1) | | | | | | |
| | | | | | Myelodysplastic Syndromes (MDS) | | | | | | |
| | | | | | Acute Myelogenous Leukemia (AML) | | | | | | |
| | XZP-KM602 | CD80 fusion protein | Innovative biological drug | License-in[4] | **tumors (Melanoma, small cell lung cancer, TNBC, etc.)** | | | | | | |
| | XZP-KM501 | HER2/HER2-ADC | Innovative biological drug | Internal R&D | **HER2+solid tumor (breast cancer, gastric cancer, colorectal cancer, etc.)** | | | | | | |
| Other drugs | XZP-6019 | KHK | Innovative chemical drug | Internal R&D | Non-alcoholic Steatohepatitis (NASH) | | | | | | |
| | XZP-6877 | DNA-PK | Innovative chemical drug | Internal R&D | **Solid tumors (breast cancer, ovarian cancer, small cell lung cancer, Head and neck cancer, etc** | | | | | | |
| | Fadanafil (XZP-5849) | PDE-5 | Innovative chemical drug | Internal R&D | Erectile dysfunction(ED) | | | | | | |
| | | | | | Pulmonary arterial hypertension (PAH) | | | | | | |

Note 1: Fulvestrant is generic drug and does not need clinical trial
Note 2: Fulvestrant is introduced from Fujian Genohope Biotech Ltd. (福建基諾厚普生物科技有限公司) which has interests in the PRC
Note 3: XZB-0004 is introduced from SignalChem Lifesciences Corp. which has interests in Greater China
Note 4: XZP-KM602 is introduced from Beijing Xuanyi

During the period, the first-line treatment of Birociclib (XZP-3287 CDK4/6 inhibitor), a class 1 innovative drug internally developed by Xuanzhu Biopharm, in combination with Aromatase inhibitors is in phase III clinical trial with steady enrollment. The phase III clinical trial of second-line treatment of Birociclib in combination with Fulvestrant has met expected objectives in its interim analysis. During the period, the combination with Abiraterone Acetate and Prednisolone for the treatment of advanced and metastatic prostate cancer phase II clinical trial has been approved by the NMPA.

The clinical research results of Birociclib showed that, as a novel CDK4/6 inhibitor, Birociclib is expected to overcome the drug resistance of endocrine therapy in breast cancer patients with Hormone receptor positive (HR+); and also that the single drug of Birociclib had an efficacious effect on patients with advanced breast cancer who failed after receiving multi-line treatments. The results of preclinical studies showed that Birociclib has unique pharmacokinetic characteristics, and is able to pass the blood-brain barrier effectively, which is expected to have beneficial effects on patients with brain metastases from breast cancer and brain cancer patients. In addition, due to the novel targeting mechanism of CDK4/6, Birociclib can be combined with multiple targeted drugs, which has important clinical significance and broad market prospects. At this year's American Society of Clinical Oncology (ASCO) annual meeting, the Phase II research results of Birociclib, a class 1 new drug independently developed by Xuanzhu Biopharm, were presented in the poster session of the ASCO annual meeting (Abstract# 1072). Xuanzhu Biopharm is recognized in the global industry, and the value of the company was further verified.

Moreover, in March 2023, CD80 mutant – Fc fusion protein injection solution (product code: XZP-KM602) developed by Xuanzhu Biopharm was approved by the NMPA for clinical trials in the treatment of advanced solid tumors. "XZP-KM602" is a new generation tumor immunology drug and is currently the first and only CD80 mutant – Fc fusion protein in China. Preclinical studies showed that it produces a long-term immune memory function, and its anti-tumor activity lasts, which can further supplement the therapeutic effect of tumor treatment. At present, there is only one drug with the same target in clinical phase I in the world, KM602 is the first and only CD80 mutant-Fc fusion protein in China, which is expected to fill the market gap in this field in China. At present, the clinical response rate of tumor immunotherapy represented by PD1 is still low. CD80 fusion protein can not only inhibit PD-L1 and CTLA-4, but also promote the co-stimulation of CD28. It has the potential to enhance the response rate of 10-30% by PD-1 inhibitor used alone. It is expected to bring significant impact in the tumor immunology field.

In the same month, a selective DNA dependent protein kinase (DNA-PK) inhibitor (product code: XZP-6877 tablets), internally developed by Xuanzhu Biopharm, was also approved by the NMPA to conduct clinical trials for the treatment of advanced solid tumors. XZP-6877 can block the main routes for repairing DNA double strand breaks (DSBs) caused by radiotherapy or chemotherapy drugs, and improve the sensitivity of tumor cells to radiotherapy and chemotherapy; at the same

time, it destroys the stability of telomere DNA structure to inhibit the proliferation and growth of tumor cells. The combination of the two mechanisms can enhance the anti-tumor efficacy and more effectively control tumors. XZP-6877 is the first DNA-PK inhibitor applied for clinical trials in China, which can be used in combination with chemotherapy or radiotherapy drugs for the treatment of advanced solid tumors with a broad spectrum of anti-cancer potential. Leading in research and development progress and with technical advantages, preclinical data show that it has good drug-like properties, and is expected to fill the market gap in China in this field.

In addition, bispecific antibody-drug conjugates XZP-KM501 (recombinant anti-HER2 domain II and domain IV bispecific antibody for injection-MMAE conjugate), internally developed by Xuanzhu Biopharm, has been approved by the NMPA for clinical trials for the treatment of solid tumors such as HER2+ with intermediate and low expression. KM501 is the first patented HER-2 bispecific-antibody-ADC in China, which can target two different epitopes of HER2 domain II and domain IV simultaneously, and has better anti-tumor efficacy.

XZP-3621 is a new generation of ALK/ROS1 dual-target inhibitor independently developed by Xuanzhu Biopharm for the treatment of ALK+ advanced non-small cell lung cancer (NSCLC). The clinical data show that XZP-3621 has excellent efficacy and safety on the first and second generation of ALK inhibitor drug resistance for the treatment of the advanced NSCLC patients with ALK+, except for gastrointestinal adverse reactions, the incidence of adverse events such as hematology toxicity and nervous system toxicity is low; in addition, XZP-3621 can cross the blood-brain barrier, which is effective for the brain metastasis of tumors. With the gradual introduction and popularization of ALK targeted drugs, the market size of ALK inhibitor drugs in China has grown rapidly. It is expected that the market size of ALK inhibitor drugs in China will increase from RMB 3.37 billion in 2021 to RMB 6.96 billion in 2030. At present, the clinical phase III study of XZP-3621 for the treatment of naive patients with ALK+ advanced NSCLC is progressing smoothly, and it is expected to reach the mid-term preset clinical endpoint in the fourth quarter of this year.

In June 2023, the proton pump inhibitor (PPI) Anaprazole Sodium independently developed by Xuanzhu Biopharm has received a drug registration approval from the NMPA for the treatment of duodenal ulcer. Anaprazole Sodium Enteric-coated Tablet is currently the first and only PPI fully independently developed in China. Its Phase I-III clinical studies are all based on Chinese patients, so it is more suitable for Chinese population. Anaprazole tablets can effectively inhibit the secretion of gastric acid and has the characteristics of fast onset, stable therapeutic effect, less individual variation, and long half-life. Clinical data shows that Anaprazole is metabolized through multiple CYP enzymes and non-enzyme routes, so the risk of drug to drug interactions is low when it is used in the presence with other types of treatments. The drug and its metabolites are excreted through both the gut and kidney, therefore it provides a safer medication option for patients with renal insufficiency. It is the first innovative drug of Xuanzhu Biopharm approved for marketing, which marks a new milestone for Xuanzhu

Biopharm from R&D to commercialization. Anaprazole Sodium Enteric-coated Tablet is not only used to treat duodenal ulcer, but also is expanding its new indication for the treatment of adult reflux esophagitis (RE). Its Phase II clinical trial has completed the enrollment of subjects, and its Phase III clinical trial is planned to initiate by the end of 2023.

During the period, based on Anaprazole Sodium Enteric-coated Tablet receiving drug registration approval from the NMPA, Xuanzhu Biopharm has developed a systematic and feasible commercialization plan according to the commercialization rhythm and characteristics of the drug. Detailed arrangements have been made in the construction of marketing organization, team building, commercialization strategies, sales forecasting, etc. Practical measures have been implemented, and the commercialization system is taking shape.

After the Shanghai Stock Exchange (SSE) accepted the application of Xuanzhu Biopharm for independent listing on the Science and Technology Innovation Board (STAR Market) in September 2022, Xuanzhu Biopharm has completed and submitted the reply to the second round of inquiry of the SSE in February 2023. Its listing application was firstly added to the agenda of the SSE's meeting held in March of this year. At the Expert Advisory Committee meeting held in June of this year, Xuanzhu Biopharm gave feedback and reply to the comments and supplementary questions raised by the SSE.

As one of the representatives of Biotech enterprises, Xuanzhu Biopharm is guided by unmet clinical needs, commits to developing class 1 new drugs with international competitiveness to avoid homogeneous competition, strives towards the "original innovation", and strengthens the "First-in-class" innovative drugs R&D and the international cooperation to avoid fierce competition, with the focus on unmet important drugs R&D. With the development of various business, the company's R&D ability and development potential have been widely recognized in the industry. In the first half of the year, Xuanzhu Biopharm has been awarded multiple honors, such as "Forbes Chinese Unicorn Companies", "Hebei Innovative SMEs", "Hebei Technology-based SMEs", "2023 China Biopharmaceutical Science & Technology Innovation Value List – Top 10 Most Growing Small Molecular Innovative Drug Companies", "2023 China Top 100 Companies with Comprehensive Drug R&D Ability", and "2022 Chinese Unicorn Companies".

### *2.2 Huisheng Biopharm: A biopharmaceutical leader with full product coverage in the therapeutic areas of diabetes and its complications, and is expected to become a leading platform for the whole-course management of diabetes patients*

Huisheng Biopharm, a subsidiary of the Group, is a biomedical company that focuses on the therapeutic areas of diabetes and its complications. At present, the company has a world-class R&D team of more than 200 members. The core personnel once worked in MNCs or China leading companies such as Novo Nordisk, Gan & Lee and Dongbao Pharmaceutical. With rich experience in diabetes drug development, it has built nearly 40 products in the pipeline, Huisheng Biopharm is one of the few companies in China to achieve full product coverage in the therapeutic areas of diabetes and its complications. From the perspective of product pipeline, it covers second-generation insulin, third-generation insulin, new generation insulin (covering basal insulin, premixed insulin, and rapid-acting insulin), oral hypoglycemic drugs, and complication drugs; in terms of innovation, Huisheng Biopharm not only leads the R&D progress of multiple core products such as Insulin Degludec, the latest generation of new insulin analogues, but also lays out new targets such as GLP-1 agonists and SGLT-2 inhibitors. After nearly nine years of construction and development, Huisheng Biopharm has developed itself as a full-industry-chain bio-pharmaceutical company, integrating R&D, production and sales, and is committed to providing full process and all-round integrated treatment solutions for diabetic patients.

Diabetes is one of the fastest growing health problems in the 21st century, with 463 million people worldwide suffering from diabetes, and an average of 1 in 10 adults (20-79 years old) suffering from diabetes. Since diabetes cannot be cured, and needs to be controlled by medication, diabetic patients around the globe spend at least US$60 billion on diabetes medication each year, with the trend increasing year by year. The number of diabetes patients in China has also been rising rapidly in recent years due to aging and improved diet. According to the IDF map, the number of diabetes patients in China increased by 56% from 90 million to 140 million between 2011 and 2021, of which about 72.83 million or 51.7% has not yet been diagnosed. Over the next 20 years, although the prevalence of diabetes in China will stabilise, the total number of patients will increase to 164 million by 2030. According to Frost & Sullivan, China's diabetes drug market will reach RMB63.2 billion in 2020, and is expected to reach RMB116.1 billion in 2025 and RMB167.5 billion in 2030, representing a huge market potential.

As a common long-term chronic disease, diabetes not only requires lifelong treatment, but also has a wide range of complications that are serious. In China, more than 70% of diabetic patients die from cardiovascular and cerebrovascular diseases, diabetes-induced amputations account for 56.5% of non-traumatic amputations, diabetic retinopathy (DR) is the main cause of blindness in young adults, and kidney damage caused by diabetes is the main cause of advanced end-stage renal disease in China, which makes diabetes and its complications a special race track. If we want to excel in the complex race of diabetes and become the Chinese version of Novo Nordisk, on one hand, our products need to be widely distributed to meet the needs of diabetes and its complication patients at different levels throughout their life cycle through a comprehensive product pipeline; on the other hand, we need to continue to innovate to enhance our core competitiveness and new drug R&D strength, and strive to bring heart, kidney and body weight health benefits to diabetic patients on the basis of glucose control by iterative updating of our products.

During the period, Huisheng Biopharm promoted the progress of product R&D and commercialization rapidly, a total of 3 complication generic drugs have obtained the drug registration approval from the NMPA, including Mecobalamin Tablets, Thioactive Acid Injection, and Sitagliptin Photosphate Tablets (a total of 3 types with 4 specifications), marking a new milestone of Huisheng Biopharm from R&D to commercialization. Drug registration applications of a total of 11 drugs have been accepted by the NMPA, and are progressing steadily, including the SGLT-2 inhibitor Janagliflozin, a Class 1 innovative drug that was developed by the Company independently, and the new Insulin analog such as Insulin Degludec Injection, Insulin Degludec and Insulin Aspart Injection, Insulin aspart series products (including Insulin Aspart Injection, Insulin Aspart 30 Injection, and Insulin Aspart 50 Injection), and four complication generic drugs (including Sitagliptin Photosphate/Metformin Hydrochloride Tablets, Calcium Dobesilate Capsules, Mecobalamin Injection, and Epalrest Tablets). In addition, there are a total of 4 drugs in the mid-to-late clinical stage, and it is expected to apply for Pre-NDA in the second half of this year (including Recombinant Human Insulin Injection, Protomine Recombinant Human Insulin Injection, Protomine Recombinant Human Insulin Injection (30R), and Protomine Recombinant Human Insulin Injection (50R)). Additionally, 1 drug IND application has been approved (Semaglutide Injection), 1 drug IND application has been submitted for acceptance (Insulin Degludec/Liraglutide Injection). In addition, more than 10 drugs in pre-clinical stage, including HSP012C, a double target agonist drug developed by the Company independently, and GLP-1 innovative drug, insulin analog, etc.

## Rich Product Pipeline, Realizing Full Coverage in Diabetes and Complications

The R&D progress of many main drugs leading the industry

| Category | Sub-Category | Drug name | R&D Stage | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Pre-clinical | IND | Phase I | Phase II | Phase III | NDA |
| Oral SGLT-2 | Class 1 New Drug | **Janagliflozin** | | | | | | |
| | | Janagliflozin tablets and Metformin tablets | | | | | | |
| Insulin and Mixtures | New Insulin | **Insulin Degludec Injection** | | | | | | |
| | | **Insulin Degludec and Insulin Aspart Injection** | | | | | | |
| | | Insulin Degludec and Liraglutide Injection | | | | | | |
| | 3rd Generation Insulin | **Insulin Aspart Injection** | | | | | | |
| | | **Insulin Aspart 30 Injection** | | | | | | |
| | | **Insulin Aspart 50 Injection** | | | | | | |
| | 2nd Generation Insulin | Recombinant Human Insulin Injection | | | | | | |
| | | Protamine Recombinant Human Insulin Injection | | | | | | |
| | | Protamine Recombinant Human Insulin Injection (30R) | | | | | | |
| | | Protamine Recombinant Human Insulin Injection (50R) | | | | | | |
| GLP-1 analog | Large market potential (Biosimilars) | **Semaglutide Injection** | | | | | | |
| | | **Semaglutide Tablet** | | | | | | |
| | Internal R&D | HSP-012C (Dual target) | | | | | | |

Note: The above chart only lists the main drugs of Huisheng Biopharm

The detailed information of the main drugs (including but not limited to) of Huisheng Biopharm is as follows:

- Semaglutide Injection developed by Huisheng Biopharm has been approved for clinical trials by the NMPA in June this year for the treatment of type 2 diabete; synchronized clinical trials phase I and phase III. Semaglutide is a long-acting GLP-1 receptor agonist (GLP-1RA) injected once a week. Its blood glucose reduction and weight loss effect is superior to Liraglutide, a traditional GLP-1RA. Semaglutide has multiple advantages such as blood glucose reduction, weight loss, cardiovascular protection, and does not increase the risk of hypoglycemia. China and foreign clinical guidelines recommend that patients with type 2 diabete (T2DM), cardiovascular disease or patients with high cardiovascular risk should be given priority. The global sales of Semaglutide exceeded US$10 billion in 2022. It was approved to enter the Chinese market in 2021, and in the same year, it was included in the National Reimbursement Drug List (NRDL), afterwards, the sales show a dramatic growth in China. In 2022, the sales of Semaglutide Injection in Greater China was US$311 million. Semaglutide not only has good blood glucose reduction efficacy and high safety, but also has outstanding advantages in the weight loss and cardiovascular benefits. It is expected that the sales will continue to grow rapidly in both international and Chinese markets in the future.

- Insulin Degludec and Insulin Aspart Injection, developed by Huisheng Biopharm, has applied for drug registration and was accepted by the NMPA in May of this year. It is the first biosimilar of Insulin Degludec and Insulin Aspart Injection that has been applied for drug registration and accepted in China. The Insulin Degludec and Insulin Aspart Injection is a soluble double insulin, it is a mixture of 70% Insulin Degludec and 30% Insulin Aspart. After subcutaneous injection, they exert their respective pharmacokinetic effects, thereby achieving an ultra long and stable hypoglycemic effect. The characteristics of this product are that it can quickly control fasting and postprandial blood glucose, and better reduce HbA1c. Compared with the use of Insulin Glargine and Insulin Aspart, the product has a significantly lower risk of nocturnal hypoglycemia and is more conducive to blood glucose regulation in patients with diabete. As a non-co-crystalline compound, the product can be used without mixing, which enhances the convenience of the product and avoids the injection risk of mixing preparations. In addition, compared to basal insulin and mealtime insulin treatment, the product can reduce the number of injections, thereby helping to improve patient compliance and reduce medical burden.

- Janagliflozin, a Class 1 innovative drug, developed by Huisheng Biopharm, has applied for NDA last year and was accepted. It submitted supplementary materials in March this year and currently is waiting the drug registration approval from the NMPA. Janagliflozin is the second Class 1 innovative SGLT-2 inhibitor drug to apply for NDA in China after Hengrui, and it was accepted. Its hypoglycemic mechanism is unique and can be used alone or in combination with other hypoglycemic drugs, with a wide range of applications. Clinical data shows that it has significant effects such as lower blood glucose, weight loss, hypotensive blood pressure, etc. with low risk of hypoglycemia and good safety. Due to the outstanding advantages of SGLT-2 drugs in heart and kidney protection, many SGLT-2 drugs have been approved for relevant indications. It is expected that Janagliflozin will also have additional incremental market potential in the fields of heart failure and chronic kidney disease in the future. According to CHPA data, the sales of SGLT-2 inhibitor drugs from sample hospitals in China in 2022 were RMB 3.676 billion, an increase of 48.24% compared to 2021. It is expected that the sales of SGLT-2 inhibitor drugs will continue to grow rapidly in China.

- HSP012C, a dual target agonist, independently developed by Huisheng Biopharm, is used to reduce blood glucose and weight loss. Preclinical animal experiments data show that HSP012C has similar or better effects on reducing blood glucose and the weight loss than the control drug, and has obvious non-leptin channel dependent insulin sensitivity enhancing effects, bringing multiple benefits to overweight or obese patients. At present, we have successfully completed toxicological batch production and animal pre-experiments (including pharmacodynamics, pharmacokinetics, and repeated administration toxicity), and plan to conduct formal animal experiments in August.

- Insulin Degludec Injection, developed by Huisheng Biopharm, has applied for drug registration and was accepted by the NMPA. It was the first biosimilar of Insulin Degludec analog that has been applied for drug registration and accepted in China. Insulin Degludec is a new generation of long-acting basal insulin analogue with unique long-acting mechanism and excellent hypoglycemic effect, stable blood glucose concentration, low risk of hypoglycaemia, high safety and long-lasting effect. With a half-life of approximately 25 hours and a duration of action of up to 42 hours, due to the longer half-life and duration of action, Insulin Degludec has a more flexible injection time and higher patient compliance. It is the first insulin that allows diabetes patients to inject at any time of the day (8 hours apart). Clinical data shows that the clinical efficacy of Insulin Degludec developed by Huisheng Biopharm is comparable to that of the original drug.

- The Insulin Aspart series drugs (Insulin Aspart Injection, Insulin Aspart 30 Injection, and Insulin Aspart 50 Injection) developed by Huisheng Biopharm have applied for drug registration, and was accepted by the NMPA. It has submitted supplementary materials during the period. At present, Huisheng Biopharm is the only company that simultaneously applies for drug registration of all kinds of Insulin Aspart and is being accepted in China. Insulin Aspart Injection is a rapid-acting insulin analog, which takes effect more quickly than Human Insulin, better controls post-prandial blood glucose, and reduces the risk of hypoglycemia; Insulin Aspart 30 Injection is a mixture of 30% Insulin Aspart and 70% Insulin Aspart Protamine; and Insulin Aspart 50 Injection is a mixture of 50% Insulin Aspart and 50% Insulin Aspart Protamine, compared with human insulin, the two premixed insulin can better control fasting and postprandial blood glucose at the same time, reduce the risk of hypoglycemia, reduce the number of injections, and thus improve the treatment compliance of patients.

Total of three drugs (four specifications) of Huisheng Biopharm have obtained the approval for marketing, including: Mecobalamin Tablets, Thiotic Acid Injection and Sitagliptin Phosphate Tablets. In addition, many drugs have applied for marketing, including: Janagliflozin, Insulin Aspart Insulin (Insulin Aspart Injection, Insulin Aspart 30 Injection, Insulin Aspart 50 Injection), Insulin Degludec Injection (refill, prefilled injection pen), Insulin Degludec and Insulin Aspart Injection (refill, prefilled injection pen), Epalrestat Tablets, etc. To ensure rapid industrialization of the drugs after launch and support the transformation of the entire value chain operation of research, production and sales, by adhering to the cost and efficiency oriented, and in combination with the online ERP expansion module, the Company has sorted out the industrial operation process, achieving the full line connection of sale-plan-production and

logistics business, and promoted the standardization, informatization, and digitalization process of industrial operation; the Company has also implemented organizational integration and resource restructuring of processes and production modules, improving the specialization of processes and techniques and site production management. At the same time, it has completed production lines renovation, added key production equipment, and achieved the commercial production lines with a production capacity of over ten million and a flexible and efficient operation of pilot production lines, improving internal operation significantly and R&D efficiency. In addition, to ensure the successful launch for the approved products, Huisheng Biopharm has conducted on-site research on the product pipeline and developed product portfolio sales strategies, and has started to establish marketing team, covering functional departments such as marketing, sales, and marketing operations, and has carried out market preparation before the drug is launched.

In January of this year, Huisheng Biopharm announced that it had successfully completed the A+ round of financing, the investors subscribed for stake in Huisheng Biopharm at the cost of an additional capital increase of RMB580 million, with an overall post investment valuation of RMB5.58 billion. Despite the capital market is experiencing the lowest sentiment in recent two years, Huisheng Biopharm successfully completed both A and A+ rounds of financing within 12 months, realized a total equity financing of RMB1.08 billion, which fully reflects the recognition of investors on the R&D and industrialization capability of Huisheng Biopharm, and also verifies the value of the company's product pipeline in the therapeutic areas of diabetes and its complications. The Group is also full of confidence and expectations for the future development of Huisheng Biopharm. During the period, the company has successfully completed its share reform and officially changed its name to Huisheng Biopharmaceutical Co., Ltd., preparing for independent development in the capital market in the future.

Huisheng Biopharm is a biopharmaceutical platform that the Group has carefully incubated for nearly nine years, targeting at the huge potential diabetes and its complications market in China. In the future, with the gradual implementation of Huisheng Biopharm's product pipeline and the continuous emergence of innovative products, Huisheng Biopharm will become a leading biopharmaceutical leader in China with a full range of products in the therapeutic areas of diabetes and its complications, thus realizing a continuous amplification of its value.

**3. Generic medicines: Continuing the steady development of the "cash cow" business and accelerating the implementation of the spin-off and divestment of certain generic medicines and other non-core traditional pharmaceutical or big healthcare businesses and assets that have failed to meet the operating expectations or are not in line with the long-term strategic development objectives**

In 2023, the Group accelerated the implementation of the optimization and integration of the generic pharmaceuticals business, balanced the development and stability of the generic pharmaceuticals cash cow business, and accelerated the implementation of the spin-off and divestment of certain generic pharmaceuticals and other non-core traditional pharmaceuticals or big healthcare businesses and assets that have failed to meet the operating expectations or are not in line with the long-term strategic development objectives.

At the beginning of the new year, the Group has made many significant progress in the "cash cow" generic pharmaceutical business. Among which, the blockbuster drug Kelin'ao was successfully moved out of the Key Monitoring Drug List leveraing on its more than one thousand patients evidence-based medicine (EBM) results, two Non-PVC solid-liquid dual chamber bag drugs and Midazolam Oromucosal Solution were included in the National Reimbursement Drug List (NRDL) in 2022, and the antiviral drug Favipiravir Tablets (0.2g), anti bacterial infection drug Azithromycin for Suspension (Strength: 0.1g), anti fungal infection drug Fluconazole and Sodium Chloride Injection (Strength: 100ml: Fluconazole 0.2g and Sodium Chloride 0.9g; 50ml: Fluconazole 0.1g and Sodium Chloride 0.45g), and Dopamine Hydrochloride Injection(Strength: 2.5ml: 50mg; 5ml: 100mg) for the treatment of shock syndrome, developed by the Group, have received drug registration approval from the NMPA during the period. The successful launch of the drugs will provide strong support for the growth of the pharmaceutical business revenue of the Group.

Kelin'ao® (Curacetin maleate injection) is a weak calcium antagonist used to improve neurological symptoms, activities of daily living (ADLs) and dysfunctions caused by acute ischaemic stroke. Curacetide maleate can effectively improve the blood supply to the ischaemic region of the brain, and preliminary studies have confirmed that it does not affect the clinical blood pressure management of patients, avoiding the problem of hypoperfusion at the ischaemic region of the brain caused by low blood pressure. The Group is currently the only enterprise in China that has completed a large-scale confirmatory clinical study on this product. The clinical study was a multi-centre real-world study for post-marketing safety evaluation, led by Professor Cui Liying of Peking Union Medical College, former chairman of the Neurology Branch of the Chinese Medical Association, with the participation of 68 top hospitals from dozens of provinces, municipalities and municipalities directly under the Central Government, with a total of 1,301 subjects enrolled. This is the clinical trial with the largest number of participating centres and the largest sample size among the independently developed drugs for stroke treatment in China, which provides an important guarantee for the credibility and reproducibility of the study results. The results of the study showed that the drug was effective in promoting functional recovery in stroke patients after 90 days (Note: 90 days is the major time point for end-point event assessment, which is widely accepted in international similar studies). The results of this study demonstrated that the

product is effective in improving the prognosis of stroke patients and reducing the disability rate. Curacetamibe maleate is the only approved product in the field of stroke treatment in China since the commencement of the post-marketing clinical study. As a former first-line drug for the clinical treatment of cardiovascular and cerebrovascular diseases, Clineaux® has benefited 7 million patients over the past 20 years, and its annual terminal sales in the Chinese market once reached billions of yuan, making it a heavyweight product used for the treatment of stroke at that time. Stroke is an acute cerebral blood circulation disorder caused by narrowing, occlusion or rupture of the arteries in the brain due to various triggering factors, which is an acute cerebrovascular disease and is the leading cause of death among Chinese residents. Clinically, stroke is divided into two major categories: ischemic stroke and hemorrhagic stroke, and the incidence rate in China is on the rise. According to the China Stroke Prevention and Treatment Guidelines (2021), the proportion of new strokes in China is about 0.28%, with acute stroke accounting for about 70% of the total, and the total population of China will be about 1.413 billion in 2022, with the number of new acute ischemic strokes in China being about 2.77 million in 2022. According to the China Stroke Report 2020, in 2019, there were 28.76 million stroke patients in China, of which 24.18 million were ischaemic stroke patients. Thrombolysis is the main treatment for acute ischaemic stroke (AIS), but it is not suitable for all patients. CHINAQUEST study shows that the average time from onset to hospital for AIS patients in China is 20.1 hours, and the total proportion of stroke patients receiving thrombolysis is less than 3%. According to the 2017 China Stroke Prevention and Treatment Report, the recurrence rate one year after the first stroke is as high as 17.1%, and patients must take long-term medication to prevent recurrence, which has also contributed to the continuous growth of the domestic market for stroke medication. In 2020, the sales of stroke drugs in China was approximately RMB69 billion.

The non-PVC powder-liquid dual-chamber bag ready-to-dispense infusion has a high R&D technology barrier and a long development cycle, and is currently an advanced infusion product in the international arena. The dosage form adopts specific technology and non-PVC multi-layer co-extruded film as the packaging material, the drug and the injectable solvent are packed in two chambers of the same bag, and the chambers are separated by virtual welds. Before infusion, it is only necessary to gently squeeze the bottom of the chambers to open the barrier between the two preparation chambers to achieve drug homogenisation. The dosage form avoids secondary contamination caused by microorganisms and particles during the dispensing process, and eliminates the potential hazards to healthcare workers caused by highly allergenic drugs during the preparation and infusion process. In addition, it takes less than 20 seconds from preparation to use, which has the advantage of high efficiency and speedy use, and can be commonly used in hospitals for emergency treatment, ICUs, etc., which can save more lives in case of emergencies. In terms of clinical application, it is widely recognised as the safest, most reliable and convenient infusion product, and is one of the new dosage forms with the most development potential in the pharmaceutical industry. Compared with overseas markets, the development of the non-PVC powder and liquid double chamber bag market in China is still in its infancy, and its current usage rate in the entire infusion market accounts for only 20% of the market share. Compared with the market share of approximately 40% to 60% in Japan and approximately 90% of the market share in the U.S., it can be foreseen that the Chinese market for this dosage form in the future is promising

and has huge market potential. According to IQVIA, the domestic market for cephalosporin antibiotic injections in 2021 was approximately RMB40 billion. The Group's two non-PVC powder-liquid dual chamber bag products, being the first and exclusive dosage form in the PRC, are expected to contribute to a significant increase in sales of these products when they are successfully included in the NDRL 2022.

Midazolam Buccal Mucosal Solution, a benzodiazepine sedative-hypnotic, is the first mucosal drug form developed for infants, children and adolescents in China for the treatment of acute, persistent convulsive seizures caused by hyperthermia or epilepsy in children 3 months to 18 years of age, and it is a recommended therapeutic agent in the guidelines for the treatment of epilepsy and the guidelines for febrile convulsive seizures. The current clinical use of midazolam, which is mainly administered orally or intravenously, poses a major inconvenience for infants, toddlers and children with persistent convulsive seizures. Compared with other dosage forms, the buccal mucosal solution dosage form is more convenient to administer, with faster onset of action, and can even be used in out-of-hospital home emergencies. The Midazolam Buccal Mucosal Solution developed by the Group is the first of its kind in China and the only one of its kind in China. With the full liberalization of the two-child and three-child policy, China's child population continues to grow and the rate of morbidity and out-patient visit is also on the rise, presenting new development opportunities in pediatric drug market. At present, the market scale of children's medicine in China only accounts for 7-8% of the overall pharmaceutical industry, and the population aged 0-15 years accounts for approximately 17.8% of the total population, representing a huge population base, the market of children's medicine is far from saturated, with a huge market potential in the future.

With the recent positive developments in the Group's generic pharmaceuticals business, it is believed that the approval and launch of these new products will provide strong support for the Group to maintain a healthy cash flow. Meanwhile, with the successful spin-off and divestment of part of the Group's traditional generic pharmaceuticals business and big healthcare business, which have continued to suffer from low profitability and are subject to strong policy influence, the Group has been able to further focus its management and corporate resources on the medical aesthetic segment that with higher growth and higher profit margins, as well as on the biopharaceutical segment with high growth in value. The Group believes that through the implementation of our "Innovative Pharmaceuticals + Medical Aesthetics" dual-wheel drive strategy and the enhancement of the efficiency of the Group's resource utilisation, the overall profit structure of the Company will be effectively improved and upgraded, which will help to maximise shareholders' value.

**Prospects and Future Growth Strategy**

In 2023, the Group will adhere to, thoroughly implement and accelerate its "Innovative Pharmaceuticals + Medical Aesthetics" dual-wheel drive strategy by focusing its management on the high-growth medical aesthetics field and the high-value innovative pharmaceuticals and biopharmaceuticals field, optimising and integrating the generic pharmaceuticals business, and expeditiously divesting itself of some of the generic pharmaceuticals business that has failed to meet the expected performance and other non-core healthcare businesses.

In the medical aesthetics business, the Group will continue to implement its medical aesthetics marketing version 3.0, consolidate the results of product sales, and continue to expand the distribution of products and sales network in the medical aesthetics field, and actively look for quality bidders for mergers and acquisitions, consolidation or introduction of product agents both domestically and internationally, as well as speed up the research and development, registration, and product launching of medical aesthetics products, so as to rapidly achieve the upgrading and development of the medical aesthetics business, and to realise a simultaneous upgrade in terms of size and quality, and build a new engine of cash flow for the Group. The Group will ensure the synchronized growth of our revenue scale, profitability, team and sales network coverage, and continue to move towards the strategic goal of "becoming a leading medical aesthetics enterprise in China that can serve the life-cycle needs of aesthetics seekers with a full range of product coverage".

In respect of the pharmaceutical business, the Group will further consolidate the results of its transformation and upgrading to an innovative biopharmaceutical enterprise, rapidly promote the progress of research and development of its innovative biopharmaceutical product pipeline, accelerate the progress of both product registration and product commercialisation, and progressively complete the spin-off and independent listing of its research and development business sub-segment, so as to ensure the rapid development and the realisation of the high valuation of its business.

In respect of the generic pharmaceuticals business, the Group will continue its business restructuring and ensure the steady development of its "Cash Cow" business, and gradually divest generic pharmaceuticals, APIs and other non-core healthcare businesses that do not meet the Group's expectations, and turn them into cash to be utilised for the Group's future business operations, mergers and acquisitions or dividend payouts.

**Conclusion**

The Group believes that through the continuous implementation of the "Innovative Pharmaceuticals + Medical Aesthetics" dual-wheel drive strategy, accelerating the transformation into medical aesthetics and innovative biopharmaceuticals business, and continuing to optimize and integrate the generic pharmaceuticals business, etc., the Group's efficiency in the allocation of resources and its medium- to long-term financial performance will be further enhanced, and the Company's overall value and its ability to withstand the cyclical risks of the industry will also be significantly increased in the future.

The Group believes that through the implementation of the dual organizational structure strategy, focusing the management on the high-growth medical and aesthetic field and the high-value innovative drugs and biopharmaceuticals field, further focusing the management on the development of the medical and aesthetic business and business expansion, as well as stimulating and encouraging the development and growth of the biopharmaceuticals segment and its independent financing, it will continue to consolidate and expand the Group's achievements in its strategic transformation into a leading medical and aesthetic and biopharmaceutical company in China. Sihuan Pharmaceutical will continue to be a friend of time, and through the continuous and efficient implementation of the dual-drive strategy of "Innovative Pharmaceuticals + Medical Aesthetics", we will promote the further unlocking of our corporate value and realize our strategic goal of becoming a leading medical aesthetics and biopharmaceuticals company in China. It will also bring more and better investment returns to our shareholders and investors who have been steadfastly believing in and supporting the Group.

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

*For the six months ended 30 June 2023*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2023** | 2022 |
| | | ***RMB'000*** | *RMB'000* |
| | *Notes* | **(Unaudited)** | (Unaudited) |
| Revenue | *4* | **1,055,705** | 1,464,197 |
| Cost of sales | | **(307,972)** | (460,508) |
| **GROSS PROFIT** | | **747,733** | 1,003,689 |
| Other income | *4* | **93,857** | 81,690 |
| Other gains – net | *4* | **35,131** | 234,258 |
| Impairment losses on property, plant and equipment | | **–** | (98,097) |
| Distribution expenses | | **(212,487)** | (229,642) |
| Administrative expenses | | **(212,168)** | (320,311) |
| Research and development expenses | | **(294,036)** | (457,267) |
| Other expenses | | **(11,870)** | (11,145) |
| **OPERATING PROFIT** | | **146,160** | 203,175 |
| Finance expenses | *5* | **(133,542)** | (99,400) |
| Share of profits and losses of investments accounted for using the equity method | | **(45,672)** | (47,733) |
| **(LOSS)/PROFIT BEFORE TAX** | | **(33,054)** | 56,042 |
| Income tax expense | *6* | **(85,886)** | (151,943) |
| **LOSS FOR THE PERIOD** | | **(118,940)** | (95,901) |

| | Note | Six months ended 30 June | |
|---|---|---|---|
| | | **2023** | 2022 |
| | | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Unaudited) |
| Attributable to: | | | |
| Owners of the Company | | **(49,644)** | 40,376 |
| Non-controlling interests | | **(69,296)** | (136,277) |
| | | **(118,940)** | (95,901) |
| **LOSS FOR THE PERIOD** | | **(118,940)** | (95,901) |
| **OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX** | | **–** | – |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | | **(118,940)** | (95,901) |
| **Attributable to:** | | | |
| Owners of the Company | | **(49,644)** | 40,376 |
| Non-controlling interests | | **(69,296)** | (136,277) |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | | **(118,940)** | (95,901) |
| | | ***RMB*** | *RMB* |
| | | **(Unaudited)** | (Unaudited) |
| **(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | 7 | | |
| Basic (loss)/earnings per share for (loss)/profit for the period | | **(0.53 cents)** | 0.43 cents |
| Diluted (loss)/earnings per share for (loss)/profit for the period | | **(0.53 cents)** | 0.43 cents |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2023*

| | Notes | As at 30 June 2023 RMB'000 (Unaudited) | 31 December 2022 RMB'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *8* | **2,230,429** | 2,300,959 |
| Right-of-use assets | | **684,038** | 697,367 |
| Investment properties | | **231,517** | 221,059 |
| Goodwill | | **1,853** | 1,853 |
| Intangible assets | | **699,067** | 626,462 |
| Investments accounted for using the equity method | | **644,412** | 682,174 |
| Deferred tax assets | | **45,865** | 96,774 |
| Financial assets at fair value through profit or loss | *9* | **225,164** | 225,164 |
| Other non-current assets | | **493,844** | 594,359 |
| Pledged deposits | | **140,000** | 143,994 |
| **Total non-current assets** | | **5,396,189** | 5,590,165 |
| **CURRENT ASSETS** | | | |
| Inventories | | **615,295** | 606,700 |
| Trade and other receivables | *10* | **1,239,356** | 1,118,628 |
| Financial assets at fair value through profit or loss | *9* | **775,957** | 962,988 |
| Cash and cash equivalents | | **3,734,032** | 3,828,863 |
| Pledged deposits | | **14,000** | 33,207 |
| **Total current assets** | | **6,378,640** | 6,550,386 |
| **TOTAL ASSETS** | | **11,774,829** | 12,140,551 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *11* | **77,058** | 77,058 |
| Treasury shares | | **(33,811)** | – |
| Share premium | *11* | **3,882,304** | 3,882,304 |
| Other reserves | | **(475,821)** | (528,850) |
| Retained earnings | | **956,176** | 1,306,486 |
| | | **4,405,906** | 4,736,998 |
| **Non-controlling interests** | | **845,268** | 902,828 |
| **Total equity** | | **5,251,174** | 5,639,826 |

| | | As at | |
|---|---|---|---|
| | | **30 June** | 31 December |
| | | **2023** | 2022 |
| | | ***RMB'000*** | *RMB'000* |
| | *Notes* | **(Unaudited)** | (Audited) |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **98,527** | 99,040 |
| Interest-bearing bank borrowings | *12* | **1,038,510** | 808,383 |
| Lease liabilities | | **36,643** | 45,856 |
| Contract liabilities | | **4,244** | 5,660 |
| Other non-current liabilities | | **3,102,825** | 3,008,786 |
| **Total non-current liabilities** | | **4,280,749** | 3,967,725 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *13* | **1,694,227** | 1,926,944 |
| Interest-bearing bank borrowings | *12* | **234,920** | 327,075 |
| Contract liabilities | | **126,717** | 164,010 |
| Income tax payable | | **137,554** | 67,862 |
| Lease liabilities | | **18,844** | 13,184 |
| Other current liabilities | | **30,644** | 33,925 |
| **Total current liabilities** | | **2,242,906** | 2,533,000 |
| **TOTAL LIABILITIES** | | **6,523,655** | 6,500,725 |
| **TOTAL EQUITY AND LIABILITIES** | | **11,774,829** | 12,140,551 |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2023*

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital *RMB'000* | Treasury shares *RMB'000* | Share premium *RMB'000* | Other reserves *RMB'000* | Retained earnings *RMB'000* | Total *RMB'000* | Non-controlling interests *RMB'000* | Total equity *RMB'000* |
| **As at 1 January 2023 (audited)** | **77,058** | **–** | **3,882,304** | **(528,850)** | **1,306,486** | **4,736,998** | **902,828** | **5,639,826** |
| Loss for the period | – | – | – | – | (49,644) | (49,644) | (69,296) | (118,940) |
| **Total comprehensive loss for the period** | **–** | **–** | **–** | **–** | **(49,644)** | **(49,644)** | **(69,296)** | **(118,940)** |
| Employee share incentive scheme: – Value of employee services *(Note 15)* | – | – | – | 59,721 | – | 59,721 | – | 59,721 |
| Final 2022 dividend *(Note 14)* | – | – | – | – | (298,560) | (298,560) | – | (298,560) |
| Dividends paid to non-controlling shareholders | – | – | – | – | – | – | (6,000) | (6,000) |
| Special reserve for maintenance and production funds (i) | – | – | – | 2,106 | (2,106) | – | – | – |
| Repurchase of shares | – | (33,811) | – | – | – | (33,811) | – | (33,811) |
| Capital contribution by non-controlling shareholders of a subsidiary | – | – | – | (8,798) | – | (8,798) | 17,736 | 8,938 |
| **As at 30 June 2023 (unaudited)** | **77,058** | **(33,811)** | **3,882,304** | **(475,821)** | **956,176** | **4,405,906** | **845,268** | **5,251,174** |

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

*Note:*

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2023*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2023** | 2022 |
| | | ***RMB'000*** | *RMB'000* |
| | *Note* | **(Unaudited)** | (Unaudited) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | *16* | **44,876** | 403,062 |
| Income tax paid | | **(16,558)** | (28,201) |
| **Net cash flows from operating activities** | | **28,318** | 374,861 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Capital contribution to an associate | | **–** | (165,000) |
| Purchases of items of property, plant and equipment | | **(73,778)** | (264,673) |
| Purchases of intangible assets | | **(79,394)** | (81,873) |
| Purchases of financial assets at fair value through profit or loss | | **(877,983)** | (8,514,130) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **1,066,353** | 8,478,330 |
| Proceeds from disposal of property, plant and equipment | | **2,002** | 12,676 |
| Advances of loans to third parties | | **(15,200)** | (29,300) |
| Advances of loans to an associate | | **–** | (25,000) |
| Repayment of loans from the third party | | **3,000** | – |
| Disposal of a subsidiary, net of cash | | **9,221** | 109,286 |
| Decrease/(increase) in pledged deposits | | **23,201** | (24,208) |
| Interest received | | **42,939** | 31,462 |
| **Net cash flows from/(used in) investing activities** | | **100,361** | (472,430) |

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Repayment of bank borrowings | **(185,471)** | (32,757) |
| Repayment of other borrowings | **(600)** | (1,500) |
| Proceeds from bank borrowings | **323,443** | 139,700 |
| Proceeds from other borrowings | **1,573** | 46,723 |
| Repurchase of shares | **(33,811)** | – |
| Principal portion of lease payments | **(5,790)** | (8,527) |
| Capital contribution by non-controlling shareholders of a subsidiary | **8,938** | 400,000 |
| Dividends paid to the Company's shareholders and non-controlling shareholders | **(304,560)** | (1,007,640) |
| Interest paid | **(27,232)** | (25,210) |
| **Net cash flows used in financing activities** | **(223,510)** | (489,211) |
| **Net decrease in cash and cash equivalents** | **(94,831)** | (586,780) |
| Cash and cash equivalents at beginning of the period | **3,828,863** | 5,682,425 |
| **Cash and cash equivalents at end of the period** | **3,734,032** | 5,095,645 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | **2,786,167** | 4,408,403 |
| Unpledged time deposits | **947,865** | 687,242 |
| Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows | **3,734,032** | 5,095,645 |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

*For the six months ended 30 June 2023*

## 1. CORPORATE AND GROUP INFORMATION

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

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

The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of the principal place of business of the Group in Hong Kong is Room 4905, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, and the address of the principal place of business in Beijing is 22/F, Building 4, Zhubang 2000, West Balizhuang, Chaoyang District, Beijing 100025, the PRC.

## 2. BASIS OF PREPARATION AND CHANGES IN THE GROUP'S ACCOUNTING POLICIES

### 2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022.

The interim condensed consolidated financial information is presented in thousand Renminbi ("**RMB'000**"), unless otherwise stated. The interim condensed consolidated financial information was authorised for issue in accordance with a resolution of the directors on 29 August 2023.

### 2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following revised International Financial Reporting Standards ("**IFRSs**") for the first time for the current period's financial information.

| | |
|---|---|
| Amendments to IAS 1 and IFRS Practice Statement 2 | *Disclosure of Accounting Policies* |
| Amendments to IAS 8 | *Definition of Accounting Estimates* |
| Amendments to IAS 12 | *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* |
| Amendments to IAS 12 | *International Tax Reform – Pillar Two Model Rules* |

The nature and impact of the revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

(b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has earlier applied the amendments, the amendments did not have any impact on the financial position or performance of the Group.

(d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

## 3. SEGMENT INFORMATION

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

(a) the medical aesthetic products segment includes filling, shaping, supporting, supplementing, optoelectronic devices, body sculpturing, skin care and others to provide non- or minimally invasive medical aesthetics comprehensive solutions;

(b) the innovative medicine and other medicine segment; and

(c) the generic medicine segment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, non-lease-related finance costs, dividend income, fair value gains/losses from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Information relating to segment assets and liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker who assesses the performance of the operating segments based on their revenue and operating profit rather than their assets and liabilities.

**Six months ended 30 June 2023**

| | **Medical aesthetic products** *RMB'000* **(Unaudited)** | **Innovative medicine and other medicine** *RMB'000* **(Unaudited)** | **Generic medicine** *RMB'000* **(Unaudited)** | **Total** *RMB'000* **(Unaudited)** |
|---|---|---|---|---|
| **Segment revenue** *(Note 4)* | | | | |
| Sales to external customers | **194,046** | **15,962** | **845,697** | **1,055,705** |
| Intersegment sales | **18** | **13,742** | **–** | **13,760** |
| | **194,064** | **29,704** | **845,697** | **1,069,465** |
| Reconciliation: | | | | |
| Elimination of intersegment sales | | | | **(13,760)** |
| Revenue | | | | **1,055,705** |
| **Segment results** | **62,943** | **(344,003)** | **356,724** | **75,664** |
| Reconciliation: | | | | |
| Unallocated other income | | | | **14,712** |
| Unallocated other gains – net | | | | **(28,737)** |
| Unallocated expenses | | | | **(31,820)** |
| Unallocated finance expenses | | | | **(17,201)** |
| Share of profits and losses of investments accounted for using the equity method | | | | **(45,672)** |
| Loss before tax | | | | **(33,054)** |

**Six months ended 30 June 2022**

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

During the six months ended 30 June 2023, all sales were made to distributors and there was no single distributor of the Group from which the revenue amounted to 10% or more of the Group's revenue (six months ended 30 June 2022: Nil).

## 4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue and other income is as follows:

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2023** | 2022 |
| | | ***RMB'000*** | *RMB'000* |
| | *Notes* | **(Unaudited)** | (Unaudited) |
| **Revenue** | | | |
| Revenue from contracts with customers: | *i* | | |
| Sale of pharmaceutical and medical aesthetic products | | **1,055,705** | 1,464,197 |
| **Other income** | | | |
| Interest income | | **77,448** | 74,141 |
| Hospital services income | | **6,893** | 4,161 |
| Gross rental income from investment property operating leases | *ii* | **7,400** | 2,116 |
| Sales of distribution rights | *iii* | **1,416** | 994 |
| Others | | **700** | 278 |
| | | **93,857** | 81,690 |

### (i) Revenue from contracts with customers

*Disaggregated revenue information*

**For the six months ended 30 June 2023**

| | **Medical aesthetic products** ***RMB'000*** | **Innovative medicine and other medicine** ***RMB'000*** | **Generic medicine** ***RMB'000*** | **Total** ***RMB'000*** |
|---|---|---|---|---|
| **Type of goods** | | | | |
| Sale of pharmaceutical products and medical aesthetic products | **194,046** | **15,962** | **845,697** | **1,055,705** |
| **Geographical markets** | | | | |
| Mainland China | **187,565** | **15,962** | **845,697** | **1,049,224** |
| United States of America | **6,481** | **–** | **–** | **6,481** |
| Total revenue from contracts with customers | **194,046** | **15,962** | **845,697** | **1,055,705** |
| **Timing of revenue recognition** | | | | |
| Goods transferred at a point in time | **194,046** | **15,962** | **845,697** | **1,055,705** |

For the six months ended 30 June 2022

| | Medical aesthetic products *RMB'000* | Innovative medicine and other medicine *RMB'000* | Generic medicine *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **Type of goods** | | | | |
| Sale of pharmaceutical products and medical aesthetic products | 98,612 | 132,598 | 1,232,987 | 1,464,197 |
| **Geographical market** | | | | |
| Mainland China | 98,612 | 132,598 | 1,232,987 | 1,464,197 |
| **Timing of revenue recognition** | | | | |
| Goods transferred at a point in time | 98,612 | 132,598 | 1,232,987 | 1,464,197 |

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

**For the six months ended 30 June 2023**

| | **Medical aesthetic products** *RMB'000* | **Innovative medicine and other medicine** *RMB'000* | **Generic medicine** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|
| **Segments** | | | | |
| Sales to external customers | **194,046** | **15,962** | **845,697** | **1,055,705** |
| Intersegment sales | **18** | **13,742** | **–** | **13,760** |
| | **194,064** | **29,704** | **845,697** | **1,069,465** |
| **Reconciliation:** | | | | |
| Elimination of intersegment sales | | | | **(13,760)** |
| Total revenue from contracts with customers | | | | **1,055,705** |

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

For the six months ended 30 June 2022

| | Medical aesthetic products *RMB'000* | Innovative medicine and other medicine *RMB'000* | Generic medicine *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **Segments** | | | | |
| Sales to external customers | 98,612 | 132,598 | 1,232,987 | 1,464,197 |
| Intersegment sales | – | 14,042 | 8 | 14,050 |
| | 98,612 | 146,640 | 1,232,995 | 1,478,247 |
| **Reconciliation:** | | | | |
| Elimination of intersegment sales | | | | (14,050) |
| Total revenue from contracts with customers | | | | 1,464,197 |

**(ii)** The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing. An analysis of rental income is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **Geographical markets:** | | |
| Mainland China | **6,401** | 236 |
| Hong Kong | **999** | 1,880 |
| | **7,400** | 2,116 |

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

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

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Recognisation of other income that was included in contract liabilities at the beginning of the reporting period: | | |
| Sales of distribution rights | **1,416** | 994 |

**Other gains – net**

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2023** | 2022 |
| | | ***RMB'000*** | *RMB'000* |
| | *Note* | **(Unaudited)** | (Unaudited) |
| Government grants | *i* | **26,825** | 68,550 |
| Exchange losses, net | | **(1,045)** | (44,231) |
| Gain on deemed dilution | | **7,910** | 6,452 |
| Gain on disposal of a subsidiary | | **–** | 211,592 |
| Gain/(loss) on changes in fair value of financial assets at FVPL | | **1,339** | (21,339) |
| Others | | **102** | 13,234 |
| | | **35,131** | 234,258 |

*Note:*

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

## 5. FINANCE EXPENSES

An analysis of finance expenses is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest expenses on: | | |
| Interest-bearing bank and other borrowings | **29,453** | 27,072 |
| Redemption liabilities on subsidiaries' shares | **103,729** | 72,611 |
| Lease liabilities | **1,601** | 1,395 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **134,783** | 101,078 |
| Less: Interest capitalised | **(1,241)** | (1,678) |
| | **133,542** | 99,400 |

## 6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2022: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2023. The PRC subsidiaries of the Group have determined and paid the corporate income tax in accordance with the Corporate Income Tax Law of the PRC at the tax rate of 25% (six months ended 30 June 2022: 25%). Certain PRC subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for the six months ended 30 June 2023 and 2022 was provided for at a preferential tax rate of 15%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The income tax expense of the Group for the six months ended 30 June 2023 and 2022 is analysed as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Current | **35,490** | 132,429 |
| Deferred | **50,396** | 19,514 |
| Total tax charge for the period | **85,886** | 151,943 |

## 7. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the period attributable to owners of the Company of RMB(49,644,000) (six months ended 30 June 2022: RMB40,376,000), and the weighted average number of ordinary shares of 9,313,011,000 (six months ended 30 June 2022: 9,329,999,000) in issuance during the period, as adjusted to reflect the repurchased shares during the period.

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

The calculations of basic and diluted (loss)/earnings per share are based on:

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **(Unaudited)** | (Unaudited) |
| **(Loss)/earnings** | | |
| (Loss)/profit attributable to owners of the Company (RMB'000) | **(49,644)** | 40,376 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue for basic (loss)/earnings per share (Share'000) | **9,313,011** | 9,329,999 |
| Basic (loss)/earnings per share (RMB cents) for (loss)/profit for the period | **(0.53)** | 0.43 |
| Diluted (loss)/earnings per share (RMB cents) for (loss)/profit for the period | **(0.53)** | 0.43 |

*Note:*

(i) No adjustment has been made to the basic (loss)/earnings per share amount presented for the period ended 30 June 2023 and 2022 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic (loss)/earnings per share amount presented.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired assets at a cost of RMB51,493,000 (six months ended 30 June 2022: RMB290,156,000).

Assets with a net book value of RMB9,879,000 were disposed of by the Group during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB13,484,000), resulting in a net loss on disposal of RMB922,000 (six months ended 30 June 2022: RMB808,000).

During the six months ended 30 June 2023, an impairment loss of nil (six months ended 30 June 2022: RMB98,097,000) was recognised for certain property, plant and equipment.

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

Set out below is an overview of financial assets, other than cash and cash equivalents, and trade and other receivables, held by the Group as at 30 June 2023 and 31 December 2022:

| | | As at | |
|---|---|---|---|
| | | **30 June 2023** | 31 December 2022 |
| | | ***RMB'000*** | *RMB'000* |
| | *Notes* | **(Unaudited)** | (Audited) |
| **Non-current** | | | |
| Financial assets at fair value through profit or loss ("**FVPL**"): | | | |
| Unlisted equity investments, at fair value | *i* | **225,164** | 225,164 |
| **Current** | | | |
| Financial assets at FVPL: | | | |
| Wealth management products | *ii* | **775,957** | 962,988 |
| | | **1,001,121** | 1,188,152 |

*Notes:*

(i) The amount represents equity investments in the unquoted equity shares of KBP Biosciences Holdings Limited, PsiOxus Therapeutics Limited, Ascendum Healthcare Fund, Shenzhen MileBot Robotics Co., Ltd., Beijing Gretson Biomedical Technology Co., Ltd., and Beijing Gerui Biomedical Technology Co., Ltd. The Group intends to hold these equity shares for the foreseeable future and has not irrevocably elected to classify them as financial assets at fair value through other comprehensive income.

(ii) The amount represents wealth management products issued by certain reputable banks in Mainland China with no fixed interest rate. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

## 10. TRADE AND OTHER RECEIVABLES

| | As at | |
|---|---|---|
| | **30 June 2023** | 31 December 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables – third parties | **477,537** | 513,818 |
| Notes receivable | **58,274** | 72,276 |
| Loans to associates | **93,723** | 83,765 |
| Loans to third parties | **142,791** | 28,922 |
| Prepayments to suppliers | **150,049** | 141,022 |
| Amount due from other related party | **9,600** | 9,600 |
| Amount due from a joint venture | **3,861** | 3,695 |
| Amount due from an associate | **224** | 224 |
| Dividend receivable | **40,727** | 40,727 |
| Receivable for disposal of subsidiaries | **88,340** | 101,385 |
| Other receivables | **256,083** | 215,108 |
| | **1,321,209** | 1,210,542 |
| Provision for impairment of trade receivables | **(53,787)** | (63,848) |
| Provision for impairment of other receivables | **(28,066)** | (28,066) |
| | **1,239,356** | 1,118,628 |

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

| | As at | |
|---|---|---|
| | **30 June 2023** | 31 December 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Within 3 months | **270,028** | 237,080 |
| 3 to 6 months | **47,831** | 55,058 |
| 6 to 12 months | **40,579** | 80,481 |
| More than 1 year | **65,312** | 77,351 |
| | **423,750** | 449,970 |

## 11. SHARE CAPITAL AND SHARE PREMIUM

| | Number of authorised ordinary shares *Share'000* | Number of issued and fully paid ordinary shares *Share'000* | Share capital *RMB'000* | Share premium *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| As at 31 December 2021 and 31 December 2022 (audited) and at 30 June 2023 (unaudited) (HK$0.01 per share) | **100,000,000** | **9,329,999** | **77,058** | **3,882,304** | **3,959,362** |

*Note:*

(i) During the six months ended 30 June 2023, the Group repurchased 48,433,000 of its own shares on the Stock Exchange at a total consideration, including expenses, of HK38,314,000 (equivalent to RMB33,811,000) for 2022 Share Award Scheme adopted on 25 October 2022. As at 30 June 2023, these repurchased shares were not granted.

## 12. INTEREST-BEARING BANK BORROWINGS

| | As at | |
|---|---|---|
| | **30 June 2023** | 31 December 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| **Current** | | |
| Secured bank borrowings | **234,920** | 301,272 |
| Unsecured bank borrowings | **–** | 25,803 |
| | **234,920** | 327,075 |
| **Non-current** | | |
| Secured bank borrowings | **1,038,510** | 808,383 |
| | **1,273,430** | 1,135,458 |
| Analysed into: | | |
| Bank borrowings: | | |
| Within the first year | **234,920** | 327,075 |
| Within the second to fifth years | **452,762** | 252,418 |
| Beyond the fifth year | **585,748** | 555,965 |
| | **1,273,430** | 1,135,458 |

*Notes:*

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

(i) mortgages over the Group's leasehold land and property, plant and equipment with an aggregate carrying value of RMB970,199,000 (31 December 2022: RMB999,870,000);

(ii) the pledge of certain of the Group's time deposits amounting to RMB140,000,000 (31 December 2022: RMB140,000,000); and

(iii) a portion of equity interests in a subsidiary.

(b) All bank borrowings are denominated in RMB.

(c) The effective interest rates of the bank borrowings as at 30 June 2023 ranged from 2.80% to 5.00% (31 December 2022: 2.80% to 4.90%) per annum.

## 13. TRADE AND OTHER PAYABLES

| | As at | |
|---|---|---|
| | **30 June 2023** | 31 December 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Trade payables | **181,482** | 205,782 |
| Costs of construction and purchase of equipment payables | **160,006** | 181,465 |
| Payable for acquisitions of a subsidiary | **300,000** | 300,000 |
| Payable for research and development expenses | **79,285** | 71,377 |
| Deposit payables | **361,845** | 356,648 |
| Accrued reimbursement to distributors | **375,884** | 527,179 |
| Salaries payable | **66,635** | 91,603 |
| Interest payables | **10,901** | 9,921 |
| Dividends payable | **364** | 353 |
| Notes payable | **5,000** | – |
| Other payables | **152,825** | 182,616 |
| | **1,694,227** | 1,926,944 |

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

| | As at | |
|---|---|---|
| | **30 June 2023** | 31 December 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Within 6 months | **160,298** | 165,760 |
| 6 months to 1 year | **10,573** | 24,166 |
| More than 1 year | **10,611** | 15,856 |
| | **181,482** | 205,782 |

## 14. DIVIDENDS

Dividends approved and paid to owners of the Company during the period:

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Final 2022 dividend: RMB3.2 cents (2022: Final dividend for 2021 of RMB1.3 cents) per ordinary share | **298,560** | 121,290 |
| Special cash dividend: nil (2022: Special cash dividend for 2021 of RMB9.5 cents) per ordinary share | **–** | 886,350 |
| | **298,560** | 1,007,640 |

Dividends proposed by the Company for the period:

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Interim cash dividend for 2023: Nil (2022: Interim cash dividend for 2022 of RMB0.1 cent) per ordinary share | **–** | 9,330 |
| Special cash dividend: Nil (2022: Special cash dividend of RMB3.2 cents) per ordinary share | **–** | 298,560 |
| | **–** | 307,890 |

A final cash dividend of RMB3.2 cents per ordinary share for the year ended 31 December 2022 amounting to RMB298,560,000 was approved by the shareholders at the annual general meeting of the Company held on 2 June 2023. The approved dividend has been fully paid as at 19 June 2023.

Up to the date of the approval of the unaudited interim condensed consolidated financial information, no interim dividend for 2023 has been declared and paid by the Company for the six months ended 30 June 2023 (six months ended 30 June 2022: interim cash dividend of RMB0.1 cent per ordinary share and special cash dividend of RMB3.2 cents per ordinary share, amounting to a total of approximately RMB307,890,000).

## 15. SHARE-BASED PAYMENTS

### (a) Share Incentive Scheme of Sihuan Pharmaceutical Holdings Group Ltd.

The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Share Option Scheme became effective on 24 October 2017 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares of the Company to be issued upon exercise of all options which may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the shares in issue as at the any time. The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme shall not exceed 30% of the Shares in issue at the any time. The maximum number of Shares issued and to be issued upon exercise of the options granted to any one Eligible Person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the shares in issue at the any time.

On 26 August 2020, the Company granted a total of 94,656,000 share options to the eligible participants of the Company to subscribe for a total of 94,656,000 ordinary shares of HK$0.01 each in the share capital of the Company pursuant to the share option scheme of the Company adopted on 24 October 2017. Share options granted under the Share Option Scheme would be subject to certain vesting conditions (if any) and vested in tranches of 33.33% (one-third) each on each anniversary date following the date of grant for three years. Subject to the satisfaction of certain performance appraisal conditions and certain performance targets (if any), share options could be exercised in three-year installments and until the expiry of share options.

On 1 September 2021, the Company granted a total of 7,500,000 share options to the eligible participants of the Company to subscribe for a total of 7,500,000 ordinary shares of HK$0.01 each in the share capital of the Company pursuant to the share option scheme of the Company adopted on 24 October 2017. Share options granted under the Share Option Scheme would be subject to certain vesting conditions (if any) and vested in tranches of 33.33% (one-third) each on each anniversary date following the date of grant for three years. Subject to the satisfaction of certain performance appraisal conditions and certain performance targets (if any), share options could be exercised in three-year installments and until the expiry of share options.

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

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

| Grant date | Exercise price in HK$ per share | Number of options granted '000 |
|---|---|---|
| 26 August 2020 | **0.97** | **94,656** |
| 1 September 2021 | **2.20** | **7,500** |
| | | **102,156** |

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

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$ per share** | **Number of options '000** | Weighted average exercise price HK$ per share | Number of options '000 |
| At 1 January | **1.08** | **83,876** | 1.07 | 98,776 |
| Forfeited during the period | **0.97** | **(2,000)** | 0.97 | (4,900) |
| At 30 June | **1.08** | **81,876** | 1.08 | 93,876 |

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

| **Expiry date** | **Exercise price HK$ per share** | **Number of options** *'000* | | **Number of outstanding vested and exercisable options** *'000* | |
|---|---|---|---|---|---|
| | | **2023** | 2022 | **2023** | 2022 |
| 25 August 2030 | 0.97 | **74,376** | 86,376 | **63,496** | 46,704 |
| 1 September 2031 | 2.20 | **7,500** | 7,500 | **–** | – |
| | | **81,876** | 93,876 | **63,496** | 46,704 |

Out of the 81,876,000 (30 June 2022: 93,876,000) outstanding options, 63,496,000 (30 June 2022: 46,704,000) options were exercisable at 30 June 2023.

For the six months ended 30 June 2023, total expenses amounting to RMB788,000 (six months ended 30 June 2022: RMB6,187,000) were charged to the interim condensed consolidated statement of profit or loss and other comprehensive income for share options granted to employees with a corresponding change in equity.

At the end of the period, the Company had 81,876,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 81,876,000 additional ordinary shares of the Company and additional share capital of HK$819,000 (equivalent to RMB742,000) (before issue expenses).

**(b) Share Incentive Schemes of Xuanzhu Biopharmaceutical Technology Co., Ltd.**

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

On 10 September 2021, the board meeting of Xuanzhu passed resolutions to adopt an employee share award plan ("**Xuanzhu 2021 Share Incentive Scheme**"), pursuant to which:

1) 49,642,300 restricted shares of Xuanzhu were approved for eligible employees to subscribe at the price of RMB1.2343 per share with a contractual term of three years;

2) the 29,900,000 shares of Xuanzhu, which were granted to executives under the Xuanzhu 2020 Share Incentive Scheme, were replaced by a new contractual term of three years and an exercise price of RMB0.263 per restricted share;

3) the 44,045,000 restricted shares of Xuanzhu, which were approved to eligible employees to subscribe under the Xuanzhu 2020 Share Incentive Scheme, were modified with an exercise price of RMB0.263 per share; and

4) 46,888,350 restricted shares of Xuanzhu were approved for eligible employees to subscribe at the price of RMB0.263 per share with a contractual term of three years.

On 31 March 2022, Xuanzhu granted 2,733,880 and 124,120 restricted shares of Xuanzhu to eligible employees at the price of RMB0.263 and RMB1.2343 per share respectively with a contractual term of three years.

On 21 July 2022 and 30 November 2022, Xuanzhu granted 933,104 and 5,037,630 restricted shares of Xuanzhu, respectively, to eligible employees at the price of RMB0.263 per share with a contractual term of three years.

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

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Weighted average subscription price RMB per share** | **Number of shares '000** | Weighted average subscription price RMB per share | Number of shares '000 |
| At 1 January | **0.921** | **163,251** | 0.938 | 169,887 |
| Granted during the period | **–** | **–** | 0.305 | 2,858 |
| Forfeited during the period | **1.045** | **(814)** | 0.776 | (2,271) |
| At 30 June | **0.920** | **162,437** | 0.930 | 170,474 |

For the six months ended 30 June 2023, 814,000 shares (six months ended 30 June 2022: 2,271,000) have been forfeited.

For the six months ended 30 June 2023, the Group has recorded share-based compensation expenses of RMB49,104,000 (six months ended 30 June 2022: RMB37,428,000) in relation to the share incentive schemes of Xuanzhu.

**(c) Share Incentive Scheme of Huisheng Biopharmaceutical Co., Ltd.**

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

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

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Weighted average subscription price RMB per share** | **Number of shares '000** | Weighted average subscription price RMB per share | Number of shares '000 |
| At 1 January | **1.33** | **22,715** | 1.33 | 24,395 |
| Forfeited during the period | **1.33** | **(360)** | 1.33 | (210) |
| At 30 June | **1.33** | **22,355** | 1.33 | 24,185 |

For the six months ended 30 June 2023, 360,000 (six months ended 30 June 2022: 210,000) shares have been forfeited.

For the six months ended 30 June 2023, the Group has recorded share-based compensation expenses of RMB5,989,000 (six months ended 30 June 2022: RMB7,153,000) in relation to the Huisheng Biopharm Share Incentive Scheme.

**(d) Share Incentive Scheme of Beijing MeiYan Space Biomedical Co., Ltd.**

On 1 July 2022, the board meeting of Beijing MeiYan Space Biomedical Co., Ltd. ("**Beijing MeiYan**") (a subsidiary of the Group) passed a resolution to adopt an employee share award plan ("**Beijing MeiYan Share Incentive Scheme**") and 9,421,690 restricted shares of Beijing MeiYan were approved for eligible employees to subscribe at the price of RMB2.20 per share. These restricted shares have a contractual term of three to four years.

The following share awards were outstanding under the Beijing MeiYan Share Incentive Scheme during the period:

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Weighted average subscription price RMB per share** | **Number of shares '000** | Weighted average subscription price RMB per share | Number of shares '000 |
| At 1 January | **2.20** | **9,422** | – | – |
| Granted during the period | **2.20** | **29** | – | – |
| Forfeited during the period | **2.20** | **(29)** | – | – |
| At 30 June | **2.20** | **9,422** | – | – |

For the six months ended 30 June 2023, the Group has recorded share-based compensation expenses of RMB3,840,000 (six months ended 30 June 2022: nil) in relation to the Beijing MeiYan Share Incentive Scheme.

## 16. CASH GENERATED FROM OPERATIONS

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| (Loss)/profit before tax | **(33,054)** | 56,042 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **98,339** | 143,983 |
| Depreciation of investment properties | **3,347** | 3,211 |
| Depreciation of right-of-use assets | **13,911** | 15,729 |
| Amortisation of intangible assets | **6,730** | 16,099 |
| Write-down of inventories to net realisable value | **2,144** | 10,729 |
| (Reversal of impairment)/impairment losses of trade and other receivables | **(10,061)** | 42,745 |
| Impairment of property, plant and equipment | **–** | 98,097 |
| Special reserve for maintenance and production funds | **–** | 5,006 |
| Share of profits and losses of investments accounted for using the equity method | **45,672** | 47,733 |
| Gain on deemed dilution | **(7,910)** | (6,452) |
| Loss on disposal of property, plant and equipment | **922** | 808 |
| Loss on disposal of intangible assets | **–** | 1,163 |
| Loss/(gain) on disposal of right-of-use assets | **54** | (24) |
| Loss/(gain) on disposals of a subsidiary | **558** | (211,592) |
| (Gain)/loss on changes in fair value of financial assets at FVPL | **(1,339)** | 21,339 |
| Share-based payments | **59,721** | 50,768 |
| Interest expense | **133,542** | 99,400 |
| Interest income | **(54,725)** | (49,320) |
| Operating cash flows before working capital changes | **257,851** | 345,464 |
| Changes in operating assets and liabilities: | | |
| Inventories | **(10,957)** | 3,885 |
| Trade and other receivables | **5,096** | (340,270) |
| Trade and other payables | **(168,482)** | 481,980 |
| Contract liabilities | **(38,632)** | (87,997) |
| Cash generated from operations | **44,876** | 403,062 |

# Financial Review

## Revenue

Total revenue of the Group for the Period approximately RMB1,055.7 million (six months ended 30 June 2022: RMB1,464.2 million) representing a year-on-year decrease of approximately 27.9% (approximately RMB408.5 million). Among which, the revenue from medical aesthetic products amounted to RMB194.0 million (six months ended 30 June 2022: RMB98.6 million), representing a year-on-year increase of approximately 96.8% (approximately RMB95.4 million), mainly due to that with the full liberalization of domestic epidemic control and the gradual recovery of consumer demand, the Group's medical aesthetics platform MeiYan Space has successfully upgraded and developed through its 3.0 version of sales reform and achieved stage-by-stage success, achieving a significant rebound of sales revenue in its medical aesthetics business. Revenue from sales of generic medicine amounted to approximately RMB845.7 million (six months ended 30 June 2022: RMB1,233.0 million), representing a year-on-year decrease of approximately 31.4% (approximately RMB387.3 million), mainly attributed to the impact of the price reduction as a result of centralized procurement and the decline in prices and sales volumes of certain generic medicines as a result of certain products being newly included in the key monitoring catalogue. In addition, revenue from innovative medicine and other medicine amounted to approximately RMB16.0 million (six months ended 30 June 2022: RMB132.6 million), representing a year-on-year decrease of 87.9% (approximately RMB116.6 million), mainly attributed to the disposal of certain API companies (including Jilin Jiahui Chemical Co., Ltd.) of the Group at the end of 2022, which resulted in a corresponding year-on-year decrease in the revenue from the API segment.

## Cost of sales

Cost of sales of the Group for the Period amounted to approximately RMB308.0 million (six months ended 30 June 2022: RMB460.5 million), representing a year-on-year decrease of 33.1%, which was mainly due to the decrease in revenue from sales of generic medicine for the Period.

## Gross profit

Gross profit for the Period amounted to approximately RMB747.7 million (six months ended 30 June 2022: RMB1,003.7 million), representing a year-on-year decrease of approximately 25.5% (approximately RMB256.0 million), mainly due to the decrease in overall revenue for the Period. Overall gross profit margin was 70.8%, representing a year-on-year increase of 2.3% as compared to 68.5% for the same period in the last year, which was attributable to a significant decrease in the proportion of sales of API with low gross profit margin and a significant year-on-year increase in the proportion of sales of certain generic medicine products with high gross margin. Among which, the gross profit margin of medical aesthetic products decreased from 77.9% for the same period in the last year to 69.7% for the Period, which was due to the impact of stepping up marketing for product brand as MeiYan Space aimed to accelerate the growth of product sales and increase its market share. The gross profit margin of generic medicine decreased from 75.3% for the same period in the last year to 71.6% for the Period, mainly attributed to the impact of industry policies such as centralized procurement policy.

**Other gains – net**

Other gains – net for the Period amounted to approximately RMB35.1 million (six months ended 30 June 2022: RMB234.3 million), representing a year-on-year decrease of 85.0% (approximately RMB199.2 million). It was mainly due to the fact that a one-off gain on disposal of subsidiaries was recognised in the same period of last year, which was absent in this period.

**Impairment losses on non-current assets**

There was no provision for impairment of non-current assets during the Period (six months ended 30 June 2022: RMB98.1 million), representing a year-on-year decrease of 100% (approximately RMB98.1 million).

**Distribution expenses**

Distribution expenses for the Period amounted to approximately RMB212.5 million (six months ended 30 June 2022: RMB229.6 million), representing a year-on-year decrease of 7.4% (approximately RMB17.1 million), mainly due to the significant decrease in revenue for the Period and the fact that partial costs of marketing activities did not decrease in line with the decrease in revenue, resulting in a lower proportional decrease in distribution expenses than the decrease in revenue for the Period.

**Administrative expenses**

Administrative expenses was approximately RMB212.2 million (six months ended 30 June 2022: RMB320.3 million), representing a year-on-year decrease of 33.7% (approximately RMB108.1 million), mainly because the Group proactively adopted various cost reduction and efficiency enhancement initiatives during the Period, thereby reducing partial administrative expenses.

**R&D expenses**

R&D expenses for the Period amounted to approximately RMB294.0 million (six months ended 30 June 2022: RMB457.3 million), representing a year-on-year decrease of 35.7% (approximately RMB163.3 million), mainly due to the completion of Phase III clinical trials of Group's certain self-developed products (including the innovative medicine, biologicals, and the generic medicine). These products are expected to be approved for marketing by the end of 2023 while a number of research and development projects of Huisheng Biopharm, a subsidiary of the Group, have been completed and filed for production.

**Other expenses**

Other expenses for the Period amounted to approximately RMB11.9 million (six months ended 30 June 2022: RMB11.1 million), which represented a year-on-year increase of 7.2% (approximately RMB0.8 million).

**Finance expenses**

Finance expenses for the Period amounted to approximately RMB133.5 million (six months ended 30 June 2022: RMB99.4 million), which represented a year-on-year increase of 34.3% (approximately RMB34.1 million). Among which, interest expense on redemption liabilities of shares of its subsidiaries amounted to approximately RMB103.7 million (six months ended 30 June 2022: RMB72.6 million). Such interest expense on redemption liabilities was mainly due to interest costs of the repurchase rights resulted from the equity financing and spin-off listing of innovative drug subsidiaries of the Group, which represented a year-on-year increase of 42.8% (approximately RMB31.1 million). Such increase was mainly due to interests on the new repurchase rights upon the successive completion of equity financing amounting to RMB1,008 million of Huisheng Biopharm, a subsidiary of the Group since last year.

**Loss before tax**

Taking into account all the above reasons, the loss before tax of the Group for the Period amounted to approximately RMB33.1 million (six months ended 30 June 2022: profit of RMB56.0 million).

**Income tax expense**

Income tax expense of the Group for the Period amounted to approximately RMB85.9 million (six months ended 30 June 2022: RMB151.9 million), representing a year-on-year decrease of 43.4% (approximately RMB66.0 million). Despite the consolidated financial results on the interim condensed consolidated financial information showing a loss for the period, certain generic medicine subsidiaries and medical aesthetic segments of the Group were still profitable under the PRC statutory regime as such subsidiaries had profit.

**Loss for the Period**

Taking into account all the above reasons, the Group's loss for the Period amounted to approximately RMB118.9 million (six months ended 30 June 2022: loss of RMB95.9 million), representing a year-on-year increase of 24.0% (approximately RMB23.0 million). It was primarily attributable to the combined effect of the Group's increasingly considerable R&D investment every year with its persistence in the innovative transformation and development towards medical aesthetics and innovative biopharmaceutical businesses in recent years, and the year-on-year decline in revenue and profit from the generic medicine segment due to changes in industry policies.

**Loss attributable to owners of the Company**

Loss attributable to owners of the Company for the Period amounted to approximately RMB49.6 million (six months ended 30 June 2022: profit of RMB40.4 million), representing a year-on-year decrease of 222.8% in profit (approximately RMB90.0 million). The decrease was mainly attributable to the fact that the loss shown in the Group's interim condensed consolidated financial information was attributable to the increasingly considerable R&D investment and loss incurred for the period by the innovative drug business segment of the Group (mainly Xuanzhu Biopharm and Huisheng Biopharm). As the proportion of the Group's equity interests in the companies under the innovative drug business segment gradually decreased due to equity financing or spin-off and listing, the loss attributable to owners of the Company should also decrease accordingly.

**Loss attributable to non-controlling interests**

Loss attributable to non-controlling interests for the Period amounted to approximately RMB69.3 million (six months ended 30 June 2022: RMB136.3 million), representing a decrease of 49.2% or approximately RMB67.0 million year-on-year. The decrease was mainly attributable to the significant year-on-year decrease in loss of the Group's innovative drug business segment during the Period, which incurred by considerable R&D expenditure.

**Liquidity and financial resources**

The Group maintained strong financial position. During the Period, net cash flows from operating activities amounted to approximately RMB28.3 million and the 2022 final dividends of approximately RMB298.6 million were paid to shareholders of the Company. As at 30 June 2023, the Group's cash and cash equivalents and wealth management products amounted to approximately RMB4,510.0 million in aggregate, of which, cash and cash equivalents amounted to approximately RMB3,734.0 million (31 December 2022: RMB3,828.9 million). In addition, wealth management products recognized in the consolidated statement of financial position amounted to approximately RMB776.0 million.

In general, the Group places its excess cash into interest-bearing bank accounts. The Group may use extra cash for short-term investments for higher returns. Thus, the Group has entered into agreements with certain banks for surplus cash investment. According to the terms of the agreements signed, the total amount of investment conducted by the Group for the Period was approximately RMB878.0 million. The investments made by the Group were short-term in nature and mainly consisted of financial planning products purchased from certain state-owned banks. At their discretion, issuing banks for the above-mentioned financial planning products may invest in financial instruments such as government bonds, discounted bank acceptance bills and commercial acceptance bills and bank deposits. As the highest applicable percentage ratio in respect of the investments in each bank (after aggregation according to rules 14.22 and 14.23 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange) separately is less than 5% as at the time of the investments according to Rule 14.07 of the Listing Rules, such investments did not constitute notifiable transactions under Chapter 14 of the Listing Rules.

As at the same date, bank borrowings of the Group amounted to approximately RMB1,273.4 million (31 December 2022: RMB1,135.5 million) and other borrowings amounted to approximately RMB48.4 million (31 December 2022: RMB54.2 million). Approximately 60% of total amount of borrowings were at floating rates and the remaining 40% were at fixed rates (31 December 2022: 73% floating; 27% fixed). The Group's bank borrowings-to-equity ratio, expressed as a percentage of bank borrowings over equity attributable to owners of the Company, was 28.9%.

The Group had sufficient cash as at 30 June 2023. The Directors are of the opinion that the Group does not have any significant capital risk.

| | As at | |
|---|---|---|
| | **30 June 2023** | 31 December 2022 |
| | ***RMB'000*** | *RMB'000* |
| Cash and cash equivalents | **3,734,032** | 3,828,863 |

**Inventories**

As at 30 June 2023, inventories amounted to approximately RMB615.3 million (31 December 2022: RMB606.7 million), representing an increase of 1.4% (approximately RMB8.6 million). The inventory turnover period for the Period was 357 days (six months ended 30 June 2022: 277 days). The increase in the inventory turnover period was mainly due to the decrease in cost was greater than the change in inventory balance as the cost of goods sold decreased by approximately 33.1% during the Period but the average inventory balance decreased by only 13.7%.

**Trade and other receivables**

The Group's trade receivables and notes receivable include credit sales of its products to be paid by its distributors. Other receivables of the Group mainly consist of prepayments to suppliers and deposits. As at 30 June 2023, the Group's trade and other receivables were approximately RMB1,239.4 million (31 December 2022: RMB1,118.6 million), representing an increase of 10.8% or approximately RMB120.8 million. Among which, trade receivables and notes receivable were approximately RMB482.0 million (31 December 2022: RMB522.2 million), representing a decrease of 7.7% or approximately RMB40.2 million, which was mainly attributable to the corresponding decrease in trade receivables as a result of decreased revenue during the Period.

**Property, plant and equipment**

The Group's property, plant and equipment include buildings, production and electronic equipment, vehicles and construction in progress. As at 30 June 2023, the net book value of the property, plant and equipment was approximately RMB2,230.4 million (31 December 2022: RMB2,301.0 million), representing a decrease of 3.1% or approximately RMB70.6 million. For details, please refer to note 8 to the financial information.

**Intangible assets**

The Group's intangible assets mainly comprise customer relationships, deferred development costs, product development in progress and trademark and software. The deferred development costs and product development in progress mainly related to the acquisition of several drug R&D projects and self-development of R&D projects. As at 30 June 2023, net intangible assets amounted to approximately RMB699.1 million (31 December 2022: RMB626.5 million), representing an increase of 11.6% or approximately RMB72.6 million. It was mainly due to the completion of phase III clinical trials for the Group's certain self-developed products and their entry into the capitalisation stage, resulting in an increase in the original cost of intangible assets.

**Trade and other payables**

The Group's trade and other payables mainly comprise trade payables, notes payable, deposit payables, accrued expenses and others. As at 30 June 2023, trade and other payables amounted to approximately RMB1,694.2 million (31 December 2022: RMB1,926.9 million), representing a decrease of 12.1% or approximately RMB232.7 million. Among them, trade and notes payable amounted to approximately RMB186.5 million (31 December 2022: RMB205.8 million), representing a decrease of 9.4% or approximately RMB19.3 million. It was mainly due to the decrease in purchase volume as purchase costs declined due to lower revenue during the period, which resulted in a corresponding decrease in trade payables.

**Contingent liabilities**

As at 30 June 2023, the Group had no material contingent liabilities (31 December 2022: Nil).

**Off-balance sheet commitments and arrangements**

As at 30 June 2023, the Group had neither entered into any off-balance sheet arrangements nor commitments to provide guarantees for any payment obligations of any third party. The Group did not have any variable interests in any unconsolidated entities which provide financing or liquidity funding, or generate market risk or provide credit support, or engage in the provision of leasing or hedging or R&D services to the Group.

**Capital commitment**

As at 30 June 2023, the Group's total capital commitment was approximately RMB295.2 million. It was mainly set aside for purchase of property, plant and equipment and intangible assets.

**Credit risk**

Credit risk arises from cash and cash equivalents, trade receivables, notes receivable, wealth management products and other receivables.

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

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

Wealth management products are the bank financial products issued by certain PRC reputable banking institutions. There was no recent history of default and the executive directors of the board of the Company are of the opinion that the credit risk related to the investments is low.

In relation to other receivables, the credit quality of the debtors is assessed by taking into account their financial position, relationship with the Group, credit history and other factors. Management will also regularly review the recoverability of these other receivables and follow up on the disputes or amounts overdue, if any. The executive Directors are of the opinion that the default by counterparties is likely to be low.

No other financial assets bear a significant exposure to credit risk.

**Foreign exchange risk**

The Group's functional currency is RMB and financial instruments are mainly denominated in RMB. The Group has some cash balances mainly denominated in United States Dollar ("**USD**") and Hong Kong dollar ("**HK$**"). It is expected that any fluctuation of these foreign currencies' exchange rates would not have material effect on the operation of the Group. In addition, dividend payment in foreign currencies converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government. The Group would closely monitor such exchange risk from time to time.

During the Period, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

**Treasury policy**

The Group finances its ordinary operations mainly with internally generated resources. The principal objective of the Group's capital management is to maintain its ability to operate on a continuous basis. The Group regularly reviews its capital structure to ensure that the Group has sufficient financial resources to support its business operations.

**Capital expenditure**

The Group's capital expenditure mainly includes purchase of property, plant and equipment, prepaid land lease payments and intangible assets. During the Period, the Group's capital expenditure amounted to approximately RMB153.2 million, of which approximately RMB73.8 million and RMB79.4 million were spent on purchase of property, plant and equipment and purchase of or self-development of intangible assets, respectively.

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

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

**Pledge of assets**

As at 30 June 2023, the Group had pledged certain assets to secure banking facilities granted to subsidiaries. For details, please refer to note 12 to the financial information.

**Events after the reporting period**

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

**Human resources and remuneration of employees**

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

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

As at 30 June 2023, the Group had 3,241 employees. During the Period, the Group's total salary and related costs were approximately RMB320.5 million (six months ended 30 June 2022: RMB378.2 million), including bonus and non-cash share-based payments of approximately RMB20.8 million and RMB59.7 million (six months ended 30 June 2022: RMB14.2 million and RMB50.8 million). Salary for employees was determined based on their job nature, personal performance and the market trends. The Group provides basic social insurance and housing accumulation fund for company employees as required by the PRC law.

## CORPORATE GOVERNANCE CODE

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

The Company has complied with all the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the Period.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## AUDIT COMMITTEE

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

## REVIEW OF ACCOUNTS

Messrs. Ernst & Young, the Company's external auditors, have reviewed the Company's interim financial information for the six months ended 30 June 2023 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2023.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period (six months ended 30 June 2022: interim cash dividend of RMB0.1 cent per share and special cash dividend of RMB3.2 cents per share).

## PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

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

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

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

Hong Kong, 29 August 2023

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