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 2024

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2024:

- Revenue was RMB2,454.8 million, representing a decrease of 23.5% as compared with the six months ended 30 June 2023.
- Gross profit was RMB1,949.2 million, representing a decrease of 24.0% as compared with the six months ended 30 June 2023.
- Profit before interest, tax, depreciation and amortisation was RMB1,064.2 million, representing an decrease of 33.1% as compared to profit before interest, tax, depreciation and amortisation of RMB1,591.0 million for the six months ended 30 June 2023.
- Profit and total comprehensive income attributable to equity shareholders of the Company was RMB684.7 million, representing a decrease of 33.5% as compared to the profit and total comprehensive income attributable to equity shareholders of the Company of RMB1,029.5 million for the six months ended 30 June 2023.
- Both basic and diluted earnings per share were RMB0.78.

INTERIM DIVIDEND

- The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: nil).

SUMMARY OF OVERALL RESULTS

For the six months ended 30 June 2024, the Group's revenue was RMB2,454.8 million and the total profit and comprehensive income attributable to equity holders of the Company was RMB684.7 million. For the six months ended 30 June 2024, the Group's research and development ("**R&D**") expenses increased by approximately RMB184.1 million. Excluding the increase in R&D expenses, the total profit and comprehensive income attributable to the equity holders of the Company would be RMB868.8 million, the net profit margin increased further compared to that of the corresponding period of last year. The Group continued to conduct academic promotion work and "Kewei" brand building, and continued to enhance the brand recognition and market growth of its core product, Kewei. A solid performance for Kewei's sales in the first half of 2024 was maintained. Meanwhile, the other business pipelines have gradually entered the harvesting period, and showed high growth in the first half of 2024, in particular:

The Group's chronic disease business pipeline, represented by insulin, generated revenue of RMB180.0 million in the first half of 2024, representing a significant increase of 140.7% when comparing with the corresponding period last year. In particular, 5 products of the Group's insulin series products have been approved for launching and was awarded the bid for centralized bulk procurement. In addition to the insulin series products, the Group's oral small molecule hypoglycemic drug products showed a good growth momentum, in particular, the revenue of the product Linagliptin significantly increased by 394.0% when compared with the corresponding period last year. In addition, the application for new drug launch of Class I innovative drug SGLT-2 Inhibitor Rongliflozin for the treatment of type 2 diabetes has been submitted. SGLT-2 inhibitors have gradually become the first-line oral drugs for the treatment of diabetes. The market is in a stage of rapid growth, and the listing of Rongliflozin is expected to contribute considerably to the performance for the Group.

The Group's new drug business pipeline, represented by Emitasvir Phosphate, generated a revenue of RMB40.8 million in the first half of 2024, representing a significant increase of 188.5% when comparing with the corresponding period last year. Currently, the Group's Emitasvir Phosphate capsules, a Class I innovative drug, has been approved for launching and included in the National Medical Reimbursement Drug List. Meanwhile, the launching application of Yiqibuvir Tablets (0.3g), a Class I innovative drug for treating the Pan-genotypic chronic Hepatitis C, has been accepted. Yiqibuvir Tablets (0.3g) are used together with Antetavir capsules for the treatment of chronic Hepatitis C virus (HCV) infection in adults, if the use of the aforementioned combined treatments for Pan-genotypic chronic Hepatitis C is approved for launching, the Group's competitive advantages in the field of hepatitis C treatment can be further consolidated.

Centralized procurement and new retail business pipelines have also become indispensable business pipelines contributing to the cash flow of the Group, which recorded a revenue of RMB346.1 million in the first half of 2024, representing an increase of 60.8% when comparing with the corresponding period last year. The Group has been currently awarded with the bid for centralised bulk procurement of 12 chemical generic drug products of different specifications, among which a number of products have maintained a good growth momentum, for instance, the revenue of Esomeprazole magnesium Enteric-coated Capsules increased by 79.2% when comparing with the corresponding period last year, and the revenue of Telmisartan increased by 53.7% over the same period last year.

RESULTS HIGHLIGHTS

The board (the "**Board**") of directors (the "**Director(s)**") of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the "**Company**") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "**Group**" or "**we**" or "**our**") for the six months ended 30 June 2024 (the "**Reporting Period**"), together with the comparative figures for the corresponding period of 2023. The results have been prepared in accordance with the IFRS Accounting Standards.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2024 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
	Note	**2024**	2023
		RMB'000	*RMB'000*
Revenue	*3*	**2,454,762**	3,209,002
Cost of sales		**(505,530)**	(645,065)
Gross profit		**1,949,232**	2,563,937
Other net income/(expenses)	*5(a)*	**62,874**	(140,217)
Distribution costs		**(660,910)**	(755,504)
Administrative expenses		**(193,843)**	(172,107)
Research and development cost		**(265,925)**	(98,264)
(Recognition)/reversals of impairment losses on trade and other receivables		**(24,043)**	276
Profit from operations		**867,385**	1,398,121
Finance costs	*5(b)*	**(53,854)**	(136,268)
Profit before taxation	*5*	**813,531**	1,261,853
Income tax	*6*	**(128,800)**	(237,929)
Profit for the period		**684,731**	1,023,924
Profit and total comprehensive income for the period attributable to:			
Equity shareholders of the Company		**684,731**	1,029,495
Non-controlling interests		**–**	(5,571)
Profit and total comprehensive income for the period		**684,731**	1,023,924
Basic and diluted earnings per share	*7*	**RMB0.78**	RMB1.17

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2024 — unaudited
(Expressed in Renminbi)

	Note	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment	8	**3,558,807**	3,398,369
— Right-of-use assets	8	**351,646**	342,055
		3,910,453	3,740,424
Intangible assets	9	**2,561,480**	2,565,626
Interests in an associate		**12,407**	12,571
Financial assets measured at fair value through profit or loss ("**FVPL**")	10	**13,210**	19,587
Prepayments	11	**323,213**	115,379
Deferred tax assets		**204,590**	237,686
Total non-current assets		**7,025,353**	6,691,273
Current assets			
Inventories	12	**581,153**	409,050
Trade and other receivables	13	**1,986,232**	2,112,798
Prepayments		**391,573**	270,809
Financial assets measured at FVPL	10	**13,333**	18,686
Restricted cash		**973,432**	1,567,300
Cash and cash equivalents		**1,523,120**	1,674,413
Total current assets		**5,468,843**	6,053,056
Current liabilities			
Trade and other payables	14	**1,246,257**	1,755,352
Contract liabilities		**49,244**	101,448
Bank loans and other borrowings	15	**1,230,124**	2,319,518
Lease liabilities		**3,362**	359
Deferred income		**8,195**	8,195
Financial liabilities measured at FVPL		**–**	1,139
Current taxation		**1,280**	146,209
Total current liabilities		**2,538,462**	4,332,220

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
at 30 June 2024 — unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2024** ***RMB'000***	At 31 December 2023 *RMB'000*
Net current assets		**2,930,381**	1,720,836
Total assets less current liabilities		**9,955,734**	8,412,109
Non-current liabilities			
Bank loans and other borrowings	*15*	**1,093,644**	288,286
Lease liabilities		**12,162**	1,165
Deferred income		**184,548**	187,145
Total non-current liabilities		**1,290,354**	476,596
Net assets		**8,665,380**	7,935,513
Capital and reserves	*17*		
Share capital		**879,968**	879,968
Reserves		**7,785,412**	7,055,545
Total equity attributable to equity shareholders of the Company		**8,665,380**	7,935,513
Non-controlling interests		**–**	–
Total equity		**8,665,380**	7,935,513

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2024 — unaudited
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company						
	Note	**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 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 and 1 July 2023		879,968	2,610,409	328,696	3,095,306	6,914,379	179,546	7,093,925
Changes in equity for the six months ended 31 December 2023:								
Profit/(loss) and total comprehensive income for the period		–	–	–	963,129	963,129	(131,227)	831,902
Equity-settled share-based payments	*16*	–	45,136	–	–	45,136	–	45,136
Acquisition of non-controlling interests		–	12,869	–	–	12,869	(48,319)	(35,450)
Appropriation of statutory reserve		–	–	111,291	(111,291)	–	–	–
Balance at 31 December 2023		879,968	2,668,414	439,987	3,947,144	7,935,513	–	7,935,513
Balance at 1 January 2024		**879,968**	**2,668,414**	**439,987**	**3,947,144**	**7,935,513**	**–**	**7,935,513**
Changes in equity for the six months ended 30 June 2024:								
Profit and total comprehensive income for the period		**–**	**–**	**–**	**684,731**	**684,731**	**–**	**684,731**
Equity-settled share-based payment	*16*	**–**	**45,136**	**–**	**–**	**45,136**	**–**	**45,136**
Balance at 30 June 2024		**879,968**	**2,713,550**	**439,987**	**4,631,875**	**8,665,380**	**–**	**8,665,380**

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 30 August 2024.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2023 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2024 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 2023 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 IFRS Accounting Standards.

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 amendments to IFRS Accounting Standards issued by the IASB to this interim financial information for the current accounting period:

- Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*

- Amendments to IAS 1, *Presentation of financial statements: Non-current liabilities with covenants*

- Amendments to IFRS 16, *Leases: Lease liability in a sale and leaseback*

- Amendments to IAS 7, *Statement of cash flows* and IFRS 7, *Financial instruments: Disclosures — Supplier finance arrangements*

These new and amended IFRSs Accounting Standards 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	
	2024	2023
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15		
Sales of anti-infective paediatrics business pipeline	**1,864,527**	2,880,538
Sales of chronic disease business pipeline	**179,944**	74,745
Sales of new drugs business pipeline	**40,848**	14,158
Sales of centralized procurement and new retail line	**346,078**	215,178
Sales of other businesses	**23,365**	24,383
	2,454,762	3,209,002

Analysis of the Group's revenue and results by geographical market has not been presented as 100.00% (the six months ended 30 June 2023: 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.

For the twelve months ended 30 June 2024, the Group reported revenue of RMB5,540,346,000 (twelve months ended 30 June 2023: RMB5,660,646,000), and gross profit of RMB4,371,059,000 (twelve months ended 30 June 2023: RMB4,449,354,000).

5 PROFIT BEFORE TAXATION

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

(a) Other net (income)/expenses

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Interest income	**(46,430)**	(29,484)
Government grants	**(12,173)**	(5,984)
Net loss on disposal of fixed assets	**41**	339
Fair value change on derivative financial instruments embedded in convertible bonds	**–**	73,309
Fair value change on listed equity securities *(Note 10)*	**6,377**	2,855
Fair value change on foreign currency option contracts *(Note 10)*	**(14,472)**	(19,118)
Investment income from a trust investment scheme	**–**	(4,645)
Impairment loss on intangible assets *(Note 9)*	**2,386**	64,876
Net foreign exchange loss	**2,888**	58,102
Others	**(1,491)**	(33)
	(62,874)	140,217

(b) Finance costs

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Interest and other borrowing costs	**62,016**	49,813
Interest on convertible bonds	**–**	89,620
	62,016	139,433
Less: interest expense capitalised into construction in progress	**(8,162)**	(3,165)
	53,854	136,268

(c) Other items

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Amortisation cost of intangible assets *(Note 9)*	**94,307**	107,657
Depreciation cost of fixed assets *(Note 8)*	**102,868**	85,461
Less: amount capitalised as development costs in intangible assets	**(337)**	(211)
	102,531	85,250
(Reversal of write-down)/write-down of inventories *(Note 12)*	**(12,076)**	10,259

6 INCOME TAX

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Current tax		
Provision for PRC corporate income tax for the period	**89,287**	217,452
Under/(over)-provision for PRC corporate income tax in respect of prior years	**6,417**	(66)
	95,704	217,386
Deferred tax		
Origination and reversal of temporary differences	**33,096**	20,543
	128,800	237,929

(i) The PRC corporate income tax rate is 25% for the six months ended 30 June 2024 and 2023.

(ii) The PRC CIT Law allows enterprises to apply for the certificate of "High and New Technology Enterprise" ("**HNTE**") which entitles the qualified companies to a preferential income tax rate of 15%. The Company was recognised as "HNTE" and enjoyed a preferential CIT rate of 15% for the six months ended 30 June 2024 and 2023.

A subsidiary of the Company, YiChang HEC Pharmaceutical Manufacturing Co., Ltd., was recognised as HNTE and enjoyed a preferential CIT rate of 15% for the six months ended 30 June 2024 and 2023.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB684,731,000 (six months ended 30 June 2023: earnings of RMB1,029,495,000) and the weighted average number of 879,967,700 ordinary shares (six months ended 30 June 2023: 879,967,700 ordinary shares) in issue during the six months ended 30 June 2024.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the six months ended 30 June 2024, and therefore, diluted earnings per share is the same as the basic earnings per share.

Diluted earnings per share for the six months ended 30 June 2023 was same as the basic earnings per share as the potential conversion of the convertible bonds had an anti-dilutive effect on the basic earnings per share.

8 FIXED ASSETS

	Property, plant and equipment						Right-of-use assets			
	Plant and buildings *RMB'000*	Machinery *RMB'000*	Office equipment and others *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Sub-total *RMB'000*	Ownership interests in leasehold land held for own use *RMB'000*	Other properties leased for own use *RMB'000*	Sub-total *RMB'000*	Total *RMB'000*
Cost:										
At 1 January 2023	1,695,496	792,641	530,209	2,264	675,452	3,696,062	395,748	–	395,748	4,091,810
Additions	3,271	4,231	4,047	849	380,516	392,914	–	1,874	1,874	394,788
Transfer from construction in progress	78,827	291,729	44,898	2,314	(417,768)	–	–	–	–	–
Disposals	–	(1,303)	(1,802)	–	–	(3,105)	–	–	–	(3,105)
At 31 December 2023	1,777,594	1,087,298	577,352	5,427	638,200	4,085,871	395,748	1,874	397,622	4,483,493
Additions	–	2,182	1,870	92	259,461	263,605	–	15,652	15,652	279,257
Transfer from construction in progress	887	31,920	63,240	97	(96,144)	–	–	–	–	–
Reclassification	(11,181)	3,875	7,306	–	–	–	–	–	–	–
Disposals	(1,830)	(5,110)	(1,929)	–	–	(8,869)	–	–	–	(8,869)
At 30 June 2024	1,765,470	1,120,165	647,839	5,616	801,517	4,340,607	395,748	17,526	413,274	4,753,881
Accumulated depreciation and amortisation:										
At 1 January 2023	(200,258)	(188,121)	(137,214)	(856)	–	(526,449)	(46,596)	–	(46,596)	(573,045)
Charge for the year	(53,517)	(51,303)	(58,472)	(340)	–	(163,632)	(8,595)	(376)	(8,971)	(172,603)
Written-back on disposals	–	963	1,616	–	–	2,579	–	–	–	2,579
At 31 December 2023	(253,775)	(238,461)	(194,070)	(1,196)	–	(687,502)	(55,191)	(376)	(55,567)	(743,069)
Charge for the period	(27,984)	(34,621)	(33,941)	(261)	–	(96,807)	(4,298)	(1,763)	(6,061)	(102,868)
Written-back on disposals	328	755	1,426	–	–	2,509	–	–	–	2,509
At 30 June 2024	(281,431)	(272,327)	(226,585)	(1,457)	–	(781,800)	(59,489)	(2,139)	(61,628)	(843,428)
Carrying amount:										
At 30 June 2024	1,484,039	847,838	421,254	4,159	801,517	3,558,807	336,259	15,387	351,646	3,910,453
At 31 December 2023	1,523,819	848,837	383,282	4,231	638,200	3,398,369	340,557	1,498	342,055	3,740,424

(i) As at 30 June 2024, the Group was applying for certificates of ownership for certain properties, with carrying value of RMB434,898,000 (31 December 2023: RMB432,426,000). 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 2024, amount of RMB286,300,000 (31 December 2023: RMB254,041,000) of the ownership interests in leasehold land held for own use, amount of RMB740,038,000 (31 December 2023: RMB117,949,000) of construction in progress and amount of RMB702,276,000 (31 December 2023: RMB667,593,000) of plant and buildings were held in pledge for bank loans.

(iii) In 2022-2024, 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 2024, the carrying amounts of the plant and buildings and machinery pledged for the aforementioned sale and leaseback transactions were RMB440,338,000 (31 December 2023: RMB327,463,000) (Note 15(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 2023	848,021	174,512	1,490,138	261,069	986,350	3,760,090
Addition through internal development	–	–	–	–	204,908	204,908
Addition and transfer from prepayments	–	–	144,978	–	–	144,978
Transfer from development costs to patents	–	–	–	95,861	(95,861)	–
Abandonment	–	(174,512)	–	–	–	(174,512)
At 31 December 2023	848,021	–	1,635,116	356,930	1,095,397	3,935,464
Addition through internal development	–	–	–	–	92,547	92,547
At 30 June 2024	848,021	–	1,635,116	356,930	1,187,944	4,028,011
Accumulated amortisation:						
At 1 January 2023	(237,263)	–	(336,573)	(26,681)	–	(600,517)
Charge for the year	(62,465)	–	(127,746)	(29,302)	–	(219,513)
At 31 December 2023	(299,728)	–	(464,319)	(55,983)	–	(820,030)
Charge for the period	(20,250)	–	(56,210)	(17,847)	–	(94,307)
At 30 June 2024	(319,978)	–	(520,529)	(73,830)	–	(914,337)
Impairment loss:						
At 1 January 2023	(20,399)	(22,599)	(195,929)	–	–	(238,927)
Recognised in the year	(139,753)	(151,913)	(193,727)	–	–	(485,393)
Written-off	–	174,512	–	–	–	174,512
At 31 December 2023	(160,152)	–	(389,656)	–	–	(549,808)
Recognised in the period	–	–	(2,386)	–	–	(2,386)
At 30 June 2024	(160,152)	–	(392,042)	–	–	(552,194)
Net book value:						
At 30 June 2024	367,891	–	722,545	283,100	1,187,944	2,561,480
At 31 December 2023	388,141	–	781,141	300,947	1,095,397	2,565,626

(i) As at 30 June 2024, 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 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 RMB1,065,818,000, several milestone payments totalling RMB577,887,000 and contingent payments of RMB487,930,000 subject to the future sales of the Target Products.

As at 30 June 2024, the Company had made accumulated payments of RMB1,641,250,000 (31 December 2023: RMB1,641,250,000) to Sunshine Lake Pharma.

(iii) Impairment review on the intangible assets of the Group has been conducted by the management as at 30 June 2024. The estimated recoverable amount of one (six months ended 30 June 2023: five) generic drug, which was determined based on value-in-use calculations, were less than their carrying amount. The difference was approximately RMB2,386,000 (six months ended 30 June 2023: RMB64,876,000) based on the impairment evaluation result, which was recognised as impairment loss in the "other net income" in the consolidated statement of profit or loss and other comprehensive income.

10 FINANCIAL ASSETS MEASURED AT FVPL

	Note	**At 30 June 2024** *RMB'000*	At 31 December 2023 *RMB'000*
Non-current			
— Investment in listed equity securities	*(i)*	**13,210**	19,587
Current asset			
— Foreign currency option contracts	*(ii)*	**13,333**	18,686
Current liability			
— Foreign currency option contracts	*(ii)*	**–**	(1,139)

(i) The Group's investment in listed equity securities represented share holdings 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 listed equity securities to financial assets measured at FVPL, as the investment is held for strategic purposes.

During the six months ended 30 June 2024, the net fair value loss in respect of the Group's investments in listed equity securities recognised in profit or loss amounted to RMB6,377,000 (six months ended 30 June 2023: RMB2,855,000).

(ii) 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 2024, the net fair value gain in respect of the Group's foreign currency option contracts recognised in profit or loss amounted to RMB14,472,000 (six months ended 30 June 2023: RMB19,118,000).

11 PREPAYMENTS

	At 30 June 2024	At 31 December 2023
	RMB'000	*RMB'000*
Prepayments for intangible assets	**6,135**	6,135
Prepayments for property, plant and equipment	**317,078**	109,244
	323,213	115,379

12 INVENTORIES

	At 30 June 2024	At 31 December 2023
	RMB'000	*RMB'000*
Raw materials	**331,475**	253,741
Work in progress	**100,905**	75,898
Finished goods	**143,505**	74,570
Goods in transit	**5,268**	4,841
	581,153	409,050

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	
	2024	2023
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**461,789**	535,315
Write-down of inventories	**–**	10,259
Reversal of write-down of inventories	**(12,076)**	–
Cost of inventories sold	**449,713**	545,574

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 2024	At 31 December 2023
	RMB'000	*RMB'000*
Within 3 months	**1,106,394**	1,803,219
More than 3 months but within one year	**736,363**	269,355
More than 1 year	**7,713**	37
Trade and bills receivable, net of allowance for doubtful debts	**1,850,470**	2,072,611
Other receivables, net of allowance for doubtful debts	**38,767**	19,622
Prepaid tax and deductible value-added tax	**96,995**	20,565
Financial assets measured at amortised cost	**1,986,232**	2,112,798

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 RMB47,225,000 (31 December 2023: RMB19,512,000) were pledged as securities of bank loans of the Group as at 30 June 2024.

14 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 2024 *RMB'000*	At 31 December 2023 *RMB'000*
Within 1 month	**107,024**	81,905
1 to 3 months	**266,857**	47,178
Over 3 months but within 1 year	**80,839**	67,486
Over 1 year	**3,406**	3,519
Total trade and bills payables	**458,126**	200,088
Amounts due to related parties	**22,029**	441
Value added tax and other taxes payable	**7,888**	151,134
Accrued payroll and benefits	**80,773**	229,408
Accrued expenses	**494,650**	660,281
Accrued royalty fee	**34,467**	356,669
Other payables for purchasing fixed assets	**128,176**	136,106
Other payables	**20,148**	21,225
Financial liabilities measured at amortised cost	**1,246,257**	1,755,352

15 BANK LOANS AND OTHER BORROWINGS

	At 30 June 2024 *RMB'000*	At 31 December 2023 *RMB'000*
Non-current		
Bank loans	**990,780**	253,998
Obligations arising from sale and leaseback transactions	**102,864**	34,288
	1,093,644	288,286
Current		
Bank loans	**1,077,346**	2,165,438
Obligations arising from sale and leaseback transactions	**152,778**	154,080
	1,230,124	2,319,518
	2,323,768	2,607,804

(a) Bank loans

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

	At 30 June 2024	At 31 December 2023
	RMB'000	*RMB'000*
Within 1 year	**1,077,346**	2,165,438
	1,077,346	2,165,438
After 1 year but within 2 years	**296,086**	153,998
After 2 years but within 5 years	**561,359**	100,000
After 5 years	**133,335**	–
	990,780	253,998
Total	**2,068,126**	2,419,436

At 30 June 2024, the bank loans were secured as follows:

	At 30 June 2024	At 31 December 2023
	RMB'000	*RMB'000*
Unsecured	**377,884**	149,803
Secured	**1,690,242**	2,269,633
Total	**2,068,126**	2,419,436

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

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
— Ownership interests in leasehold land held for own use	**286,300**	254,041
— Construction in progress	**740,038**	117,949
— Plant and buildings	**702,276**	667,593
— Bills receivable (ii)	**47,225**	19,512
— Restricted cash	**613,500**	1,545,237
	2,389,339	2,604,332

Apart from the above secured assets, the bank loans of RMB1,079,822,000 (31 December 2023: RMB564,248,000), was additionally guaranteed by Shenzhen HEC Industrial Development Co., Ltd. (深圳市東陽光實業發展有限公司, "**Shenzhen HEC Industrial**"), Mr. Zhang Yushuai and Ms. Guo Meilan, the ultimate controlling shareholders of the Group.

(ii) As at 30 June 2024, the bank loans of RMB47,225,000 (31 December 2023: RMB19,512,000) represented the bills discounted with recourse which were repayable within one year.

(b) Obligations arising from sale and leaseback transactions

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

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Within 1 year	**161,519**	160,966
After 1 year but within 2 years	**97,507**	18,412
After 2 years but within 3 years	**9,206**	18,412
Total undiscounted obligations arising from sale and leaseback transactions	**268,232**	197,790
Less: total future interest expenses	**(12,590)**	(9,422)
Total	**255,642**	188,368

All obligations arising from sale and leaseback transactions were secured by plant and buildings and machinery with the carrying amounts of RMB440,338,000 (31 December 2023: RMB327,463,000), and were guaranteed by Shenzhen HEC Industrial, Mr. Zhang Yushuai and Ms. Guo Meilan, the ultimate controlling shareholders of the Group as at 30 June 2024 and 31 December 2023.

16 EQUITY-SETTLED SHARE-BASED PAYMENTS

The immediate parent of the Group, Sunshine Lake Pharma, adopted a restricted share scheme in June 2023 (the "**2023 Restricted Share Scheme**") for the purpose of attracting and retaining the employees. Under the 2023 Restricted Share Scheme, up to 7,926,777 restricted shares of Sunshine Lake Pharma may be granted to the selected employees serving in the Group at an exercise price of RMB0.7738 per share. These restricted shares will vest after the 5th anniversary of the grant date, on the condition that the employees remain in service and has fulfilled certain performance requirement. If employees leave the Group before the vesting date or fail to fulfill the performance requirement, the restricted shares will be forfeited. The forfeited shares will be repurchased by a shareholder designated by Sunshine Lake Pharma at the original exercise price, and with an additional 3% per annum interest, and if applicable, and could be reallocated in the subsequent grants at the discretion of Sunshine Lake Pharma.

On 18 July 2023, 7,926,777 restricted shares of Sunshine Lake Pharma under the 2023 Restricted Share Scheme were granted to the selected employees serving in the Group. The weighted average grant date fair value of restricted shares per share and aggregate fair value of restricted shares at the date of grant were RMB57.71 and RMB457,496,000, respectively. The fair value of restricted shares of Sunshine Lake Pharma at the grant date was determined by using the asset-based valuation method.

During the six months ended 30 June 2024, total compensation expenses calculated based on the grant date fair value and the estimated forfeiture rate recognised in the consolidated statement of profit or loss for aforementioned restricted shares granted to the Group's employees were RMB45,136,000 (six months ended 30 June 2023: Nil). No restricted shares were forfeited or vested during the six months ended 30 June 2024 (six months ended 30 June 2023: Nil). The weighted-average remaining contract life for the outstanding restricted shares granted was 48 months as at 30 June 2024 (31 December 2023: 54 months).

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) No dividend for the six months ended 30 June 2024 and 2023 were proposed.

(ii) No final dividends in respect of the previous financial year approved during the six months ended 30 June 2024 and 2023.

(b) Share Capital

Ordinary shares, issued and fully paid

	At 30 June 2024		At 31 December 2023	
	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

On 18 July 2023, 7,926,777 restricted shares of Sunshine Lake Pharma were granted to the selected employees of the Company under 2023 Restricted Share Scheme (see Note 16).

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

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

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

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

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

	Fair value at 30 June 2024	**Fair value measurements as at 30 June 2024 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	**13,210**	**13,210**	**–**	**–**
— Foreign currency option contracts	**13,333**	**–**	**13,333**	**–**

	Fair value at 31 December 2023	Fair value measurements as at 31 December 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	19,587	19,587	–	–
— Foreign currency option contracts	18,686	–	18,686	–
Financial liabilities measured at FVPL				
— Foreign currency option contracts	(1,139)	–	(1,139)	–

During the six months ended 30 June 2024 and 2023, 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 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 2024.

19 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2024 not provided for in the interim financial information were as follows:

	At 30 June 2024	At 31 December 2023
	RMB'000	*RMB'000*
Contracted for		
— Acquisition of fixed assets	**283,709**	568,069
— Acquisition of intangible assets	**1,350,505**	1,427,105
	1,634,214	1,995,174

20 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2024 and 2023, 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**
Sunshine Lake Pharma	the immediate parent of the Group
Yichang HEC Biochemistry Manufacturing 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
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
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.* (乳源東陽光智能科技有限公司) ("**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 Biopharmaceutical**")	effectively owned by the ultimate controlling shareholder
HEC Medicine Retail Chain Co., Ltd., Yidu Branch* (東陽光藥零售連鎖有限公司宜都店) ("**HEC Medicine Retail Chain**")	effectively owned by the ultimate controlling shareholder
Guangdong HEC Health Sales Co., Ltd.* (廣東東陽光大健康銷售有限公司) ("**Guangdong HEC Health Sales**")	effectively owned by the ultimate controlling shareholder
HEC(HongKong) Sales Co.,Limited (香港東陽光銷售有限公司) ("**HEC (Hong Kong) Sales**")	effectively owned by he 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 2024 and 2023, the Group entered into the following material related party transactions:

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
(i) Purchase of goods from:		
— Shaoguan HEC Printing	**16,868**	18,046
— Ruyuan HEC Pharmaceutical	**9,658**	9,026
— HEC Power Plant	**20,635**	17,499
— HEC Biochemistry Pharmacy	**18,992**	17,502
— Others	**83**	138
	66,236	62,211
(ii) Accept service from:		
— Sunshine Lake Pharma	**184,785**	40,410
— HEC Biochemistry Pharmacy	**1,593**	1,593
— Ruyuan HEC Pharmaceutical	**–**	2,478
— Others	**4,663**	7,849
	191,041	52,330
(iii) Lease assets from:		
— Dongguan HEC Pharm R&D	**1,315**	1,113
— Others	**1,491**	603
	2,806	1,716

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
(iv) Payments pass through:		
— Shenzhen HEC Industrial	**283,490**	–
— Sunshine Lake Pharma	**13,179**	10,239
	296,669	10,239
(v) Proceeds arise from Target Products:		
— Sunshine Lake Pharma	**161,676**	57,613
(vi) Sales of goods to:		
— Sunshine Lake Pharma	**6,973**	9,959
— Others	**97**	1,222
	7,070	11,181
(vii) Purchase of fixed assets from:		
— Yidu Machinery Equipment	**1,505**	1,009
(viii) Purchase of intangible assets from:		
— Sunshine Lake Pharma	**76,600**	144,977
(ix) Transfer equity investment to:		
— Shenzhen HEC Industrial	**–**	2,312,320
(x) Sales sharing of the revenue arising from drug R&D pipeline cooperation project:		
— Sunshine Lake Pharma	**33,120**	–

(b) Balances with related parties

(i) Amounts due from related parties

	At 30 June 2024 *RMB'000*	At 31 December 2023 *RMB'000*
Prepayment to and trade receivable from:		
— Sunshine Lake Pharma	**471,232**	229,555
— Guangdong HEC Health Sales	**189**	189
— HEC (Hong Kong) Sales	**–**	1,531
— HEC Medicine Retail Chain	**–**	68
	471,421	231,343

(ii) Amounts due to related parties

	At 30 June 2024 *RMB'000*	At 31 December 2023 *RMB'000*
Trade payables and other payables to:		
— Sunshine Lake Pharma	**12,391**	–
— Shaoguan HEC Printing	**7,805**	436
— Yidu Machinery Equipment	**191**	5
— Others	**1,642**	–
	22,029	441

(c) Financial guarantees

As at 30 June 2024, guarantees were issued to the Group by Shenzhen HEC Industrial, Mr. Zhang Yushuai and Ms. Guo Meilan, the ultimate controlling shareholders of the Group in connection with bank loans and other borrowings amounted to RMB1,335,464,000 (31 December 2023: RMB752,616,000).

As at 30 June 2024, guarantees were issued to the Group by Shenzhen HEC Industrial in connection with letter of credit amounted to RMB176,000,000 (31 December 2023: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY REVIEW

In the first half of 2024, the pharmaceutical industry demonstrated strong growth momentum, which was attributable to the steady recovery of the global economy, the continuous advancement of scientific and technological innovation, and that governments have been attaching great importance to public health. Especially in China, with the in-depth implementation of the "Healthy China" strategy and the continuous improvement of the medical protection system, China's domestic pharmaceutical market demand continued to expand, and the market vitality is increasing. In 2024, the pharmaceutical industry underwent a multifaceted nationwide policy adjustment that aimed at promoting innovation, improving access to drugs, safeguarding patients' rights and driving the healthy development of the industry.

1. Adjustment of the National Medical Reimbursement Drug List and centralised drug procurement policy

The National Healthcare Security Administration (China) continued to adjust the National Medical Reimbursement Drug List in a dynamic manner and included more innovative drugs and drugs for rare diseases in the medical insurance reimbursement coverage. Meanwhile, drug prices have significantly reduced through negotiations at national level amid advancement in the centralised drug procurement policy. The optimisation and revision of the National Medical Reimbursement Drug List have significantly relieved the financial burden of patients and increased the accessibility and affordability of drugs. Through centralized procurement, the reduction in drug prices have benefited millions of patients. At the same time, it motivates pharmaceutical enterprises to pay more attention to the flexibility of cost control and market strategies, facilitating the integration and optimisation of the industry. At the same time, pharmaceutical companies were prompted to pay more attention to cost control and flexibility in marketing strategies, while also promoting integration and optimisation within the industry.

2. Reform of the drug review and approval system

In 2024, the National Medical Products Administration ("**NMPA**") has further deepened the reform of the drug review and approval system, optimised the process of approving the launching of drugs, simplified the process of and shortened the time required for new drugs launching. In addition, the regulation of drug safety and efficacy has been reinforced while the post-launching ongoing monitoring requirements of drugs have been tightened. The reform of the drug review and approval system has provided a faster market access for innovative drugs and a more efficient environment for pharmaceutical companies in terms of research and development and market conversion. Meanwhile, with more stringent regulatory requirement in place, pharmaceutical companies have to pay more attention to the quality control and late-stage clinical studies of drugs, thus safeguarding the safety and rights of patients.

3. Strengthening of data security and privacy protection policy

With the rapid development of digital healthcare, the Chinese government has strengthened the security and privacy protection of medical and health data, issued regulations such as the "Administrative Measures on National Health and Medical Care Big Data Standards, Security and Services" (《國家健康醫療大數據標準、安全和服務管理辦法》), clarified the requirements for data collection, processing and use, and required pharmaceutical companies to establish a sound data security management system. These policy changes have prompted pharmaceutical companies to strengthen internal data management, improve the application of data security technologies, and raised the industry's awareness regarding data ethics and patient privacy protection, which helps build a more trusting doctor-patient relationship. At the same time, it also promotes the rational use of medical and health data, and provides legal protection for the healthy development of digital healthcare.

4. Environmental and sustainability policy

The Chinese government emphasizes the responsibility of the pharmaceutical industry in environmental protection and sustainable development, puts forward requirements to reduce carbon emissions, improve the transparency and fairness of the supply chain, and promote green manufacturing and sustainable development, including the implementation of the "Green Manufacturing Action Plan for the Pharmaceutical Industry" (《醫藥行業綠色製造行動計劃》). The strengthening of environmental protection policies has promoted the transformation of pharmaceutical companies to green manufacturing, optimised supply chain management, improved the overall environmental awareness and social responsibility of the industry, and laid a solid foundation for sustainable development of the pharmaceutical industry. In the long run, this will help to enhance the Company's brand image and promote sustainable market competitiveness.

The policy changes in the pharmaceutical industry in 2024, from the adjustment of the National Medical Reimbursement Drug List and centralized procurement policies, the reform of the drug review and approval system, to the strengthening of data security and privacy protection policies and the promotion of environmental protection and sustainable development policies, profoundly affected the ecological pattern of the pharmaceutical industry. These policies not only promote innovation and efficiency in the pharmaceutical industry, but also strengthen the industry's awareness towards patient rights, data security and environmental responsibility, laying a solid foundation for the long-term healthy development of the industry. Pharmaceutical companies need to actively adapt to policy changes, strengthen internal management, and improve innovation capabilities, so as to achieve sustainable development.

II. BUSINESS REVIEW

1. Summary of Specific Performance

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

With years of experience delving into the fields of pediatrics and anti-infection, the Group's core product Kewei (Oseltamivir Phosphate) still maintains its leading position and competitive advantage in the domestic anti-influenza field. At the same time, the Group is dedicated to reinforcing the brand influence of "Kewei", and continuously enhance the brand recognition and market growth of the core product Kewei. In the in-hospital market, the Group continued to strengthen its academic promotion activities and implement the sales policy of "tapping deep and widen coverage", further increasing the prescription rate of influenza patients, increasing the sales volume through existing institutions, extending sales channels to lower tier markets, and continuously strengthening the influence of Kewei among doctors, patients, especially pediatricians and parents. In the out-of-hospital market, the Group actively promotes the establishment of an out-of-hospital sales system, implements the concept of brand building to establish Kewei as the No. 1 brand of anti-influenza drugs through active brand building and doctor-patient education over the years. Riding on the huge potential of the primary care market, secured by solid supply chain and brand influence, Kewei is set to embrace further market growth. At the same time, the Group further enhanced the production capacity of Kewei, to better prepare to make better preparations for future influenza outbreaks and further enhance its ability to grasp the market of influenza epidemics.

For the six months ended 30 June 2024, the Group carried out a comprehensive product, category and brand upgrade of its Kewei brand. By upgrading the positioning of the "Kewei" series products from "the first choice for the prevention and treatment of influenza" to "the cornerstone drug for the prevention and treatment of influenza", the connection with the treatment of influenza has been further deepened, and the brand recognition of the "Kewei" brand has been further enhanced, ranking 19th among the top 50 health brands in China in 2024, going up 17 places from 2023. In addition, the Group has also upgraded its technology in terms of the taste of Kewei granules, which has improved the compliance of children's medication and enhanced its brand recognition.

In terms of market foundation, the Group has further consolidated Kewei's market position by strengthening the refined management and organisational capacity building of the sales team. The hospital sales system strengthens daily management and capacity training by improving the product line management team, guiding the team to carry out daily work in an orderly manner, and continuously providing high-quality academic activities and publicity during the flu season. In the retail market, by strengthening the dynamic sales system, the institutions coverage rate of Kewei granules has continued to increase, and the product coverage in retail pharmacies is close to 70%. Based on the current solid market foundation, the Group is confident that it will show stronger market performance than ever before during the influenza season. At the same time, the Group also relies on the influence of the "Kewei" brand in the field of paediatrics, and actively deploys peripheral products with synergies with Kewei, which will further consolidate the Group's brand position in the field of influenza treatment. At the same time, leveraging the strong R&D capacity of the Group's controlling shareholder, research and development of new influenza drugs is being actively deployed with a view to expand, from the "Kewei" brand to a wider range of respiratory health fields through strategic development and the extension of product lines.

(2) Chronic disease business pipeline represented by insulin

As one of the Group's new performance growth curves, the chronic diseases business pipeline represented by insulin is gradually entering the harvest period, as the Group achieved revenue of RMB180.0 million in the first half of 2024, representing a significant increase of 140.7% when compared with the corresponding period last year, which was fueled by the Group's continuous effort in strengthening its professional promotion team, introduction of elite reputable institutions, cultivating the primary care market and optimizing the sales channels at all levels. During the Reporting Period, 5 of the Group's self-developed insulin products, namely Recombinant Human Insulin Injection, Insulin Glargine Injection, Insulin Aspart Injection, Insulin Aspart 30 Injection and Mixed Protamine Human Insulin Injection (30R) have all been approved for launching. Specifications of these products are highly consistent with the original biologics in terms of efficacy, safety and stability, and all 5 insulin products were awarded the bids for centralized bulk procurement. With further promotion of insulin series products, it is expected to contribute considerably to the Company's chronic disease business pipeline.

The Group has a complete diabetes product line, and in addition to insulin products, other products in the diabetes field also performed well, such as the oral hypoglycemic product Linagliptin, which significantly increased by 394.0% over the same period last year. In addition, the products under development are also progressing smoothly, among which the application for new drug launch of Class I innovative drug SGLT-2 Inhibitor Rongliflozin for the treatment of type 2 diabetes has been submitted. SGLT-2 inhibitors have gradually become the firstline oral drugs for the treatment of diabetes and its market is in a stage of rapid growth, and its launching is expected to contribute considerably to the performance of the Group.

In the field of chronic diseases, in the first half of 2024, the Company has successfully held a number of large-scale academic conferences with national influence. Through the activities of "Entering Sunshine Lake Pharma", organizing meetings in various cities and hospital departments, etc., with the aid of the Group's high-quality diabetes treatment drugs, the Group's products have strengthened the awareness of the Group's products in the field of diabetes, clearly established a patient-centered service system, provided high-quality chronic disease management services, and made full use of the national centralized procurement policy to provide patients with high-quality and affordable treatment drugs in the field of diabetes.

(3) New drug business pipeline represented by Emitasvir Phosphate

As the Group's first Class I innovative drug being approved, leveraging the Group's established foundation in the field of anti-infective, to continuously improve the market penetration rate of Emitasvir Phosphate capsules, and the revenue in the first half of 2024 was approximately RMB40.8 million, representing an increase of 188.5% when compared to the corresponding period last year. Since the launch of Emitasvir Phosphate capsules, the number of patients treated on a positive trend has been increasing constantly, and the drug has won wide recognition from doctors and patients due to its excellent efficacy and safety. Since its inclusion in the National Medical Reimbursement Drug List in 2023, Emitasvir Phosphate has been well-regarded hospitals, clinicians, and disease control units in the medical community. In terms of market performance, the cumulative sales scale of Emitasvir Phosphate has reached more than 100 million, and the market share has also increased significantly, successfully ranking among the top three in the industry in the first half of 2024.

According to the data in 2022, the total number of confirmed cases of chronic Hepatitis C in China in 2022 was 2.5 million, and it was expected to reach 2.8 million by 2026 and 3.1 million by 2030. The current diagnosis rate of chronic hepatitis C is relatively low, with a conservative estimation of the potential number of patients falling within the range of tens of millions. The Action Plan Against Public Health Hazards and 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)》) promulgated by nine departments including the National Health Commission in 2021 put forward an aim that, within a period of 10 years, the clinical cure rate of antiviral treatment for hepatitis C patients should attain at least 95%, and the treatment rate of chronic hepatitis C should attain at least 80%. Based on this goal, the next 10 years will be a golden period for the Hepatitis C treatment market. At present, in addition to the Group, only a few domestic pharmaceutical companies committed to the field of hepatitis C are still deployed in this field, and the Group can become a leader in the domestic hepatitis C drug market by relying on years of deep cultivation in the field of anti-infection and a stronger competitive advantage in the primary treatment market. At the same time, leveraging the strong R&D capacity of the controlling shareholder, we have a wealth of commercializable new drug products in the field of anti-infection in the future, and the team building and channel layout in the field of hepatitis C treatment have also laid a solid foundation for the commercialization of the new drug business pipeline in the future.

(4) Centralised Procurement and New Retail business pipeline

Centralized procurement and new retail lines have become the Company's important cashflow business pipelines, with a revenue of approximately RMB346.1 million in the first half of 2024, representing an increase of 60.8% when compared with the corresponding period last year. Currently, the Group has been awarded the bids for a total of 12 different types of chemical generic products in the national centralized procurement. The centralized procurement business as a whole shows characteristics such as low sales expense ratio and steady increase in revenue. In the first half of 2024, many of the Group's selected and centrally procured products showed very good growth performance as a whole. For example, the revenue of Esomeprazole magnesium Enteric-Coated Capsules increased by 79.2% when compared with the corresponding period last year, and the revenue of Telmisartan increased by 53.7% when compared with the corresponding period last year. The Group possesses a wide spectrum of products available for selection in the centralized bulk procurement of China, and with the help of the procurement, the Group's revenue stream will continue to be enriched. At the same time, the sales of centralized purchasing products in the hospital also supports the construction of a new retail system. At present, the Group's new retail system is becoming more and more mature and has formed a relatively more stable business model. Through cooperation with leading commercial companies and large chain pharmacies, the Group uses in-hospital prescriptions to drive the growth of out-of-hospital retail business. The new retail of medicine is a very broad market, and the Group will continue to expand the new retail product line, increase the market channels of pharmaceutical retail, and provide patients with more drug choices with excellent quality and at affordable price.

2. R&D Progress

The Group made outstanding R&D progress in the therapeutic areas of chronic disease business pipeline and new drug business pipeline during the first half of 2024.

1. Chronic disease business pipeline

In the area of chronic disease business pipeline, the Group is dedicated to the R&D of insulin products and has a comprehensive product line planning, which covers both the second and the third generations of insulin.

The Group has a complete R&D system for insulin series products. Five insulin products developed by the Group, including the Recombinant Human Insulin Injection, Insulin Glargine Injection, Insulin Aspart Injection, Insulin Aspart 30 Injection and the Mixed Protamine Human Insulin Injection (30R), were approved for launching. Based on clinical trials results, specifications of these products are highly consistent with the original biologics in terms of efficacy, safety and stability. The Group also has a comprehensive product line, covering the second and third generations of insulin, that meets the clinical medication needs of doctors and patients. Moreover, the product line adopts a yeast expression system which is advanced in technology and easy for large scale production.

In addition, in order to further enrich the Group's product line in the field of diabetes, the Group acquired a number of drugs for treatment of diabetes from Sunshine Lake Pharma, in particular, the application for approval for launch of the Class I innovative drug SGLT-2 Inhibitor Rongliflozin for the treatment of type 2 diabetes has been submitted. It is expected to contribute considerably to the Company's chronic disease business pipeline after its launching, elevating the Group's comprehensive strength and improving the Group's revenue structure.

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	92,382	–	92,382	3.8%	18.3%

2. New drug business pipeline

In respect of the new drug business pipeline area, the Group is dedicated to the research and development of hepatitis C products with a holistic business planning, In particular, the new drug application for Emitasvir Phosphate, an innovative treatment for hepatitis C genotype 1, has been approved for launch. Furthermore, the new drug launch application for Yiqibuvir Tablets (0.3g), a pan-genotypic regimen, has been accepted by the NMPA.

3. Sales review

During the Reporting Period, the sales of the Group's core business pipelines were as follows:

- Anti-viral paediatrics business pipeline: core products of Kewei (Oseltamivir Phosphate) granules and capsules generated revenue of RMB1,864.5 million, maintaining a solid performance.

- In the chronic disease business pipeline, the overall revenue was RMB180.0 million, an increase of 140.7% over the same period last year.

- In terms of the new drug business pipeline, the revenue of Emitasvir Phosphate capsules was RMB40.8 million, an increase of 188.5% over the same period last year.

- In terms of centralized procurement and new retail business pipelines, the overall revenue was RMB346.1 million, an increase of 60.8% over the same period last year.

Kewei, the Group'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 (2030 version) (《流行性感冒診療方案(二零三零年版)》) and Medicines List for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2023) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(二零二三年)》).

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 2024, the Group has a total of 1,897 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's Hubei Yidu production base is the production base for a full range of insulin products and the world's largest production base for Oseltamivir Phosphate. Our preparation factory in Hubei Yidu production base produces oral solid preparations and freeze-dried powder injections, which are mainly supplied to the domestic market. It has passed the GMP certification in the PRC, and its dosage forms include tablets, capsules, granules, dry suspension and freeze-dried powder injections, making it the world's largest Oseltamivir Phosphate preparation production base.

The Group is the largest supplier of Oseltamivir Phosphate, providing a reliable supply of national reserve drugs. Over the years, we have demonstrated strong production capacity and high standards in response to influenza pandemic. We have advanced facilities and strict production standards, and comply with GMP and other quality management systems. Our experienced team is capable of quickly adjusting production plans to ensure the continuity and stability of drug supply. We are committed to providing a reliable guarantee for the national drug reserve.

The Group adheres to the belief of "For Everyone's Health" and strives to provide high quality medicine to patients. With this belief in mind, 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 attaches great importance to production safety and environmental protection. In respect of production safety, to ensure no occurrence of any material safety incidents, the Group has implemented safety education, strengthened safety risk management and promoted the establishment of safety standards. In respect of environmental protection, the Group takes environmental protection as its mission and adheres to green production. Specific measures were taken to deal with various pollutants generated during the production process so as to achieve the recycle of resources and environmental protection at the same time.

III. OPERATION RESULTS AND ANALYSIS

1. Revenue

For the six months ended 30 June 2024, the Group's revenue was RMB2,454.8 million and the total profit and comprehensive income attributable to equity holders of the Company was RMB684.7 million. For the six months ended 30 June 2024, the Group's research and development ("**R&D**") expenses increased by approximately RMB184.1 million. Excluding the increase in R&D expenses, the total profit and comprehensive income attributable to the equity holders of the Company would be RMB858.8 million, the net profit margin increased further compared to that of the corresponding period of last year. The Group continued to conduct academic promotion work and "Kewei" brand building, and continued to enhance the brand recognition and market space of its core product, Kewei. This ensured a solid performance in the first half of 2024 for Kewei's sales. Meanwhile, the other business pipelines have gradually entered the harvesting period, and the first half of 2024 showed a high rate of performance growth, specifically:

The Group's chronic disease business pipeline, represented by insulin, achieved a revenue of RMB180.0 million in the first half of 2024, representing a significant increase of 140.7% over the same period last year. In particular, 5 products of the Group's insulin series products have been approved for launching and won the bid for centralized bulk procurement. In addition to the insulin series products, the Group's oral small molecule hypoglycemic drug products showed a good growth momentum, in particular, the revenue of the product Linagliptin significantly increased by 394.0% over the same period last year. In addition, the application for approval for launch of the Class I innovative drug SGLT-2 Inhibitor Rongliflozin for the treatment of type 2 diabetes has been successfully submitted. SGLT-2 inhibitors have gradually become the first-line oral drugs for the treatment of diabetes. The market is in a stage of rapid growth, and the listing of Rongliflozin is expected to contribute considerably to the performance for the Group.

In the first half of 2024, the new drug business pipeline, represented by Emitasvir Phosphate, generated a revenue of RMB40.8 million, representing a significant increase of 188.5% over the same period last year. At present, the Group's Emitasvir Phosphate capsules, a Class I innovative drug, has been approved for launching and included in the National Medical Reimbursement Drug List. Meanwhile, the launching application of the Class I innovative drug, the Pan-genotypic chronic Hepatitis C treatment drug Yiqibuvir Tablets (0.3g), has been accepted. This product is used in combination with Antetavir capsules for the treatment of chronic Hepatitis C virus (HCV) infection in adults. Once the above-mentioned Pan-genotypic product combination is approved for launching, the Group's competitive advantages in the field of hepatitis C treatment can be further consolidated.

Centralized procurement and new retail business pipelines have also become indispensable business pipelines contributing to the cash flow of the Group, which recorded a revenue of RMB346.1 million in the first half of 2024, representing an increase of 60.8% when comparing with the corresponding period last year. The Group has been currently awarded with the bid for centralised bulk procurement of 12 chemical generic drug products of different specifications, among which a number of products have maintained a good growth momentum, for instance, the revenue of Esomeprazole magnesium Enteric-coated Capsules increased by 79.2% when comparing with the corresponding period last year, and the revenue of Telmisartan increased by 53.7% over the same period last year.

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 2024, the cost of sales of the Group amounted to RMB505.5 million, representing a decrease of RMB139.6 million as compared to RMB645.1 million for the corresponding period of last year, which was because sales of the Group's core product Kewei recorded a year-on-year decrease during the Reporting Period.

3. Gross Profit

For the six months ended 30 June 2024, gross profit of the Group was RMB1,949.2 million, representing a decrease of 24.0% as compared to RMB2,563.9 million for the six months ended 30 June 2023, which was mainly because sales of the Group's core product Kewei recorded a year-on-year decrease during the Reporting Period.

4. Other Net Income/Expenses

Other net income/expenses 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) net profit or loss of disposal of fixed assets; and (5) other miscellaneous gains. For the six months ended 30 June 2024, other net income of the Group amounted to RMB62.9 million, representing an increase of RMB203.1 million as compared to other net expenses of RMB140.2 million for the corresponding period of last year, which was mainly due to the decrease in impairment loss of the Group's intangible assets and net foreign exchange loss, as well as the decrease in the loss of fair value changes of derivative financial instruments embedded in convertible bonds in the first half of 2024.

5. Expenses Analysis

For the six months ended 30 June 2024, the Group's expenses amounted to RMB1,198.6 million in total, representing an increase of RMB36.7 million as compared to RMB1,161.9 million for the six months ended 30 June 2023. 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**
	2024	2023	**2023**
	RMB'000	*RMB'000*	***(%)***
Distribution costs	**660,910**	755,504	-12.5%
Administrative expenses	**193,843**	172,107	12.6%
R&D cost	**265,925**	98,264	170.6%
Reversal of impairment losses on trade and other receivables	**24,043**	(276)	-8,811.2%
Finance costs	**53,854**	136,268	-60.5%
Total	**1,198,575**	1,161,867	3.2%

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 decrease in distribution costs was mainly due to the corresponding decrease in marketing costs driven by decreasing sales scale of the Group's products.

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 fact that the compensation expense was recognised for restricted shares granted to the Group's employees in 2024.

For the six months ended 30 June 2024, the Group's investment in R&D amounted to RMB358.4 million in total, representing 14.6% of the revenue and an increase of 196.9% as compared to the corresponding period of last year, among which expenses were RMB265.9 million and capitalized expenditures were RMB92.5 million.

Finance costs mainly include interests on bank loans.

6. Profit Before Taxation

For the six months ended 30 June 2024, the Group's profit before taxation amounted to RMB813.5 million in total, representing a decrease of 35.5% as compared to the profit before taxation of RMB1,261.9 million for the six months ended 30 June 2023, which was mainly because sales of the Group's core product Kewei recorded a year-on-year decrease during the Reporting Period.

7. Income Tax

For the six months ended 30 June 2024, the income tax expenses of the Group amounted to RMB128.8 million, representing a decrease of RMB109.1 million as compared to the income tax expenses of RMB237.9 million for the six months ended 30 June 2023, which was mainly due to the decrease in profit before taxation of the Company.

8. Profit for the Period

For the six months ended 30 June 2024, the Group recorded a net profit of RMB684.7 million, representing a decrease of 33.1% as compared to the net profit of RMB1,023.9 million for the six months ended 30 June 2023, which was mainly because sales of the Group's core product Kewei recorded a year-on-year decrease during the Reporting Period.

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

For the six months ended 30 June 2024, profit and total comprehensive income attributable to equity shareholders of the Company was RMB684.7 million, representing a decrease of 33.5% as compared to profit and total comprehensive income attributable to equity shareholders of the Company of RMB1,029.5 million for the six months ended 30 June 2023, which was mainly because sales of the Group's core product Kewei recorded a year-on-year decrease during the Reporting Period.

IV. FINANCIAL POSITION

1. Overview

As of 30 June 2024, the Group's total assets amounted to RMB12,494.2 million, with total liabilities of RMB3,828.8 million and shareholders' equity of RMB8,665.4 million.

As of 30 June 2024, 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 2024	As at 31 December 2023
	RMB'000	*RMB'000*
Current assets		
Inventories	**581,153**	409,050
Trade and other receivables	**1,986,232**	2,112,798
Prepayments	**391,573**	270,809
Financial assets measured at FVPL	**13,333**	18,686
Restricted cash	**973,432**	1,567,300
Cash and cash equivalents	**1,523,120**	1,674,413
Total current assets	**5,468,843**	6,053,056
Current liabilities		
Trade and other payables	**1,246,257**	1,755,352
Contract liabilities	**49,244**	101,448
Bank loans and other borrowings	**1,230,124**	2,319,518
Lease liabilities	**3,362**	359
Deferred income	**8,195**	8,195
Financial liabilities measured at FVPL	**–**	1,139
Current taxation	**1,280**	146,209
Total current liabilities	**2,538,462**	4,332,220
Net current assets	**2,930,381**	1,720,836

As at 30 June 2024, the Group recorded the total current assets of RMB5,468.8 million, as compared to RMB6,053.1 million as at 31 December 2023. During the Reporting Period, the net current assets of the Group increased by RMB1,209.5 million due to the combined effect of the decrease in current assets by RMB584.3 million mainly resulting from the decrease in sales volume of the Company's core product, Kewei, during the Reporting Period, and the decrease in total current liabilities by RMB1,793.8 million.

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 decreased from 32.86% as at 31 December 2023 to 26.82% as at 30 June 2024 and quick ratio increased from 1.30 times as at 31 December 2023 to 1.93 times as at 30 June 2024.

4. Bank Loans and Other Borrowings

As at 30 June 2024, the Group's balance of its bank loans and other borrowings included bank loans of RMB2,068.1 million and obligations arising from sale and leaseback transactions of RMB255.6 million, representing a decrease of RMB284.1 million as compared to RMB2,607.8 million as at 31 December 2023. 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 2024.

5. Capital Structure

As at 30 June 2024, the Group's total equity attributable to equity shareholders of the Company amounted to RMB8,665.4 million, representing an increase of RMB729.9 million as compared to RMB7,935.5 million as at 31 December 2023. The increase was mainly due to the decrease of bank loans and other borrowings of the Group during the Reporting Period.

6. 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 2024 with an aggregate capital expenditure of RMB492.5 million, representing an increase of 108.3% as compared to RMB236.4 million for the corresponding period of 2023.

7. Contingent Liabilities

As at 30 June 2024, The Group had no significant contingent liabilities, litigation or arbitration of material importance.

8. Pledge of Assets

As at 30 June 2024, the Group's land use rights amounting to RMB286.3 million, construction in progress amounting to RMB740.0 million, fixed assets amounting to RMB702.3 million, bills receivable amounting to RMB47.2 million and restricted cash amounting to RMB613.5 million were pledged to banks for bank loans and other borrowings and issuing bills payables.

9. 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 USD50.0 million denominated in US dollars.

10. Employee and Remuneration Policies

As at 30 June 2024, the Group has a total of 4,891 employees. The staff costs, including directors' emoluments but excluding any contributions to pension scheme, were approximately RMB537.4 million for the six months ended 30 June 2024. 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.

11. Hedging Activities

For the six months period ended 30 June 2024, 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.

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

During the six months ended 30 June 2024, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies and joint ventures by the Group.

13. 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. Inside information in relation to a possible transfer of shares in the Company

1. On 8 March 2024, the Company announced that its parent company Sunshine Lake Pharma was undergoing a material share transfer, which involved the transfer of H shares held by its wholly-owned subsidiary, HEC (Hong Kong) Sales to Sunshine Lake Pharma. The transfer consideration was HK$9.14 per share, with a total transaction amount of HK$2,067,468,000, which is expected to be paid in cash or through other means agreed between both parties no later than 360 days after the completion date.

   In addition, Sunshine Lake Pharma was considering a merger by absorption of the Company by way of share exchange, which aimed to create an integrated pharmaceutical industry chain of R&D, production and sales resources so as to build a leading global integrated pharmaceutical enterprise, and improve operational efficiency and long-term growth potential. Following the merger, the Company will be delisted. At present, the merger plan remains in the preliminary stage, and the exact details and final outcome are still uncertain.

   For details, please refer to the Company's announcement dated 8 March 2024.

2. Joint Announcement

On 10 May 2024, Sunshine Lake Pharma entered into a merger agreement with the Company, indicating that Sunshine Lake Pharma intends to privatize the Company via merger by absorption. Pursuant to the agreement, shareholders of the Company will receive 0.263614 H share of Sunshine Lake Pharma for every Company share, and will become shareholders of Sunshine Lake Pharma after the completion of the merger. The transaction will result in the delisting of the Company from the Stock Exchange and the H shares of Sunshine Lake Pharma will be listed on the Main Board of the Stock Exchange by way of introduction. This merger will integrate the resources of the two companies, strengthen the integrated and independent R&D system, enhance market competitiveness, and consolidate its leading position as a comprehensive pharmaceutical enterprise. The independence of the Company will cease with the merger, and all assets, liabilities and other rights and obligations of the Company will be assumed by Sunshine Lake Pharma. The merger is an important step in the strategic development of Sunshine Lake Pharma, which is expected to create greater value for shareholders.

For details, please refer to the Company's announcement dated 10 May 2024.

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

In 2024, China's pharmaceutical industry achieved rapid development and profound changes under the active guidance and in-depth involvement of national policies. The drug review and approval process has been optimized, the medical insurance catalogue has been adjusted, pharmaceutical innovation policies have been introduced, and the digital health field has been continuously promoted, while the emphasis on environmental protection and sustainable development has also increased. The optimisation and support of these policies provide a solid foundation for the healthy and sustainable development of the industry.

Looking ahead, China's pharmaceutical industry will continue to promote policy innovation, devote itself to the high-quality development of the industry, and play a more important role in the global health cause. Pharmaceutical companies need to keep up with policy guidance, strengthen internal management, and increase innovation to achieve sustainable development and meet the growing health needs of the market.

The Group closely follows the development trend of the pharmaceutical industry, actively responds to market demand, and strives to provide safer and more efficient pharmaceutical products through continuous technological innovation and product upgrading. We firmly believe that relying on our product advantages and clear market positioning, we can make greater contributions to improving human health and quality of life. Looking ahead to the future, we look forward to working hand in hand with partners in the industry to contribute to the global health cause, and continue to promote the high-quality development of the pharmaceutical industry 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 (including sale of treasury shares) of the Company during the six months ended 30 June 2024.

As at 30 June 2024, the Company did not hold any treasury shares.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: nil).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

As a company listed on the Stock Exchange, the Company always strives to maintain a high level of corporate governance and complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix C1 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 C3 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 Company's 2024 interim results announcement, interim report and the Group's unaudited financial statements for the six months ended 30 June 2024 prepared in accordance with the IFRS Accounting Standards.

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 Company's 2024 interim report containing all the information required by the Listing Rules 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
30 August 2024

As at the date of this announcement, the Board consists of Mr. JIANG Juncai, Mr. WANG Danjin, Mr. LI Shuang and Mr. CHEN Hao 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*