东陽光药

YiChang HEC ChangJiang Pharmaceutical Co., Ltd.
宜昌東陽光長江藥業股份有限公司

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

(Stock Code: 01558)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2023:

- Revenue was RMB3,209.0 million, representing an increase of 148.1% as compared with the six months ended 30 June 2022.
- Gross profit was RMB2,563.9 million, representing an increase of 166.9% as compared with the six months ended 30 June 2022.
- Profit before interest, tax, depreciation and amortisation was RMB1,591.0 million, representing an increase of RMB1,316.4 million as compared to profit before interest, tax, depreciation and amortisation of RMB274.7 million for the six months ended 30 June 2022.
- Profit and total comprehensive income attributable to equity shareholders of the Company was RMB1,029.5 million, representing an increase of RMB1,062.3 million as compared to the loss and total comprehensive income attributable to equity shareholders of the Company of RMB32.8 million for the six months ended 30 June 2022.
- Both basic and diluted earnings per share were RMB1.17.

INTERIM DIVIDEND

- The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

RESULTS HIGHLIGHTS

The board (the "**Board**") of directors (the "**Director(s)**") of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "**Group**" or "**we**" or "**our**") for the six months ended 30 June 2023 (the "**Reporting Period**"), together with the comparative figures for the corresponding period of 2022. The results have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2023 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
	Note	**2023**	2022
		RMB'000	*RMB'000*
Revenue	*3*	**3,209,002**	1,293,308
Cost of sales		**(645,065)**	(332,651)
Gross profit		**2,563,937**	960,657
Other net expenses	*5(a)*	**(140,217)**	(141,706)
Distribution costs		**(755,504)**	(533,105)
Administrative expenses		**(172,107)**	(149,672)
Research and development cost		**(98,264)**	(40,906)
Reversals of impairment losses on trade and other receivables		**276**	5,343
Profit from operations		**1,398,121**	100,611
Finance costs	*5(b)*	**(136,268)**	(137,013)
Profit/(loss) before taxation	*5*	**1,261,853**	(36,402)
Income tax	*6*	**(237,929)**	3,940
Profit/(loss) for the period		**1,023,924**	(32,462)
Profit/(loss) and total comprehensive income for the period attributable to:			
Equity shareholders of the Company		**1,029,495**	(32,798)
Non-controlling interests		**(5,571)**	336
Profit/(loss) and total comprehensive income for the period		**1,023,924**	(32,462)
Basic and diluted earnings/(loss) per share	*7*	**RMB1.17**	RMB(0.04)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2023 — unaudited

(Expressed in Renminbi)

	Note	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment	8	**3,215,798**	3,169,613
— Ownership interests in leasehold land held for own use	8	**344,854**	349,152
		3,560,652	3,518,765
Intangible assets	9	**2,915,534**	2,920,646
Financial assets measured at fair value through profit or loss ("**FVPL**")	10	**12,345**	–
Prepayments	11	**221,689**	295,760
Deferred tax assets		**120,066**	140,609
Total non-current assets		**6,830,286**	6,875,780
Current assets			
Inventories	12	**353,545**	315,027
Trade and other receivables	13	**1,145,400**	1,036,916
Prepayments		**68,865**	59,433
Financial assets measured at FVPL	10	**19,118**	290,000
Non-current assets held for sale	14	**–**	2,312,320
Restricted cash	15	**1,245,373**	76,781
Cash and cash equivalents	15	**3,781,609**	923,543
Total current assets		**6,613,910**	5,014,020
Current liabilities			
Trade and other payables	16	**1,509,359**	1,718,222
Contract liabilities		**43,239**	75,386
Bank loans and other borrowings	17	**2,003,283**	223,343
Interesting-bearing borrowings	18	**1,969,303**	2,906,963
Deferred income		**8,195**	8,195
Current taxation		**124,417**	8,672
Total current liabilities		**5,657,796**	4,940,781

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
at 30 June 2023 — unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2023** *RMB'000*	At 31 December 2022 *RMB'000*
Net current assets		**956,114**	73,239
Total assets less current liabilities		**7,786,400**	6,949,019
Non-current liabilities			
Bank loans and other borrowings	*17*	**507,083**	691,529
Deferred income		**185,392**	187,489
Total non-current liabilities		**692,475**	879,018
Net assets		**7,093,925**	6,070,001
Capital and reserves	*19*		
Share capital		**879,968**	879,968
Reserves		**6,034,411**	5,004,916
Total equity attributable to equity shareholders of the Company		**6,914,379**	5,884,884
Non-controlling interests		**179,546**	185,117
Total equity		**7,093,925**	6,070,001

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2023 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share capital *RMB'000*	**Capital reserve** *RMB'000*	**Statutory reserve** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2022	879,968	2,610,409	328,696	1,989,208	5,808,281	212,481	6,020,762
Change in equity for the six months ended 30 June 2022:							
(Loss)/profit and total comprehensive income for the period	–	–	–	(32,798)	(32,798)	336	(32,462)
Balance at 30 June 2022 and 1 July 2022	879,968	2,610,409	328,696	1,956,410	5,775,483	212,817	5,988,300
Change in equity for the six months ended 31 December 2022:							
Profit/(loss) and total comprehensive income for the period	–	–	–	109,401	109,401	(27,700)	81,701
Balance at 31 December 2022	879,968	2,610,409	328,696	2,065,811	5,884,884	185,117	6,070,001
Balance at 1 January 2023	**879,968**	**2,610,409**	**328,696**	**2,065,811**	**5,884,884**	**185,117**	**6,070,001**
Change in equity for the six months ended 30 June 2023:							
Profit/(loss) and total comprehensive income for the period	**–**	**–**	**–**	**1,029,495**	**1,029,495**	**(5,571)**	**1,023,924**
Balance at 30 June 2023	**879,968**	**2,610,409**	**328,696**	**3,095,306**	**6,914,379**	**179,546**	**7,093,925**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 June 2023 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Operating activities		
Cash generated from operations	**1,346,755**	407,693
The People's Republic of China (the "**PRC**") corporate income tax paid	**(101,956)**	(255,266)
Net cash generated from operating activities	**1,244,799**	152,427
Investing activities		
Interest received	**31,062**	3,174
Proceeds from disposal of unlisted equity securities	**2,312,320**	–
Proceeds from disposal of a trust investment scheme	**294,645**	–
Payments for purchase of listed equity securities	**(15,200)**	–
Payments for purchase of property, plant and equipment	**(215,586)**	(289,646)
Payments for development cost	**(20,547)**	(37,080)
Payments for purchase of intangible assets	**(301)**	(100,167)
Increase in restricted cash	**(1,168,592)**	(54,152)
Proceeds from disposal of property, plant and equipment	**–**	942
Net cash generated from/(used in) investing activities	**1,217,801**	(476,929)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT *(continued)*
for the six months ended 30 June 2023 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Financing activities		
Proceeds from bank loans	**1,533,488**	260,765
Proceeds from borrowings under sale and leaseback transactions	**150,000**	–
Repayments of bank loans	**(22,200)**	(115,075)
Payments for capital element of obligations arising from sale and leaseback transactions	**(75,000)**	–
Repurchase of convertible bonds	**(1,104,886)**	–
Interest paid	**(75,089)**	(54,964)
Other borrowing costs paid	**(3,323)**	(38,060)
Deposits paid for sale and leaseback transactions	**(7,500)**	–
Net cash generated from financing activities	**395,490**	52,666
Net increase/(decrease) in cash and cash equivalents	**2,858,090**	(271,836)
Cash and cash equivalents at 1 January	**923,543**	1,131,121
Effect of foreign exchange rate changes	**(24)**	(188)
Cash and cash equivalents at 30 June	**3,781,609**	859,097

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"), including compliance with International Accounting Standard ("**IAS**") 34, *Interim Financial Reporting*, issued by the International Accounting Standard Board ("**IASB**"). It was authorised for issue on 31 August 2023.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

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

2 CHANGES IN ACCOUNTING POLICIES

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

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, Income taxes: *Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform — Pillar Two model rules*

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

3 REVENUE AND SEGMENT REPORTING

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

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

Disaggregation of revenue

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15		
Sales of anti-viral drugs	**2,911,437**	1,012,403
Sales of endocrine and metabolic drugs	**60,486**	42,469
Sales of cardiovascular drugs	**83,847**	76,327
Sales of anti-infective drugs	**55,006**	41,714
Sales of other medical products and license fee	**98,226**	120,395
	3,209,002	1,293,308

Analysis of the Group's revenue and results by geographical market has not been presented as 100% (the six months ended 30 June 2022: 100%) of the revenue are generated from the Chinese Mainland.

4 SEASONALITY OF OPERATIONS

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

For the twelve months ended 30 June 2023, the Group reported revenue of RMB5,660,646,000 (twelve months ended 30 June 2022: RMB2,004,850,000), and gross profit of RMB4,449,354,000 (twelve months ended 30 June 2022: RMB1,343,568,000).

5 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Other net expenses

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Interest income	**(29,484)**	(3,174)
Government grants	**(5,984)**	(9,250)
Net loss on disposal of fixed assets	**339**	353
Fair value change on derivative financial instruments embedded in convertible bonds *(Note 18)*	**73,309**	8,522
Fair value change on listed equity securities *(Note 10)*	**2,855**	–
Fair Value change on foreign currency option contracts *(Note 10)*	**(19,118)**	–
Investment income from a trust investment scheme *(Note 10)*	**(4,645)**	–
Impairment loss on intangible assets *(Note 9)*	**64,876**	19,177
Net foreign exchange loss	**58,102**	126,149
Others	**(33)**	(71)
	140,217	141,706

(b) Finance costs

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Interest and other borrowing costs	**49,813**	17,974
Interest on convertible bonds *(Note 18)*	**89,620**	128,593
	139,433	146,567
Less: interest expense capitalised into construction in progress	**(3,165)**	(9,554)
	136,268	137,013

(c) Other items

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Amortisation cost of intangible assets *(Note 9)*	**107,657**	114,847
Less: amount capitalised as development costs in intangible assets	**–**	(13,490)
	107,657	101,357
Depreciation cost of fixed assets *(Note 8)*	**85,461**	73,609
Less: amount capitalised as development costs in intangible assets	**(211)**	(901)
	85,250	72,708
Write-down of inventories *(Note 12)*	**10,259**	22,980

6 INCOME TAX

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Current tax		
Provision for PRC corporate income tax for the period	**217,452**	31,270
(Over)/under-provision for PRC corporate income tax in respect of prior years	**(66)**	6,123
	217,386	37,393
Deferred tax		
Origination and reversal of temporary differences	**20,543**	(41,333)
	237,929	(3,940)

(i) The PRC corporate income tax rate is 25% for the six months ended 30 June 2023 and 2022.

(ii) The PRC Corporate Income Tax Law allows enterprises to apply for the certificate of "High and New Technology Enterprise" ("**HNTE**") which entitles the qualified companies to a preferential corporate income tax ("**CIT**") rate of 15%. The Company was recognised as HNTE and enjoyed a preferential CIT rate of 15% for the six months ended 30 June 2023 and 2022. The Company is applying for the extension of HNTE and the entitlement of the preferential income tax rate for 2023 to 2025. The directors of the Company are of the view that there is no significant difficulties to obtain the approval of the preferential income tax rate for 2023 to 2025.

7 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to equity shareholders of the Company of RMB1,029,495,000 (six months ended 30 June 2022: loss of RMB32,798,000) and the weighted average number of 879,967,700 ordinary shares (six months ended 30 June 2022: 879,967,700 ordinary shares) in issue during the six months ended 30 June 2023.

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share for the six months ended 30 June 2023 and 2022 were the same as the basic earnings/(loss) per share as the potential conversion of the convertible bonds had an anti-dilutive effect on the basic earnings/(loss) per share.

8 FIXED ASSETS

	Plant and buildings	Machinery	Office equipment and others	Motor vehicles	Construction in progress	Sub-total	Ownership interests in leasehold land held for own use	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:								
At 1 January 2022	1,575,687	752,732	349,126	2,264	567,944	3,247,753	395,748	3,643,501
Additions	9,490	4,964	5,468	–	434,616	454,538	–	454,538
Transfer from construction in progress	110,319	37,971	178,818	–	(327,108)	–	–	–
Disposals	–	(3,026)	(3,203)	–	–	(6,229)	–	(6,229)
At 31 December 2022	1,695,496	792,641	530,209	2,264	675,452	3,696,062	395,748	4,091,810
Additions	–	1,840	3,487	849	121,577	127,753	–	127,753
Transfer from construction in progress	8,650	1,810	9,956	1,536	(21,952)	–	–	–
Disposals	–	(798)	(1,013)	–	–	(1,811)	–	(1,811)
At 30 June 2023	1,704,146	795,493	542,639	4,649	775,077	3,822,004	395,748	4,217,752
Accumulated depreciation and amortisation:								
At 1 January 2022	(148,479)	(141,085)	(98,740)	(641)	–	(388,945)	(38,001)	(426,946)
Charge for the year	(51,779)	(49,022)	(40,943)	(215)	–	(141,959)	(8,595)	(150,554)
Written-back on disposals	–	1,986	2,469	–	–	4,455	–	4,455
At 31 December 2022	(200,258)	(188,121)	(137,214)	(856)	–	(526,449)	(46,596)	(573,045)
Charge for the period	(26,665)	(25,540)	(28,851)	(107)	–	(81,163)	(4,298)	(85,461)
Written-back on disposals	–	495	911	–	–	1,406	–	1,406
At 30 June 2023	(226,923)	(213,166)	(165,154)	(963)	–	(606,206)	(50,894)	(657,100)
Carrying amount:								
At 30 June 2023	1,477,223	582,327	377,485	3,686	775,077	3,215,798	344,854	3,560,652
At 31 December 2022	1,495,238	604,520	392,995	1,408	675,452	3,169,613	349,152	3,518,765

(i) As at 30 June 2023, the Group was applying for certificates of ownership for certain properties, with carrying value of RMB535,878,000 (31 December 2022: RMB544,900,000). The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

(ii) As at 30 June 2023, amount of RMB322,339,000 (31 December 2022: RMB159,322,000) of the ownership interests in leasehold land held for own use, amount of RMB578,590,000 (31 December 2022: RMB409,075,000) of construction in progress and amount of RMB678,864,000 (31 December 2022: RMB609,044,000) of plant and buildings were held in pledge for bank loans.

(iii) In 2022, the Group sold some of its machinery and equipment to external parties and leased them back for a term of 2 years. The Group determined the transfers to buyer-lessor were not considered as sales under IFRS15, thus the Group continues to recognise the underlying assets, and recognises financial liabilities for the considerations received. As at 30 June 2023, the carrying amounts of the plant and buildings and machinery pledged for the aforementioned sale and leaseback transactions were RMB302,160,000 (31 December 2022: RMB321,727,000) (Note 17(b)).

9 INTANGIBLE ASSETS

	Hepatitis C Drugs		Other Drugs			
	Patent	Capitalised development costs	Generic drug intellectual property rights	Insulin intellectual property rights	Capitalised development costs	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2022	848,021	174,015	1,469,757	150,963	1,027,331	3,670,087
Addition through internal development	–	497	–	–	69,125	69,622
Addition and transfer from prepayment	–	–	20,381	–	–	20,381
Transfer from development costs to patents	–	–	–	110,106	(110,106)	–
At 31 December 2022	848,021	174,512	1,490,138	261,069	986,350	3,760,090
Addition through internal development	–	–	–	–	22,444	22,444
Addition and transfer from prepayment	–	–	144,977	–	–	144,977
At 30 June 2023	848,021	174,512	1,635,115	261,069	1,008,794	3,927,511
Accumulated amortisation:						
At 1 January 2022	(169,782)	–	(192,879)	(9,452)	–	(372,113)
Charge for the year	(67,481)	–	(143,694)	(17,229)	–	(228,404)
At 31 December 2022	(237,263)	–	(336,573)	(26,681)	–	(600,517)
Charge for the period	(32,230)	–	(62,374)	(13,053)	–	(107,657)
At 30 June 2023	(269,493)	–	(398,947)	(39,734)	–	(708,174)
Impairment loss:						
At 1 January 2022	–	–	(25,984)	–	–	(25,984)
Recognised in the year	(20,399)	(22,599)	(169,945)	–	–	(212,943)
At 31 December 2022	(20,399)	(22,599)	(195,929)	–	–	(238,927)
Recognised in the period	–	–	(64,876)	–	–	(64,876)
At 30 June 2023	(20,399)	(22,599)	(260,805)	–	–	(303,803)
Net book value:						
At 30 June 2023	558,129	151,913	975,363	221,335	1,008,794	2,915,534
At 31 December 2022	590,359	151,913	957,636	234,388	986,350	2,920,646

(i) As at 30 June 2023, the capitalised development costs were under development and not yet ready for use.

(ii) In 2018 and 2019, the Company entered into two acquisition agreements with Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司, "**Sunshine Lake Pharma**"), which was a related party of the Group and has become the controlling shareholder of the Company since December 2021, to acquire 33 pharmaceutical products' know-how, intellectual property rights and ownership rights ("**Target Products**") from Sunshine Lake Pharma with a total consideration of RMB2,131,635,000, which comprised a prepayment of RMB1,065,817,000, serval milestone payments totalling RMB577,888,000 and contingent payments of RMB487,930,000 subject to the future sales of the Target Products.

As at 30 June 2023, the Company had made accumulated payments of RMB1,600,129,000 (31 December 2022: RMB1,599,828,000) to Sunshine Lake Pharma, in which RMB1,635,115,000 (31 December 2022: RMB1,490,138,000) was transferred to intangible assets after the China National Medical Products Administration ("**NMPA**") approvals for 31 (31 December 2022: 29) out of the Target Products has been obtained as at 30 June 2023.

(iii) Impairment review on the intangible assets of the Group has been conducted by the management as at 30 June 2023. As new market competitors were introduced, the estimated recoverable amount of 5 (six months ended 30 June 2022: 3) generic drugs, which were determined based on value-in-use calculations, were less than their carrying amount. The differences were approximately RMB64,876,000 (six months ended 30 June 2022: RMB19,177,000) in total based on the impairment evaluation result, which was recognised as impairment loss in the "other income and loss" in the consolidated statement of profit or loss and other comprehensive income.

10 FINANCIAL ASSETS MEASURED AT FVPL

	Note	**At 30 June 2023** *RMB'000*	At 31 December 2022 *RMB'000*
Non-Current			
— Investment in listed equity securities	*(i)*	**12,345**	–
Current			
— Investment in a trust investment scheme	*(ii)*	**–**	290,000
— Foreign currency option contracts	*(iii)*	**19,118**	–
		19,118	290,000

(i) The Group's investment in listed equity securities are shares in Beijing Sunho Pharmaceutical Co., Ltd., a company listed in Beijing Stock Exchange and engaged in manufacturing and sales of pharmaceutical products. The Group classified its investment in non-current financial assets measured at FVPL, as the investment is held for strategic purposes.

During the six months ended 30 June 2023, the net fair value loss in respect of the Group's investments in listed equity securities recognised in profit or loss amounted to RMB2,855,000 (six months ended 30 June 2022: nil).

(ii) On 27 December 2022, the Group invested in a trust investment scheme established and managed by a trust company as the trustee with the principal of RMB290,000,000. Pursuant to the agreement, the trust scheme is designated to make the majority of its investments in debt and equity securities, while the principal and return of the investment are not guaranteed.

In March 2023, the Group redeemed all investment in the trust scheme with the principal amount of RMB290,000,000 at a total consideration of RMB294,645,000.

(iii) The Group entered into foreign currency option contracts with banks to mitigate the currency risk arising from certain of its bank loans denominated in USD. All these option contracts are matured within one year.

During the six months ended 30 June 2023, the net fair value gain in respect of the Group's foreign currency option contracts recognised in profit or loss amounted to RMB 19,118,000 (six months ended 30 June 2022: nil).

11 PREPAYMENTS

	At 30 June 2023 *RMB'000*	At 31 December 2022 *RMB'000*
Prepayments for intangible assets	**–**	109,691
Prepayments for property, plant and equipment	**221,689**	186,069
	221,689	295,760

12 INVENTORIES

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Raw materials	**188,594**	215,311
Work in progress	**78,932**	55,006
Finished goods	**82,254**	40,445
Goods in transit	**3,765**	4,265
	353,545	315,027

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**535,315**	224,331
Write-down of inventories	**10,259**	23,560
Reversal of write-down of inventories	**–**	(580)
Cost of inventories sold	**545,574**	247,311

13 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2023 *RMB'000*	At 31 December 2022 *RMB'000*
Within 3 months	**991,730**	784,628
More than 3 months but within one year	**121,481**	221,137
More than 1 year	**16**	52
Trade and bills receivable, net of allowance for doubtful debts	**1,113,227**	1,005,817
Other receivables, net of allowance for doubtful debts	**3,543**	9,022
Prepaid tax and deductible value-added tax	**28,630**	22,077
Financial assets measured at amortised cost	**1,145,400**	1,036,916

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

Bills receivable with carrying value of RMB32,616,000 (31 December 2022: RMB38,370,000) were pledged as securities of issuing bills payables by the Group as at 30 June 2023.

14 NON-CURRENT ASSETS HELD FOR SALE

	At 30 June 2023 *RMB'000*	At 31 December 2022 *RMB'000*
Investments not held for trading		
— Unlisted equity securities	**–**	2,312,320

The unlisted equity securities are shares in Sunshine Lake Pharma.

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

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

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

On 27 June 2023, all conditions precedents under the Equity Transfer Agreement have been fulfilled, the Company received the consideration in full.

15 CASH AND CASH EQUIVALENTS

	At 30 June 2023	At 31 December 2022
	RMB'000	*RMB'000*
Cash on hand	**–**	6
Cash at bank	**5,026,982**	1,000,318
Less: restricted cash (i)	**(1,245,373)**	(76,781)
Cash and cash equivalents in the cash flow statement	**3,781,609**	923,543

(i) As at 30 June 2023, the balance mainly represented amount of RMB1,109,200,000 (31 December 2022: nil) of the restricted cash were held in pledge for bank loans (See note 17) .

16 TRADE AND OTHER PAYABLES

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

	At 30 June 2023	At 31 December 2022
	RMB'000	*RMB'000*
Within 1 month	**56,366**	72,397
1 to 3 months	**43,476**	54,071
Over 3 months but within 1 year	**81,356**	39,179
Over 1 year	**4,165**	1,740
Total trade and bills payables	**185,363**	167,387
Amounts due to related parties	**39,545**	13,409
Value added tax and other taxes payable	**44,592**	151,926
Accrued payroll and benefits	**77,955**	185,638
Accrued expenses	**779,141**	740,417
Accrued royalty fee	**255,730**	261,585
Other payables for purchasing fixed assets	**105,974**	172,111
Other payables	**21,059**	25,749
Financial liabilities measured at amortised cost	**1,509,359**	1,718,222

17 BANK LOANS AND OTHER BORROWINGS

	At 30 June 2023	At 31 December 2022
	RMB'000	*RMB'000*
Non-current		
Bank loans	**444,583**	629,029
Obligations arising from sale and leaseback transactions	**62,500**	62,500
	507,083	691,529
Current		
Bank loans	**1,852,730**	147,901
Obligations arising from sale and leaseback transactions	**150,553**	75,442
	2,003,283	223,343
	2,510,366	914,872

(a) Bank loans

The analysis of the repayment schedule of bank loans is as follows:

	At 30 June 2023 *RMB'000*	At 31 December 2022 *RMB'000*
On demand	**391,989**	–
Within 1 year	**1,460,741**	147,901
	1,852,730	147,901
After 1 year but within 2 years	**145,891**	96,291
After 2 years but within 5 years	**234,413**	467,513
After 5 years	**64,279**	65,225
	444,583	629,029
Total	**2,297,313**	776,930

At 30 June 2023, the bank loans were secured as follows:

	At 30 June 2023 *RMB'000*	At 31 December 2022 *RMB'000*
Unsecured	**170,210**	40,055
Secured	**2,127,103**	736,875
Total	**2,297,313**	776,930

(i) The Group's bank loans were secured as follows:

	At 30 June 2023 *RMB'000*	At 31 December 2022 *RMB'000*
— Ownership interests in leasehold land held for own use	**322,339**	159,322
— Construction in progress	**578,590**	409,075
— Plant and buildings	**678,864**	609,044
— Bills receivable (ii)	**74,447**	10,667
— Restricted cash	**1,109,200**	–
	2,763,440	1,188,108

Apart from the above secured assets, the bank loans of RMB684,817,000 (31 December 2022: RMB294,529,000), was additionally guaranteed by Shenzhen HEC Industrial, a related party.

(ii) As at 30 June 2023, the bank loans of RMB74,447,000 (31 December 2022: RMB10,667,000) represented the bills discounted with recourse which were repayable within one year.

(iii) As at 30 June 2023, the Group breached certain covenants relating to bank loans totalling RMB391,989,000 (31 December 2022: Nil). Pursuant to the respective loan agreements, the banks have the rights to require an earlier repayment at their discretions. In this regard, all these bank loans were classified as repayable on demand at 30 June 2023.

(b) Obligations arising from sale and leaseback transactions

Obligations arising from sale and leaseback transactions were repayable as below:

	At 30 June 2023 *RMB'000*	At 31 December 2022 *RMB'000*
Within 1 year	**155,924**	81,042
After 1 year but within 2 years	**63,279**	64,474
Total undiscounted obligations arising from sale and leaseback transactions	**219,203**	145,516
Less: total future interest expenses	**(6,150)**	(7,574)
Total	**213,053**	137,942

All obligations arising from sale and leaseback transactions were secured by plant and buildings and machinery with the carrying amounts of RMB302,160,000 (31 December 2022: RMB321,727,000), and were guaranteed by Shenzhen HEC Industrial, Mr. Zhang Yushuai and Ms. Guo Meilan, the ultimate controlling party of the Group as at 30 June 2023 and 31 December 2022.

18 INTEREST-BEARING BORROWINGS

	At 30 June 2023 *RMB'000*	At 31 December 2022 *RMB'000*
Convertible bonds	**1,969,303**	2,906,963

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

As the convertible bonds do not contain an equity component, the conversion option embedded in the convertible bonds above is measured at fair value and the liability component is carried at amortised cost. No conversion of the convertible bonds has occurred up to 30 June 2023.

(ii) On 26 September 2022, the Company repurchased certain convertible bonds in the aggregate principal amount of USD95,337,821 with total consideration of USD127,317,844 (equivalent to RMB912,907,000).

During the six months ended 30 June 2023, the Company entered into certain bond purchase agreements with the Bondholders, pursuant to which the Company agreed to repurchase all remaining portion of the convertible bonds in the aggregate principal amount of USD28,911,534, USD43,118,778, USD38,547,623 and USD194,161,057 from the Bondholders at the total purchase price of USD40,000,000, USD60,000,000, USD54,075,477 and USD263,191,332 on or before 31 January 2023, 15 March 2023, 3 April 2023 and 5 July 2023 respectively.

Up to 30 June 2023, the Company has completed the repurchase of the convertible bonds in the aggregate principal amount of USD205,838,943 at the total purchase price of USD281,393,321 (equivalent to RMB1,978,918,000) and subsequent to the period end date, the Company has completed the repurchase of all remaining portion of the convertible bonds pursuant to above purchase agreements (see note 23).

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

	Liability component *RMB'000*	**Derivative component** *RMB'000*	**Total** *RMB'000*
At 1 January 2022	2,364,366	235,759	2,600,125
Fair value change on conversion option embedded in convertible bonds	–	8,522	8,522
Accrued interest	128,593	–	128,593
Interest paid	(38,257)	–	(38,257)
Exchange loss	125,425	–	125,425
At 30 June 2022	2,580,127	244,281	2,824,408
Fair value change on conversion option embedded in convertible bonds	–	851,047	851,047
Accrued interest	128,736	–	128,736
Interest paid	(40,228)	–	(40,228)
Exchange loss	114,386	–	114,386
Repurchase of convertible bonds	(658,709)	(312,677)	(971,386)
At 31 December 2022	2,124,312	782,651	2,906,963
Fair value change on conversion option embedded in convertible bonds	–	73,309	73,309
Accrued interest	89,620	–	89,620
Interest paid	(37,180)	–	(37,180)
Exchange loss	41,477	–	41,477
Repurchase of convertible bonds	(756,551)	(348,335)	(1,104,886)
At 30 June 2023	1,461,678	507,625	1,969,303

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) No dividend for the six months ended 30 June 2023 and 2022 were proposed.

(ii) No final dividends in respect of the previous financial year approved during the six months ended 30 June 2023 and 2022.

(b) Share Capital

Ordinary shares, issued and fully paid

	At 30 June 2023		At 31 December 2022	
	No. of shares	***RMB'000***	*No. of shares*	*RMB'000*
Ordinary shares, issued and fully paid:				
As at 30 June/31 December	**879,967,700**	**879,968**	879,967,700	879,968

(c) Equity settled share-based transactions

No share options were granted nor exercised during the six months ended 30 June 2023 and 2022.

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

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

	Fair value at 30 June 2023	**Fair value measurements as at 30 June 2023 categorised into**		
		Level 1	**Level 2**	**Level 3**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Recurring fair value measurement				
Financial assets measured at FVPL				
— Listed equity securities	**12,345**	**12,345**	**–**	**–**
— Foreign currency option contracts	**19,118**	**–**	**19,118**	**–**
Convertible bonds				
— Derivative component *(Note 18(iii))*	**855,960**	**–**	**855,960**	**–**

	Fair value at 31 December 2022	Fair value measurements as at 31 December 2022 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurement				
Financial assets measured at FVPL				
— Investment in a trust investment scheme	290,000	–	290,000	–
Non-current assets held for sale				
— Unlisted equity securities	2,312,320	–	–	2,312,320
Convertible bonds				
— Derivative component *(Note 18(iii))*	782,651	–	782,651	–

During the six months ended 30 June 2023 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the Reporting Period in which they occur.

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

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

The fair value of foreign exchange option contracts is determined using the spot price of the foreign exchange rates as of the valuation date, strike rates, forward foreign exchange rates, implied volatilities of foreign exchange rates and the risk-free rates.

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2023.

21 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2023 not provided for in the interim financial report were as follows:

	At 30 June 2023 *RMB'000*	At 31 December 2022 *RMB'000*
Contracted for		
— Acquisition of fixed assets	**425,885**	254,472
— Acquisition of intangible assets	**1,580,305**	1,621,727
	2,006,190	1,876,199

22 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2023 and 2022, the directors of the Company are of the view that related parties of the Group include the following:

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

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

(a) Transactions with related parties

During the six months ended 30 June 2023 and 2022, the Group entered into the following material related party transactions:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
(i) Purchase of goods from:		
— Shaoguan HEC Printing	**18,046**	9,099
— Ruyuan HEC Pharmaceutical	**9,026**	14,088
— HEC Power Plant	**17,499**	13,135
— HEC Biochemistry Pharmacy	**17,502**	17,297
— Ruyuan HEC Intelligent Technology	**138**	180
	62,211	53,799
(ii) Accept service from:		
— Sunshine Lake Pharma	**40,410**	41,473
— HEC Biochemistry Pharmacy	**1,593**	1,593
— Yidu Construction	**7,071**	4,588
— Ruyuan HEC Pharmaceutical	**2,478**	–
— Others	**778**	19
	52,330	47,673
(iii) Lease assets from:		
— Dongguan HEC Pharm R&D	**1,113**	1,113
— Others	**603**	462
	1,716	1,575
(iv) Payments past through:		
— Shenzhen HEC Industrial	**–**	8,482
— Sunshine Lake Pharma	**10,239**	12,088
	10,239	20,570
(v) Proceeds arise from Target Products:		
— Sunshine Lake Pharma	**57,613**	86,515
(vi) Sales of goods to:		
— Sunshine Lake Pharma	**9,959**	4,427
— Others	**1,222**	65
	11,181	4,492
(vii) Purchase of fixed assets from:		
— Yidu Machinery Equipment	**1,009**	4,401
(viii) Purchase of intangible assets from:		
— Sunshine Lake Pharma	**144,977**	20,381
(ix) Transfer Target Equity to:		
— Shenzhen HEC Industrial *(Note 14)*	**2,312,320**	–

(b) Balances with related parties

(i) Amounts due from related parties

	At **30 June 2023** ***RMB'000***	At 31 December 2022 *RMB'000*
Prepayment to and trade receivable from:		
— Dongguan HEC Biopharmaceutical	**–**	2,773
— Sunshine Lake Pharma	**268,240**	343,325
— Others	**549**	189
	268,789	346,287

(ii) Amounts due to related parties

	At **30 June 2023** ***RMB'000***	At 31 December 2022 *RMB'000*
Trade payables and other payables to:		
— Yidu Construction	**2,182**	2,182
— Sunshine Lake Pharma	**34,986**	–
— Shaoguan HEC Printing	**2,024**	11,227
— Others	**353**	–
	39,545	13,409

(c) As at 30 June 2023, guarantees were issued to the Group by Shenzhen HEC Industrial, Mr. Zhang Yushuai and Ms. Guo Meilan, the ultimate controlling party of the Group in connection with bank loans and other borrowings amounted to RMB897,870,000 (31 December 2022: RMB432,471,000) .

23 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 5 July 2023, the Company has completed the repurchase of all remaining bonds in the aggregate principal amount of USD194,161,057 from the Bondholders at the total purchase price of USD263,191,332, upon which the principal amount of the bonds has been repurchased in full and the Bondholders no longer have any interest in the bonds and/or any rights arising therefrom.

No adjustment has been made in this interim financial report in this regard.

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY REVIEW

In the first half of 2023, with the overall lifting of restrictions for the pandemic, we saw continuous breakthroughs in the research and development of innovative drugs, gradual improvement in medical resources, strengthening of supervision, and also substantive progress in the internationalization process. However, at the same time, the global pharmaceutical industry continued to face various challenges and opportunities.

In the first half of 2023, pharmaceutical companies in the PRC have made significant progress in the research and development of innovative drugs, including anti-infectives and endocrine and metabolic drugs, etc. Following three years of the COVID-19 pandemic, public awareness on the prevention and control of other infectious diseases has gradually raised. This trend has prompted pharmaceutical companies to adjust their strategies, invest more resources in research and development and enhance production initiatives in order to meet market demands. Not only have pharmaceutical companies accelerated the progress in research and development of new medicines, they have also enhanced the quality of their drug products and productivity. There has been an increasing number of market participants in the anti-viral drugs market, and competition in such market has become growingly keen. In order to gain a competitive edge over competitors in the fiercely competitive environment, companies have strengthened their marketing and brand promotion, so as to promote brand awareness and product competitiveness. With the people's growing health awareness and the continuous improvement of medical standards, the demand for endocrine and metabolic drugs has also gradually increased, and different new drugs were introduced to the market. The research and development of these new drugs not only brings better results in treating patients, but also increases these pharmaceutical companies' competitiveness and market share, and therefore, the endocrine and metabolic drug market is gradually maturing. These innovative research results provide patients with more treatment options, thereby creating business opportunities for pharmaceutical companies.

To further optimise the allocation of healthcare resources for society, the relevant regulatory authorities in the PRC have also taken a series of measures to enhance the construction of primary healthcare institutions, promote telemedicine and alleviate poverty through healthcare, with a view to improving the standard of healthcare and quality of services in rural areas. In addition, the pharmaceutical enterprises in the PRC continued to actively expand into the international market. With the PRC pharmaceutical industry's technological advancement and enhanced international influence, an increasing number of the PRC's pharmaceutical enterprises entered the international market and actively participated in international pharmaceutical research and development co-operation and market competition. Some of these PRC's pharmaceutical enterprises have achieved remarkable results in overseas markets which further enhanced the global status of the pharmaceutical industry in the PRC.

Overall, the pharmaceutical industry in the PRC has made certain important breakthroughs and progress in the first half of 2023. Innovations in pharmaceutical technology, the control of epidemics, the launch of innovative drugs, the improvement in healthcare resources, the strengthening of supervision and internationalization progress have all had a positive impact on the development of the industry. However, in the future development, the pharmaceutical industry in the PRC needs to step up efforts in innovation and strengthen international co-operation in order to solve the challenges faced by the industry and provide better healthcare services to people around the world. With the research and development of new drugs and drug market expansion, the pharmaceutical companies in the PRC have the opportunities to further enhance their research and development capability, expand market share and improve patient's quality of life. Given this context, it is believed that the PRC's pharmaceutical industry will have a more prosperous future.

II. BUSINESS REVIEW

1. Summary of Overall Results

For the six months ended 30 June 2023, the Group's revenue amounted to RMB3,209.0 million, representing an increase of 148.1% as compared to the corresponding period in 2022. Profit and total comprehensive income attributable to equity shareholders of the Company was RMB1,029.5 million, representing an increase of RMB1,062.3 million as compared to the loss and total comprehensive income attributable to equity shareholders of the Company of RMB32.8 million for the six months ended 30 June 2022. The Group recorded good results for businesses in all pipelines due to the overall lifting of restrictions by domestic epidemic prevention and control policies, the gradual improvement in socio-economic performance, the normalization of flow of people and daily social activities, and the recovery of overall visitor flow, treatment activities and drug prescription volume of end-user medical institutions.

In terms of specific performance, for the six months ended 30 June 2023, revenue from Kewei (Oseltamivir Phosphate), Ertongshu (Benzbromarone Tablets), Oumeining (Telmisartan Tablets), Olmesartan Tablets and Linluoxing (Moxifloxacin Hydrochloride Tablets), being the Company's core products, accounted for 89.8%, 1.2%, 1.2%, 0.7% and 0.7% of the total revenue, respectively. At the same time, as new pharmaceutical products are successively approved to launch, they further enrich the Group's product portfolio and offer medical choices with both high quality and fair price for patients.

(1) Anti-viral paediatrics business pipeline represented by Kewei (Oseltamivir Phosphate)

For the six months ended 30 June 2023, sales revenue generated form Kewei (Oseltamivir Phosphate), a core product of the Group, amounted to RMB2,880.5 million, representing an increase of 186.4% as compared to the corresponding period of 2022. In the first half of 2023, the Group was firmly committed to academic promotion and brand building. In the in-hospital market, the Group has been increasing the activities in academic promotion to constantly strengthen the influence of Kewei among doctors and patients, especially paediatricians and parents. In the out-of-hospital market, the Group has been implementing the concept of brand building to establish Kewei as the No. 1 brand of anti-influenza drugs through brand building and doctor-patient education over the years and to continuously enhance the brand recognition of Kewei among patients.

(2) Chronic disease business pipeline represented by insulin

In the chronic disease business represented by insulin, the Group has also made rapid advancement in terms of insulin products, of which the Group's Recombinant Human Insulin Injection and Insulin Glargine Injection have both won the tender for centralized procurement. The Group has continued to strengthen its professional promotion team, enhance the training and professionalism of its regional and provincial sales staff, and optimise and integrate the channels at various levels such as grade hospitals and grassroots terminals, so as to drive the business of the chronic disease pipeline into a period of rapid growth. Currently, the Group has an insulin promotion team comprising nearly 500 staff, who have developed over 5,000 terminal institutions, laying a solid foundation for faster growth in the future.

(3) New Drugs Represented by Emitasvir

The Group's new drugs, represented by Emitasvir, have attained a satisfactory business progress. The National Health Commission and eight other departments promulgated the Action Plan Against Public Health Hazards of Hepatitis C (2021–2030) (《消除丙型肝炎公共衛生危害行動工作方案(2021–2030年)》) in 2021, which requires that, within a period of 10 years, the clinical cure rate of antiviral treatment for hepatitis C patients should exceed 95%, and the treatment rate of chronic hepatitis C should exceed 80%. With these goals in mind, the Group has conducted targeted development and promoted the establishment of diagnosis and treatment protocols in Henan, Sichuan, Jiangsu and many other provinces in the PRC, getting actively involved in the elimination of Hepatitis C. At this stage, Emitasvir Phosphate has been selected into the National Medical Reimbursement Drug List.

(4) New Retail

With the gradual enrichment of the variety of Group's product profile, the Company also attaches great importance to the construction of the new retail system. In the first half of 2023, the Group vigorously developed its pharmaceutical new retail product profile through cooperating with parties including leading corporates and sizeable pharmacy chains, so that the growth of the out-of-hospital retail business could be driven by in-hospital prescriptions through the combination of online and offline channels for pharmaceutical new retail. Currently, the Group's new retail system has matured and formed a relatively stable business model. Pharmaceutical new retail is a very broad market, and the Company will continue to expand the new retail product line, increase the market channels for pharmaceutical retail, and provide patients with more medical choices with both high quality and fair price.

2. R&D Progress

The Group made outstanding R&D progress in the therapeutic areas of endocrine and metabolic diseases during the first half of 2023.

Group has acquired multiple drugs for diabetes from Sunshine Lake Pharma Co., Ltd.* (廣東東陽光藥業有限公司) ("**Sunshine Lake Pharma**"), all of which have been approved to launch, except for Rongliflozin L-Pyroglutamic Acid and Liraglutide which was pending submission of new drug application. Such pharmaceutical products are expected to be marketed in a rapid manner and generate considerable sales, which will further increase the integrated strengths of the Group and improve the revenue structure of the Group.

Projects	**Acquired/ R&D investment amount**	**Expensed R&D investment amount**	**Capitalised R&D investment amount**	**Percentage of R&D investment in operating revenue**	**Percentage of R&D investment in operating costs**
	RMB'000	*RMB'000*	*RMB'000*	*(%)*	*(%)*
Rongliflozin L-Pyroglutamic Acid	17,645	–	17,645	0.5%	2.7%
Liraglutide	4,566	–	4,566	0.1%	0.7%

3. **Sales Performance Review**

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

- The revenue of Kewei (Oseltamivir Phosphate) granules and capsules amounted to RMB2,880.5 million, accounting for 89.8% of the total revenue;

- The revenue of Ertongshu (Benzbromarone Tablets) amounted to RMB37.7 million, accounting for 1.2% of the total revenue;

- The revenue of Oumeining (Telmisartan Tablets) amounted to RMB37.0 million, accounting for 1.2% of the total revenue;

- The revenue of Olmesartan Tablets amounted to RMB21.7 million, accounting for 0.7% of the total revenue;

- The revenue of Linluoxing (Moxifloxacin Hydrochloride Tablets) amounted to RMB22.7 million, accounting for 0.7% of the total revenue.

The total revenue of the above-mentioned five drugs, being the core products of the Group, accounted for 93.6% of the total revenue.

Kewei, the Company's core product, is the first-line drug for the treatment of influenza in the PRC, which can be used in the treatment and prevention of Flu A and Flu B and is listed in the Influenza Treatment Guidance (2020 version) (《流行性感冒診療方案(二零二零年版)》) and Medicines List for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2022) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(二零二二年)》).

During the Reporting Period, the Group adjusted the division of labour of the sales teams in accordance with the market demand, i.e. a self-operated sales team responsible for the academic promotion of core drugs in graded hospitals and primary medical institutions, a new retail sales team responsible for all drugs in chain pharmacies, non-bidding markets and online hospitals, and a centralized sales team responsible for centralized procurement of drugs by the PRC government. During the Reporting Period, the Company has started to expand its online pharmacy channel and cooperated with a number of well-known online channel operators. As of 30 June 2023, the Group has a total of 1,767 staff in its sales teams. The establishment and development of these multi-channel sales teams shall lay a solid foundation to the sales volume of the Group's product portfolio in all sales channels.

4. Production Review

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

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

III. OPERATION RESULTS AND ANALYSIS

1. Revenue

For the six months ended 30 June 2023, the revenue of the Group amounted to RMB3,209.0 million, representing an increase of 148.1% as compared to the corresponding period of last year. During the Reporting Period, the sales revenue of the Group's core product, Kewei, amounted to RMB2,880.5 million, representing an increase of 186.4% compared to the corresponding period of last year. The increase in sales revenue of Kewei was mainly attributed to the fact that in the first half of 2023, the Group recorded good results for businesses in all pipelines due to the comprehensive removal of restrictions by domestic epidemic prevention and control policies, the gradual improvement in socio-economic performance, the normalization of flow of people and daily social activities, and the recovery of overall visitor flow, treatment activities and drug prescription volume of end-user medical institutions. In the first half of 2023, the Group was firmly committed to academic promotion and brand building. In the in-hospital market, the Group invested heavily in academic promotion to strengthen the influence of Kewei among doctors and patients, especially paediatricians and parents. In the out-of-hospital market, the Group has been implementing the concept of brand building to establish Kewei as the No. 1 brand of anti-influenza drugs through brand building and doctor-patient education over the years and to continuously enhance the brand recognition of Kewei among patients. In the chronic disease business represented by insulin, the Group has continued to strengthen its professional promotion team, enhance the training and professionalism of its regional and provincial sales staff, and optimise and integrate the channels at various levels such as grade hospitals and grassroots terminals, so as to drive the business of the chronic disease pipeline into a period of rapid growth. In the new drug pipeline represented by emitasvir phosphate, the Group has actively participated in the elimination of hepatitis C through precise development and promotion of the formulation of local diagnostic and treatment solutions, and has now achieved precise drug and test coverage in medical terminals and pharmacies in regions with a certain degree of prevalence; in the business line of centralized procurement and new retail products represented by generics, the Group has actively developed large clinical varieties that are suitable for centralized procurement, continuously increased the number of products under centralized procurement and the number of selected products, and promoted the expansion of the in-hospital market through centralized procurement, with the centralized procurement business becoming one of the important business segments of the Group. At the same time, the Group relies on large and medium-sized chain stores and large e-commerce companies to lay out the new retail of general pharmaceutical products, so that the growth of the out-of-hospital retail business could be driven by in-hospital prescriptions through the combination of online and offline channels for pharmaceutical new retail. With the progress of each business line, the Group's business structure has been further improved and the integrated strengths of the Group has been enhanced.

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

Revenue

	For the six months ended 30 June				Change as compared with the corresponding period of 2022
	2023		2022		
	RMB'000	*%*	*RMB'000*	*%*	**(%)**
Anti-viral drugs	**2,911,437**	**90.7%**	1,012,403	78.3%	**187.6%**
Including: core product Kewei	**2,880,538**	**89.8%**	1,005,913	77.8%	**186.4%**
Cardiovascular drugs	**83,847**	**2.6%**	76,327	5.9%	**9.9%**
Endocrine and metabolic drugs	**60,486**	**1.9%**	42,469	3.3%	**42.4%**
Anti-infective drugs	**55,006**	**1.7%**	41,714	3.2%	**31.9%**
Others	**98,226**	**3.1%**	120,395	9.3%	**–18.4%**
Total	**3,209,002**	**100.0%**	1,293,308	100.0%	**148.1%**

2. Cost of Sales

The Group's cost of sales consists of (1) cost of raw materials, primarily including cost of raw materials, ancillary materials and packaging materials; (2) labour cost, primarily including salaries and benefits of our staff directly involved in manufacturing of our products; (3) manufacturing cost, primarily including depreciation of machinery, equipment and plant and cost of labour protection materials, fuel, machine oil and maintenance; and (4) patent fee paid to third parties in relation to patents and licences. For the six months ended 30 June 2023, the cost of sales of the Group amounted to RMB645.1 million, representing an increase of 93.9% as compared to RMB332.7 million for the corresponding period of last year, which was mainly due to the increase in sales volume of the Company's core product Kewei during the Reporting Period.

3. Gross Profit

For the six months ended 30 June 2023, gross profit of the Group was RMB2,563.9 million, representing an increase of 166.9% as compared to RMB960.7 million for the six months ended 30 June 2022, which was mainly due to the increase in sales volume of the Company's core product Kewei during the Reporting Period.

4. Other Net Expenses/Income

Other net expenses/income of the Group mainly included (1) government subsidies, primarily representing amortization of government subsidies for the construction of the production line for Kewei recognized by instalments in accordance with accounting standards, and other subsidies or incentives granted by the local government; (2) interest income; (3) net foreign exchange; (4) fair value change on convertible bonds embedded in conversion option; (5) net profit or loss of disposal of fixed assets; and (6) other miscellaneous gains. For the six months ended 30 June 2023, other net expenses of the Group amounted to RMB140.2 million, representing a decrease of RMB1.5 million as compared to other net expenses of RMB141.7 million for the corresponding period of last year, which was mainly due to a decrease in net foreign exchange loss, and partially offset by the increase in fair value loss of financial instruments.

5. Expenses Analysis

For the six months ended 30 June 2023, the Group's expenses amounted to RMB1,161.9 million in total, representing an increase of RMB306.5 million as compared to RMB855.4 million for the six months ended 30 June 2022. The main components of the Group's expenses are as follows:

	For the six months ended 30 June		**Change as compared with the corresponding period of 2022**
	2023	2022	**2022**
	RMB'000	*RMB'000*	***(%)***
Distribution costs	**755,504**	533,105	41.7%
Administrative expenses	**172,107**	149,672	15.0%
R&D cost	**98,264**	40,906	140.2%
Reversal of impairment losses on trade and other receivables	**(276)**	(5,343)	–94.8%
Finance costs	**136,268**	137,013	–0.5%
Total	**1,161,867**	855,353	35.8%

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

Administrative expenses mainly consist of (1) salary and welfare benefits for the management and administrative personnel; (2) depreciation and amortization costs relating to our office facilities and land use rights; and (3) taxes and surcharges and other miscellaneous expenses. The increase in administrative expenses was mainly due to the increase in taxes and surcharges in tandem with the increase in sales.

For the six months ended 30 June 2023, the Group's investment in R&D amounted to RMB120.7 million in total, representing 3.8% of the revenue and an increase of 39.4% as compared to the corresponding period of last year, among which expenses were RMB98.3 million and capitalized expenditures were RMB22.4 million.

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

6. Profit/loss Before Taxation

For the six months ended 30 June 2023, the Group's profit before taxation amounted to RMB1,261.9 million in total, representing an increase of RMB1,298.3 million as compared to the loss before taxation of RMB36.4 million for the six months ended 30 June 2022, which was mainly due to increase in sales volume of the Company's core product Kewei.

7. Income Tax

For the six months ended 30 June 2023, the income tax expenses of the Group amounted to RMB237.9 million, and the income tax credits amounted to RMB3.9 million for the six months ended 30 June 2022, which was mainly due to the increase in profit before taxation of the Company.

8. Profit/loss for the Period

For the six months ended 30 June 2023, the Group recorded a net profit amounted to RMB1,023.9 million, representing an increase of RMB1,056.4 million as compared to the net loss of RMB32.5 million for the six months ended 30 June 2022.

9. Profit/loss and Total Comprehensive Income Attributable to Equity Shareholders of the Company

For the six months ended 30 June 2023, profit and total comprehensive income attributable to equity shareholders of the Company was RMB1,029.5 million, representing an increase of 1,062.3 million as compared to loss and total comprehensive income attributable to equity shareholders of the Company of RMB32.8 million for the six months ended 30 June 2022.

IV. FINANCIAL POSITION

1. Overview

As of 30 June 2023, the Group's total assets amounted to RMB13,444.2 million, with total liabilities of RMB6,350.3 million and shareholders' equity of RMB7,093.9 million.

As of 30 June 2023, the Group's capital is mainly derived from product sales and is used in production workshop construction, distribution and administrative management etc. The management has clear goals and records in budget, financial and operating performance, and actively monitors them and regularly evaluates internal control measures.

2. Net Current Assets

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

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
Current assets		
Inventories	**353,545**	315,027
Trade and other receivables	**1,145,400**	1,036,916
Prepayments	**68,865**	59,433
Financial assets measured at FVPL	**19,118**	290,000
Non-current assets held for sale	**–**	2,312,320
Restricted cash	**1,245,373**	76,781
Cash and cash equivalents	**3,781,609**	923,543
Total current assets	**6,613,910**	5,014,020
Current liabilities		
Trade and other payables	**1,509,359**	1,718,222
Contract liabilities	**43,239**	75,386
Bank loans and other borrowings	**2,003,283**	223,343
Interest-bearing borrowings	**1,969,303**	2,906,963
Deferred income	**8,195**	8,195
Current taxation payable	**124,417**	8,672
Total current liabilities	**5,657,796**	4,940,781
Net current assets	**956,114**	73,239

As at 30 June 2023, the Group recorded the total current assets of RMB6,613.9 million, as compared to RMB5,014.0 million as at 31 December 2022. During the Reporting Period, the net current assets of the Group increased by RMB882.9 million due to the combined effect of the increase in current assets by RMB1,599.9 million mainly resulting from the increase in sales volume of the Company's core product, Kewei, during the Reporting Period, and the increase in total current liabilities by RMB717.0 million resulting from the reclassification of convertible bonds to current liabilities following the repayment of such bonds.

3. Gearing Ratio and Quick Ratio

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

The Group's gearing ratio increased from 62.96% as at 31 December 2022 to 63.15% as at 30 June 2023 and quick ratio increased from 0.95 times as at 31 December 2022 to 1.11 times as at 30 June 2023.

4. Cash Flow Analysis

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Net cash generated from operating activities	**1,244,799**	152,427
Net cash generated from/(used in) investing activities	**1,217,801**	(476,929)
Net cash generated from financing activities	**395,490**	52,666
Net increase/(decrease) in cash and cash equivalents	**2,858,090**	(271,836)

For the six months ended 30 June 2023, the Group's net cash generated from operating activities was RMB1,244.8 million, and net cash generated from operating activities was RMB152.4 million for the corresponding period of last year, which was mainly due to the increase in sales volume of the Company's core product, Kewei.

The Group's net cash generated from investing activities was RMB1,217.8 million, representing an increase of RMB1,694.7 million as compared to the net cash used in investing activities of RMB476.9 million for the corresponding period of last year, which was mainly due to the increase in proceeds from disposal of the Target Equity.

In the first half of 2023, the Group's net cash inflow from financing activities was RMB395.5 million, representing an increase of RMB342.8 million as compared to the net cash inflow of RMB52.7 million for the corresponding period of last year. The change was mainly due to the increase in proceeds from bank borrowings and increase in payment for finance costs.

5. Bank Loans and Other Borrowings

As at 30 June 2023, the Group's balance of its bank loans and other borrowings included bank loans of RMB2,297.3 million and obligations arising from sale and leaseback transactions of RMB213.1 million, representing an increase of RMB1,595.5 million as compared to RMB914.8 million as at 31 December 2022. The Group is in good liquidity position with sufficient funding and has no repayment risk. The Group's bank loans were denominated in RMB and USD as at 30 June 2023.

6. Capital Structure

As at 30 June 2023, the Group's total equity attributable to equity shareholders of the Company amounted to RMB6,914.4 million, representing an increase of RMB1,029.5 million as compared to RMB5,884.9 million as at 31 December 2022. The increase was mainly due to the profit recorded in the business operation of the Group during the Reporting Period.

7. Capital Expenditure

In order to meet the production demand for our products, the Group constructed plants and buildings, machines and equipment and acquired relevant interests of drugs in progress for the six months ended 30 June 2023 with an aggregate capital expenditure of RMB236.4 million, representing a decrease of 44.6% as compared to RMB426.9 million for the corresponding period of 2022.

8. Contingent Liabilities

As of 30 June 2023, The Group had no significant contingent liabilities, litigation or arbitration of material importance.

9. Pledge of the Group's Assets

As of 30 June 2023, the Group's land use rights amounting to RMB322.3 million, construction in progress amounting to RMB578.6 million, fixed assets amounting to RMB981.0 million, bills receivable amounting to RMB107.1 million and restricted cash amounting to RMB1,109.2 million were pledged to secure bank loans and other borrowings and issuing bills payables.

10. Foreign Exchange and Exchange Rate Risk

The Group's business mainly operates in the PRC. Almost all of the income and expenditure of the Group were denominated in RMB. Other than the convertible bonds, certain bank loans and bank deposits denominated in foreign currencies, the Group does not have any other material direct exposure to foreign exchange fluctuations. The Group entered into foreign currency option contracts with banks to mitigate the currency risk arising from certain of its bank loans of USD45.0 million denominated in US dollars.

11. Employee and Remuneration Policies

As at 30 June 2023, the Group has a total of 4,499 employees. The staff costs, including directors' emoluments but excluding any contributions to pension scheme, were approximately RMB304.7 million for the six months ended 30 June 2023. The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long-term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Moreover, social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

12. Hedging Activities

For the six months period ended 30 June 2023, apart from the foreign currency option contracts with banks to mitigate the currency risk arising from certain of its bank loans denominated in USD, the Group did not enter into any hedging transactions relating to foreign exchange risk or interest rate risk.

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

During the six months ended 30 June 2023, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies and joint ventures by the Group.

14. Future Plans for Material Investment or Capital Assets

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

V. OTHER SIGNIFICANT EVENTS

1. Partial Repurchase of the H Share Convertible Bonds

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

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

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

On 30 June 2023, the Company and the Sellers further entered into a supplemental agreement to the third bond purchase agreement (the "**Further Supplemental Agreement**") in respect of the Second Tranche of Repurchased Bonds, under which both parties agreed to change the aggregate purchase price of the Second Tranche of Repurchased Bonds from US$278,191,332 to US $263,191,332, and to complete the repurchase of the Second Tranche of Repurchased Bonds on or before 5 July 2023.

Please refer to the announcements of the Company dated 13 January 2023, 27 February 2023, 9 March 2023 and 30 June 2023 for details.

2. Continuing Connected Transactions

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

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

On 27 February 2023:

(1) the Company and Shenzhen HEC Industrial entered into the Energy Purchase Framework Agreement, pursuant to which the Company agreed to purchase electricity and steam power required for its production from Shenzhen HEC Industrial during the three years ending 31 December 2025. The proposed annual caps under the Energy Purchase Framework Agreement for each of the three years ending 31 December 2025 are RMB50,400,000, RMB56,750,000 and RMB56,750,000, respectively.

(2) the Company and Shenzhen HEC Industrial entered into the APIs Purchase Agreement, pursuant to which the Company agreed to purchase certain APIs such as Aripiprazole, Rivaroxaban, Escitalopram Oxalate, Clarithromycin from Shenzhen HEC Industrial during the three years ending 31 December 2025. The proposed annual caps under the APIs Purchase Agreement for each of the three years ending 31 December 2025 are RMB38,946,300, RMB53,786,800 and RMB75,442,100, respectively.

(3) the Company and Shenzhen HEC Industrial entered into the Packaging and Production Materials Purchase Framework Agreement, pursuant to which the Company agreed to purchase packaging materials for packaging and production of the drugs manufactured by the Group from Shenzhen HEC Industrial during the three years ending 31 December 2025. The proposed annual caps under the Packaging and Production Materials Purchase Framework Agreement for each of the three years ending 31 December 2025 are RMB40,600,000, RMB40,600,000 and RMB40,600,000, respectively.

(4) the Company and Shenzhen HEC Industrial entered into the Equipment Purchase and Civil Construction Framework Agreement, pursuant to which the Company agreed to purchase certain equipment and civil construction services from Shenzhen HEC Industrial during the three years ending 31 December 2025. The proposed annual caps under the Equipment Purchase and Civil Construction Framework Agreement for each of the three years ending 31 December 2025 are RMB27,050,000, RMB7,900,000 and RMB7,900,000, respectively.

(5) the Company and Shenzhen HEC Industrial entered into the Entrusted Processing Framework Agreement, pursuant to which the Company agreed to purchase processing services for its certain pharmaceutical products, including Olmesartan Tablets, Moxifloxacin Tablets, Clarithromycin Tablets, Aripiprazole Tablets, Levofloxacin Tablets, Rivaroxaban Tablets, Duloxetine Enteric-coated Capsules, Escitalopram Oxalate Tablets, Xadiafil Tablets, Aripiprazole Orally Disintegrating Tablets, Entacapone Tablets, Rongliflozin and other APIs from Shenzhen HEC Industrial during the three years ending 31 December 2025. The proposed annual caps under the Entrusted Processing Framework Agreement for each of the three years ending 31 December 2025 are RMB94,805,500, RMB108,832,000 and RMB139,468,200, respectively.

(6) the Company and Shenzhen HEC Industrial entered into the Equipment Sales Framework Agreement, pursuant to which the Company agreed to sell specific pharmaceutical production equipment (including Glatter fluidized bed), quality inspection equipment and other equipment to Shenzhen HEC Industrial. The proposed annual cap under the Equipment Sales Framework Agreement for the year ending 31 December 2023 is RMB30,496,500.

(7) the Company and Shenzhen HEC Industrial entered into the Entrusted Production and Inspection Services Framework Agreement, pursuant to which the Company agreed to provide production and inspection services to Shenzhen HEC Industrial during the three years ending 31 December 2025. The scope of the entrusted production and inspection services includes provision of production, inspection and testing services to Dong An Tai, Dong An Qiang, Dong An Rui, Dong Tong Shen, other generic drugs, other new drugs, insulin degludec/insulin aspart, insulin degludec/liraglutide injection and intermediates of generic drugs. The proposed annual caps under the Entrusted Production and Inspection Services Framework Agreement for each of the three years ending 31 December 2025 are RMB105,230,000, RMB68,992,000 and RMB49,250,000, respectively.

The abovementioned (1) Energy Purchase Framework Agreement, (2) APIs Purchase Agreement, (3) Packaging and Production Materials Purchase Framework Agreement, (4) Equipment Purchase and Civil Construction Framework Agreement, (5) Entrusted Processing Framework Agreement, (6) Equipment Sales Framework Agreement and (7) Entrusted Production and Inspection Services Framework Agreement and the transactions contemplated thereunder (including the respective annual caps) have been approved by the Shareholders at the annual general meeting of the Company held on 2 June 2023.

Please refer to the announcements of the Company dated 10 February 2023, 27 February 2023 and 2 June 2023 and the circular of the Company dated 17 May 2023 for details.

3. Change of Stock Short Name

Due to the similarities between the stock short names of the Company and other pharmaceutical companies under the group formed by Shenzhen HEC Industrial and other subsidiaries (the "**HEC Group**"), in order to better distinguish the stock short names of the Company and other pharmaceutical companies of the HEC Group and reflect the uniqueness of the stock short name of the Company, the Company shall change its stock short name from "HEC PHARM" to "HEC CJ PHARM" in English and from "東陽光藥" to "東陽光長江藥業" in Chinese. The English and Chinese names of the Company will continue to be "YiChang HEC ChangJiang Pharmaceutical Co., Ltd." and "宜昌東陽光長江藥業股份有限公司", respectively, while the stock code for H shares on the Stock Exchange will remain unchanged as "1558". The change of the stock short name of the Company will not affect the rights of the existing Shareholders of the Company.

Please refer to the announcement of the Company dated 19 May 2023 for details.

4. Completion of the Major and Connected Transaction in relation to the Disposal of Target Equity in Sunshine Lake Pharma

The Company agreed to transfer and Shenzhen HEC Industrial agreed to acquire 9.9134% of the Target Equity of Sunshine Lake Pharma held by the Company at a consideration of RMB2,312,319,650. All conditions precedents under the Equity Transfer Agreement have been fulfilled on 27 June 2023, the Company has received the Consideration under the Equity Transfer Agreement in full and the completion has taken place on 27 June 2023. Upon the completion, the Company ceased to hold any interest in Sunshine Lake Pharma.

Please refer to the announcement of the Company dated 27 June 2023 for details.

VI. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

1. Completion of the Repurchase of the H Share Convertible Bonds in Full

On 5 July 2023, the repurchase contemplated under the Further Supplemental Agreement has been completed. Upon completion of the repurchase, the principal amount of the Bonds has been repurchased in full and the Sellers will no longer have any interest in the Bonds and/or any rights arising therefrom.

Please refer to the announcement of the Company dated 5 July 2023 for details.

2. Resignation of an Executive Director, Proposed Appointment of an Executive Director and Proposed Amendment to the Articles of Association

On 14 August 2023, Mr. CHEN Yangui, an executive Director, tendered his resignation as an executive Director due to his decision to devote more time to his other business commitments. The resignation of Mr. CHEN Yangui as an executive Director will be effective subject to the approval of the Shareholders at the extraordinary general meeting of the Company to be convened and held (the "**EGM**") and the election of a new Director to fill the casual vacancy.

On the same date, the Board has resolved to nominate Mr. CHEN Hao as an executive Director, subject to the approval by the Shareholders at the EGM. The Board also resolved to seek authorisation at the EGM to authorise it to determine the commencement date of the appointment of Mr. CHEN Hao as an executive Director.

In addition, the Board proposed to make amendment to certain article in the Articles of Association of the Company in light of the business development needs of the Company. The Proposed Amendment to the Articles of Association is subject to the approval by the Shareholders at the EGM.

Please refer to the announcement of the Company dated 14 August 2023 and the circular of the Company dated 21 August 2023 for details.

Save as disclosed above, there have been no other significant events subsequent to the Reporting Period and up to the date of this announcement.

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

Looking forward to the second half of 2023, as the development direction of China's pharmaceutical industry is gradually shifting from generic drugs to innovation drugs, drug innovation has become the core competitiveness which supports the future development of enterprises. In order to capture opportunities in the fierce competition, pharmaceutical companies need to make continuous efforts in various aspects including product research and development, technical process improvement, production and supply chain management and sales management, while striving to grasp the initiative of industry competition and forming good sustainable advantages by grasping the market demand and trend of the pharmaceutical industry and consolidating and expanding the corresponding strategic target markets more effectively.

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

REVIEW OF RESULTS

The audit committee of the Company has reviewed the Group's 2023 interim results announcement, interim report and the unaudited financial statements for the six months ended 30 June 2023 prepared in accordance with the IFRSs.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the HKEXnews website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.hec-changjiang.com. The 2023 interim report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and will be published on the websites of the Company and the Stock Exchange in due course.

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

Hubei, the PRC
31 August 2023

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

* *For identification purpose only*