HUA MEDICINE
華領醫藥
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2552)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2023

The Board is pleased to announce the unaudited consolidated results of the Group for the six months ended June 30, 2023, together with the comparative figures for the six months ended June 30, 2022. Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meaning as those defined in the Prospectus.

BUSINESS HIGHLIGHTS

- Dorzagliatin was launched in China in October 2022 with the trade name 华堂宁® (HuaTangNing). Hua Medicine has achieved total revenue of RMB87.9 million from the time of commercial launch at the end of October 2022 through the end of June 30, 2023. For the first half of 2023, Hua Medicine achieved revenues of RMB70.3 million, representing approximately a 299.6% increase in revenue compared with the second half of 2022. We work with our partner, Bayer Healthcare Company Limited ("Bayer"), in commercializing 华堂宁® in China.

- Upon 华堂宁® approval for two Type 2 diabetes (T2D) indications and successful commercial launch in China, Hua Medicine received RMB400 million non-refundable milestone payment from Bayer. With additional government funding, our total cash received from Bayer and government funding in the first half of 2023 is RMB402.6 million. Hua Medicine is expecting additional milestone payments from Bayer. Our cash balance as of June 30, 2023 was RMB881.3 million, representing an increase of approximately 79.6% from our cash balance of RMB490.6 million as of December 31, 2022.

- Hua Medicine has invested into dorzagliatin scale-up manufacturing capability at Changzhou SynTheAll (STA), Zhejiang Raybow and Shanghai Desano upon its successful commercial launch and during the initial out-of-pocket stage of commercialization. Hua Medicine has filed its National Reimbursement Drug List (NRDL) application for 华堂宁® and is preparing the pharmacoeconomic value discussion of 华堂宁® with regulatory agencies in the near-future.

- Hua Medicine continues to discover the therapeutic advantage of dorzagliatin in medical care. Through modulating the glucose sensor glucokinase (GK) function and repairing the impaired GLP-1 secretion in patients with diabetes and obesity, dorzagliatin is expected to secure new indication related to endogenous GLP-1 (Nature Comm March 2023). These results have encouraged physician to investigate the combination of dorzagliatin with GLP-1 receptor agonists for patients with poor control of post prandial glucose. Our team has also presented the positive effects of dorzagliatin in the prevention of diabetes and memory defect in GK rat at the June 2023 American Diabetes Association (ADA) conference in San Diego, USA.

- In June 2023, we published our results of SEED-DREAM study in the well-recognized medical journal of Diabetes, Obesity and Metabolism, in which we reported the dorzagliatin treatment effects during the SEED study that lead to diabetes remission in the prospective 52-week clinical DREAM trial. Significant improvement of beta cell function and early phase insulin secretion were observed during the SEED trial, and contributed to an effective reduction of post prandial glucose in T2D patients and significant increase in TIR (Time in Range).

- Hua Medicine has advanced the development of 2nd generation of GKA in overseas markets. Our team is preparing an Investigational New Drug (IND) filing in the United States either by year end 2023 or early 2024. We are also continuing to develop new drug candidates of fix-dose-combination of dorzagliatin with metformin, sitagliptin and empagliflozin. In clinical studies we have found that combination of dorzagliatin with DPP-4 inhibitor or SGLT-2 inhibitor improved glycaemic control and beta cell function in patients with diabetes and obesity.

- Hua Medicine is investigating the clinical application of dorzagliatin in the prevention of diabetes. We have initiated the SENSITIZE II study at Chinese University of Hong Kong (CUHK) and are developing plans to study the opportunity of reversing impaired glucose tolerance (IGT) to normal glucose tolerance (NGT) in China. IGT is a primary cause of Type 2 diabetes in China, and there are approximately 500 million IGT patients worldwide. The main cause of IGT, especially those with impaired post prandial glucose tolerance, is the impairment of early phase insulin secretion in the pancreas and the defect of glucokinase expression in the liver. Mechanistically dorzagliatin has the potential of reversing the condition of the IGT to NGT and thereby prevent diabetes.

FINANCIAL HIGHLIGHTS

- Bank balances and cash position was approximately RMB881.3 million as of June 30, 2023.

- Total revenue generated by the Company for the six months ended June 30, 2023 was approximately RMB70.3 million, reflecting the sales of approximately 212,000 packs of HuaTangNing (华堂宁®).

- Total other income generated by the Company for the six months ended June 30, 2023 was approximately RMB38.6 million, of which approximately RMB21.7 million was attributable to the amortization of Bayer milestone income.

- Total expenditures incurred by the Company for the six months ended June 30, 2023 was approximately RMB181.5 million, of which approximately RMB71.0 million was attributable to research and development expenses.

- Research and development expenses decreased by approximately RMB1.3 million or approximately 1.8% to approximately RMB71.0 million for the six months ended June 30, 2023, compared with the six months ended June 30, 2022.

- Loss before tax decreased by approximately RMB14.5 million or approximately 13.9% to approximately RMB90.1 million for the six months ended June 30, 2023, compared with the six months ended June 30, 2022.

- Total comprehensive expense for the period decreased by approximately RMB14.0 million or approximately 13.4% to approximately RMB90.5 million for the six months ended June 30, 2023, compared with the six months ended June 30, 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

Dorzagliatin was launched in China in 2022 with the trade name 华堂宁® (HuaTangNing). Hua Medicine, working with our commercialization partner, Bayer Healthcare Company Limited, achieved total sales of RMB87.9 million from the time of commercial launch at the end of October 2022 through the end of June 30, 2023. For the first half of 2023, Hua Medicine achieved revenues of RMB70.3 million, representing approximately a 299.6% increase in revenue compared with sales achieved in the second half of 2022. The significant sales achieved after the first launch in the very competitive hospital-oriented diabetes market is a result of the new government policy of on-line pharmacy sales regulation. Under this regulation, patients with online physician diagnosis and prescription can purchase medicines for chronic diseases through on-line drug store channels. This regulation is very helpful for patients, as it expands access to patients who can now secure 华堂宁® as a new medicine nationally before it enters into the National Reimbursement Drug List (NRDL) and enters hospitals nationwide.

Upon dorzagliatin approval by the China NMPA for two diabetes indications and its successful launch in China, Hua Medicine received a non-refundable milestone payment of RMB400 million from Bayer. With additional government funding, our total cash received from Bayer and government funding in the first half of 2023 is RMB402.6 million. Our cash balance as of June 30, 2023 was RMB881.3 million, representing an increase of approximately 79.6% from our cash balance of RMB490.6 million as of December 31, 2022. Hua Medicine is expecting to receive a certain milestone payments from Bayer relating to the development of HuaTangNing in the second half of 2023. The unique mechanism of action of dorzagliatin has demonstrated its benefit to improve beta cell function and repairs the impaired glucose homeostasis in T2D patients, through its target protein GK in the pancreatic alpha and beta cells, intestine L cells and liver hepatocytes.

Hua Medicine has worked with its manufacturing partners since the drug approval to manage market needs. We have secured adequate dorzagliatin supply for the 2023 calendar year, and have initiated investment into dorzagliatin manufacturing capability at Changzhou SynTheAll (STA), Zhejiang Raybow and Shanghai Desano after the successful commercialization launch during the initial out-of-pocket stage. The total investment in 2023-2024 for commercial drug manufacture and capacity expansion is expected in the range of approximately RMB400 million.

Hua Medicine discovered additional therapeutic advantages of dorzagliatin in medical care. Through its modulation of glucose sensor GK function and repairing the impaired GLP-1 secretion in patients with diabetes and obesity, dorzagliatin is expected to secure a new indication related to endogenous GLP-1 (Nature Comm March 2023). These results have encouraged physicians to investigate the combination of dorzagliatin with GLP-1 receptor agonists for patients with poorly controlled post prandial glucose. It further demonstrates dorzagliatin restores the impaired glucose homeostasis in T2D patients through its action on GK target located in the pancreas, intestine and liver – which is included in dorzagliatin drug label, NMPA 2022. This may offer a more effective way to achieve diabetes remission in obese diabetes patients through a combination of dorzagliatin with GLP-1 receptor agonist. We will engage the real-world study (RWS) to address additional unmet medical needs.

Our team has also reported effects of low dose dorzagliatin in the prevention of diabetes and memory loss in GK rat at the June 2023 American Diabetes Association conference (ADA) in San Diego, USA. We started with low dose dorzagliatin treatment when the rat is in normal glucose tolerance (NGT) stage. Dorzagliatin prevents the animal from developing diabetes and memory defect, while the vehicle controlled GK rats showed increase of fasting plasma glucose and memory deficiency. Reduction of Insulin Receptor A and B, glucose transporter GLUT3 and other important proteins that connects with neurological function in the brain in the vehicle group were prevented in the dorzagliatin treated group. We have filed patents in this area and will continue to expand the benefit of dorzagliatin in disease prevention.

In June 2023, we published our results of a prospective SEED-DREAM study in Chinese non-obese diabetes patients in the well-recognized journal, Diabetes, Obesity and Metabolism, in which we have reported a 65% remission probability during 52 weeks in subjects who have improved their TIR (Time-In-Range, a parameter that represents a better homeostasis control) after dorzagliatin treatment. We have further revealed the determinant factors for achieving diabetes remission after dorzagliatin treatment during the SEED study. These factors include a significant improvement of beta cell function and disposition index, reduction of post prandial glucose and significant increase of TIR during the SEED trial. Improvement of TIR is strongly correlated with reducing the risks of various diabetes complications, including heart attack, stroke and renal disease, as well as neurodegenerative disorders.

Hua Medicine has advanced the development of 2nd generation of GKA in overseas markets. It is our understanding that diabetes kidney disease (DKD) is an unmet clinical need in the United States and China. Our strategy is to develop a novel formulation to target these patients who need to better control their TIR and to reduce the progression of kidney dysfunction. Our team is preparing the IND filing in the United States either by year end 2023 or early 2024. We are also continuing to develop new drug candidates of fixed-dose-combination of dorzagliatin with metformin, sitagliptin and empagliflozin as a part of dorzagliatin life cycle management. In clinical studies, we have found that combination of dorzagliatin with DPP-4 inhibitor or SGLT-2 inhibitor improved glycaemic control and beta cell function in patients with diabetes and obesity.

Hua Medicine is investigating the potential of dorzagliatin in diabetes prevention in a clinical study. After initiation of the SENSITIZE II study at CUHK, we are developing clinical study plans to reverse IGT to NGT in China. IGT is a primary cause of Type 2 diabetes in China, and there are approximately 500 million IGT patients worldwide. The main cause of IGT, especially those with impaired post prandial glucose tolerance, is the impairment of early phase insulin secretion in the pancreas and the defect of glucolcinase expression in the liver. Mechanistically, dorzagliatin has the potential of reversing the condition of IGT to NGT, and thereby prevent diabetes.

Cautionary Statement: We may not be able to ultimately develop and market our dorzagliatin successfully.

Product pipeline

Set out below are the key stages of our product candidates under development:

Product Name	Indication	Development phase	Pre-clinical IND Phase I Phase II Phase III NDA Launched
HuaTangNing (华堂宁®)	T2D –Drug Naive	Launched (China)	
	T2D –Metformin Tolerated	Launched (China)	
HuaTangNing (华堂宁®) No dose adjustment in	DKD	Launched (China) - Allowances	
	Combination therapy with DPP4i	Launched (China) - Allowances	
	Combination therapy with SGLT2i	Launched (China) - Allowances	
Fixed dose combinations - dorzagliatin and OADs	T2D	Phase I ready	
2nd Generation GKA	Metabolic Diseases	Pre-clinical	
Glucokinase regulator	Congenital Hyperinsulinism	Pre-clinical	
Fructose Kinase Inhibitor	Metabolic Disease	Pre-clinical	
mGLUR5 NAM- CNS	PD-LID	Pre-clinical	
Clinical Fructose detection	IVD	Pre-clinical	

Hua Medicine has a stable product pipeline with dorzagliatin and its lifecycle management plan. These include commercialization of dorzagliatin in China in two indications, which can potentially treat approximately 40% of diabetes patients. Based on regulatory approval, additional clinical use of dorzagliatin without dose adjustment in diabetes kidney disease (DKD) patients offers a unique opportunity to those at late to end stage chronic kidney disease (CKD) patients to manage their blood glucose fluctuation. Dorzagliatin is also improving glycaemic control and beta cell function in diabetes patients with obesity when combined with sitagliptin and empagliflozin with no need for dose adjustment. Combination with DPP-4 inhibitor and SGLT-2 inhibitors will offer expanded benefit to more patients in China. New formulations of fixed-dose combination with metformin, sitagliptin and empagliflozin are actively under development. At the same time, we are actively developing the next generation of dorzagliatin with new patent protection. We expect to file IND in the United States either by year-end 2023 or early 2024.

We have recently also reported the benefits of combining GKA with GLP-1RA to advance diabetes care with the combined GK and GLP-1 regulated pathways. With recent publication in Nature Communications, we demonstrated the unique effect of dorzagliatin in restoring the impaired glucose stimulated GLP-1 secretion in patients with diabetes and obesity, an effect that GLP-1RA and DPP-4 inhibitor has not achieved. Evidence from ongoing real world studies will continue to accumulate as dorzagliatin expands its market share in China.

Progress has been made in glucokinase candidate targeting congenital hyperinsulinism a rare disease in the United States and China. The AI-based lead optimization will help to advance the program and select clinical candidates with joint effort at AscendRare and Hua Medicine. We are also jointly investigating the opportunity of FKI in different diseases areas and developing sensitive IVD methods for clinical detection of fructose, a sugar component, which contributes to obesity and liver disease. Reduction of the fructose flux into liver could prevent the fatty liver disease and related complications.

Our mGLUR5 NAM program is in the animal proof-of-mechanism (POM) study as we continue to explore the regulation of glutamate homeostasis in various central nervous disorders, including, but not limited to, Parkinson's disease, depression and addiction, as well as in the rare disease FXS (Fragile X Syndrome).

We are at the forefront of diabetes prevention and remission. Our effort in understanding of the connection between glucose homeostasis and neurological defects has led to the discovery of dorzagliatin-based therapies to prevent diabetes and memory defects in GK rats (2023 ADA presentation). Reports showed that with increased age, or disease conditions like IGT, MODY2 and Type 2 diabetes, GK expression and function were significantly reduced. Dorzagliatin can restore the GK function and expression in the disease conditions, including MODY-2 (SENSITIZE I study, Diabetes 2023) and Type 2 diabetes (J Diabetes Res 2017). We reasoned that neurodegenerative diseases are a part of diabetes complications and our recent results suggested that the neuroprotective effect of dorzagliatin is an outcome of a sustained glucose homeostasis management effect in GK rats.

Except for the fixed dose combination programs, which we would endeavour to secure external funding prior to advancement to NDA approval and commercialization, the other pipeline programs are in relatively early-stage research and development, and the expenses associated with such early-stage studies are expected to be less than later stage, large scale clinical trials needed for approval. We believe all our programs have global development potential.

Business outlook

We will continue our responsibility as market authorization holder (MAH) of dorzagliatin to commercialize dorzagliatin in China with our partner, Bayer, to expand market share in diabetes care, especially among Type 2 diabetes patients with uncontrolled post prandial glucose (PPG) who will benefit from the improvement of beta cell function and time in range (TIR). We will continue to invest into our dorzagliatin manufacturing capability and the tier-1 distributor network to drive a three-pronged approach in China commercialization: hospital, pharmacy, and on-line drug stores. We are seeking entry into the National Reimbursement Drug List (NRDL), to facilitate the entry into hospital and increase accessibility by physicians in order to demonstrate dorzagliatin as a potential cornerstone treatment for Type 2 diabetes as monotherapy or in combination with other approved antidiabetic drugs. Additional benefits of dorzagliatin in disease prevention will be further explored in endocrinology and neurodegeneration. We are also advancing development of our second generation glucokinase activator for potential future international expansion including DKD and diseases associated with impaired glucose homeostasis. Currently, we are actively looking for business partners to advance our R&D programs and commercialization to help more patients globally.

Important events after the Reporting Period

On August 17, 2023, the Group and Bayer have confirmed the achievement of a certain milestone relating to the development of HuaTangNing (dorzagliatin tablets, HMS5552). Pursuant to the terms of the commercialization agreement entered into between the Group and Bayer, the Group has achieved the milestone event and the Group is entitled to receive a milestone payment of RMB800 million from Bayer. Further details are set out in the announcement of the Company dated August 17, 2023.

Save as disclosed above, there are no important events that have occurred since June 30, 2023 and up to the date of this announcement.

Financial review

Revenue

Our revenue was generated from the sale of our core product – HuaTangNing (华堂宁®). The collective results of our clinical trials indicate HuaTangNing (华堂宁®) has a safe, tolerable and benign profile, is effective at restoring regulation of blood glucose homestasis through improvement in β-cell function and reduction in insulin resistance, and has led to diabetes remission in select populations of T2D patients.

For the six months ended June 30, 2023, approximately 212,000 packs of HuaTangNing (华堂宁®) were sold, generating sales of approximately RMB70.3 million. From first commercial launch through June 30, 2023, approximately 265,000 packs of HuaTangNing (华堂宁®) were sold, generating sales of approximately RMB87.9 million.

Gross profit

For the six months ended June 30, 2023, we recorded a gross profit of approximately RMB44.0 million and a gross margin of 62.6%. Our gross margin increased by 18.9% as compared to 43.7% for the year ended December 31, 2022, which was primarily due to sufficient supply and increased sales volume, leading to the decreased unit production expense and unit fixed cost. As our commercialization scale increases, the gross margin is expected to continually increase to a more normalised rate.

Other income

Our other income consisted primarily of Bayer milestone income, government grants and bank interest income. Our other income increased by RMB17.2 million to RMB38.6 million for the six months ended June 30, 2023 from RMB21.4 million for the six months ended June 30, 2022, which was mainly attributable to an increase of RMB21.7 million in Bayer milestone income and RMB6.2 million in bank interest income from short-term deposits for the six months ended June 30, 2023, adjusted for a decrease of RMB10.7 million in government grants.

Other gains and losses

Our other gains and losses consisted primarily of gains due to fluctuations in the exchange rates between the Renminbi and the U.S. dollar and between Renminbi and the HK dollar. Our other gains and losses decreased by RMB7.9 million and were mainly attributable to foreign exchange gains in connection with bank balances and cash denominated in U.S. dollar and HK dollar and the small appreciation of the U.S. dollar and HK dollar against the Renminbi for the six months ended June 30, 2023, compared to the large appreciation of the U.S. dollar and HK dollar against the Renminbi for the six months ended June 30, 2022.

Our business mainly operates in the PRC, and most of our transactions are settled in Renminbi. Since inception, we have financed our business principally through equity financings, with related proceeds denominated in U.S. dollar, HK dollar and Renminbi. We converted a portion of those U.S. dollar proceeds to Renminbi and HK dollar proceeds to U.S. dollar immediately, with the remaining amounts reserved for additional conversions to Renminbi as needed. Translation for financial statement presentation purposes of our assets and liabilities exposes us to currency-related gains or losses and the actual conversion of our U.S. dollar and HK dollar denominated cash balances will also expose us to currency exchange risk. We have not engaged in any foreign exchange hedging related activity.

Administrative expenses

Our administrative expenses consisted primarily of employee compensation and related costs. Our administrative expenses decreased by RMB14.5 million to RMB54.0 million for the six months ended June 30, 2023 from RMB68.5 million for the six months ended June 30, 2022, which was mainly attributable to i) a decrease of RMB11.2 million in labor cost, which was primarily attributable to the labor cost reallocation of marketing department to selling expense from first commercial sales and the decrease of share-based payment under the accelerated amortization method; ii) a decrease of RMB5.3 million in consultant fee, which was mainly due to the reallocation of marketing related consulting to selling expense and less NDA application related consulting was conducted during the six months ended June 30, 2023, since we got our NDA approval in the fourth quarter of year 2022; and iii) an adjustment for the increase of RMB1.1 million in recruitment expense due to our recruitment strategy.

Finance cost

Our finance cost consisted of expenses associated with the interest on lease liabilities and bank loan. Our finance cost was RMB3.5 million for the six months ended June 30, 2023 as compared to RMB1.8 million for the six months ended June 30, 2022, which was mainly attributable to the newly raised bank loan at the late of year 2022 and the first half of year 2023.

Selling expenses

Our selling expenses consisted primarily of expenses related to selling and marketing activities. Our selling expenses was RMB52.9 million for the six months ended June 30, 2023, which consisted primarily of RMB15.0 million of employee compensation, RMB29.0 million of promotion expense and RMB8.9 million of meeting expense, consulting expense, logistics expense and other related expenses.

Research and development expenses

The following table sets forth the components of our research and development expenses for the period indicated.

	Six months ended June 30,			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Dorzagliatin Clinical Trials	**1,900**	**2.7%**	2,948	4.1%
Dorzagliatin Non-clinical Studies	**4,032**	**5.7%**	789	1.1%
Chemical, Manufacturing and Control	**11,900**	**16.8%**	9,015	12.5%
Labor Cost	**34,926**	**49.2%**	47,279	65.4%
Dorzagliatin Licensing and Patent Fee	**2,300**	**3.2%**	774	1.1%
Others	**15,940**	**22.4%**	11,481	15.8%
Total	**70,998**	**100%**	72,286	100.0%

Research and development expenses decreased by RMB1.3 million to RMB71.0 million for the six months ended June 30, 2023 from RMB72.3 million for the six months ended June 30, 2022. The decrease in research and development expenses mainly included:

- an increase of RMB3.2 million for dorzagliatin non-clinical studies from RMB0.8 million for the six months ended June 30, 2022 to RMB4.0 million for the six months ended June 30, 2023, which was primarily attributable to the pre-clinical studies of second generation glucokinase activator conducted in the United States in the first half of 2023 and no such studies were conducted in the first half of 2022;

- an increase of RMB2.9 million in chemical, manufacturing, and control expenses from RMB9.0 million for the six months ended June 30, 2022 to RMB11.9 million for the six months ended June 30, 2023. We focused on the scale up and process development for existing production line and process validation for intermediate product in the first half of 2023. In the first half of 2022, we focused on the process validation, drug substance and production for clinical trial which was required by the NMPA;

- a decrease of RMB12.4 million in labor cost from RMB47.3 million for the six months ended June 30, 2022 to RMB34.9 million for the six months ended June 30, 2023, which was primarily attributable to the labor cost reallocation of manufacturing department to cost from first commercial sales and the decrease of share-based payment under the accelerated amortization method; and

- an increase of RMB4.4 million in other expenses from RMB11.5 million for the six months ended June 30, 2022 to RMB15.9 million for the six months ended June 30, 2023, which was primarily attributable to increased travelling expense, meeting expense and utility expense due to the impact of COVID-19 in the first half of year 2022 and recovered in the first half of year 2023.

Income tax expense

We recognized no income tax expenses for the six months ended June 30, 2023 and the six months ended June 30, 2022.

Liquidity and capital resources

Since our inception, we have incurred net losses and positive cash flows from operations. Our primary use of cash is to fund manufacturing expenses and research and development expenses. Our operating activities generated RMB258.8 million for the six months ended June 30, 2023. As of June 30, 2023, we had cash and cash equivalents of RMB881.3 million.

As of June 30, 2023, there were no significant investments held by the Company (including any investment in an investee company with a value of 5% or more of the Company's total assets as of June 30, 2023), nor were there any material acquisitions or disposals of subsidiaries, associates or joint ventures during the six months ended June 30, 2023.

Cash Operating Cost

The following table sets out the components of our cash operating cost for the periods indicated:

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
Research and development costs	**72,213**	70,599
Manufacturing costs	**61,568**	–
Administrative costs		
– Workforce employment	**35,810**	38,276
– Others	**32,108**	33,448
Selling costs	**18,725**	–
	220,424	142,323

Cash Flows

The following table provides information regarding our cash flows for the six months ended June 30, 2023 and 2022:

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
Net cash from (used in) operating activities	**258,769**	(116,659)
Net cash from investing activities	**691**	17,024
Net cash from (used in) financing activities	**122,736**	(4,293)
Effect of exchange rate changes	**8,461**	14,997
Net increase (decrease) in cash and cash equivalents	**390,657**	(88,931)

Net Cash From (Used in) Operating Activities

The primary use of our cash was to fund our research and development activities, manufacturing activities, regulatory and other clinical trial costs, and related supporting administration. Our prepayments and other current assets, accounts payable and other payables balances were affected by the timing of vendor invoicing and payments.

During the six months ended June 30, 2023, our operating activities generated RMB258.8 million of cash, which resulted principally from our loss before tax of RMB90.1 million, adjusted for non-cash charges and non-operating cash income of RMB12.0 million, and by cash generated from our operating assets and liabilities of RMB360.9 million. Our net non-cash charges during the six months ended June 30, 2023 primarily consisted of share-based payment expense, depreciation of equipment, right-of-use assets and amortization for intangible assets.

During the six months ended June 30, 2022, our operating activities used RMB116.7 million of cash, which resulted principally from our loss before tax of RMB104.6 million, adjusted for non-cash charges and non-operating cash gains of RMB1.6 million, and by cash used in our operating assets and liabilities of RMB10.5 million. Our net non-cash charges during the six months ended June 30, 2022 primarily consisted of share-based payment expense, depreciation of equipment, right-of-use assets and amortization for intangible assets.

Net Cash From Investing Activities

Net cash from investing activities was RMB0.7 million for the six months ended June 30, 2023, which resulted primarily from the interest received from bank for short-term deposit, adjusted for the purchase of plant and equipment and intangible assets. Net cash from investing activities was RMB17.0 million for the six months ended June 30, 2022, which resulted primarily from the government grant received to subsidize the Group's leasehold improvement, furniture, fixture and equipment purchased in the prior years and the interest received from bank for short-term deposit, adjusted for the purchase of plant and equipment and intangible assets.

Net Cash From (Used in) Financing Activities

Net cash from financing activities was RMB122.7 million for the six months ended June 30, 2023, which proceeds from short-term and long-term bank loan and exercise of share options, offset by payments relating to lease liabilities. Net cash used in financing activities was RMB4.3 million for the six months ended June 30, 2022, which resulted from repayments of lease liabilities, adjusted for proceeds from exercise of share options.

Financial position

Our net current assets decreased from RMB751.9 million as of December 31, 2022 to RMB717.5 million as of June 30, 2023. Current assets increased from RMB940.3 million as of December 31, 2022 to RMB974.0 million as of June 30, 2023, primarily due to RMB70.3 million of sales revenue was recognized for the six months ended June 30, 2023.

Indebtedness

As of June 30, 2023, our lease liabilities and borrowings amounted to RMB54.5 million and RMB162.7 million. The following table sets forth our lease liabilities and borrowings as of the dates indicated:

	As of June 30, 2023 ***RMB'000***	As of December 31, 2022 *RMB'000*
Current portion	**128,717**	55,413
Non-current portion	**88,515**	42,169
Total	**217,232**	97,582

Our lease liabilities as of June 30, 2023 were from leased properties lease contracts with lease terms of two to three years. As of June 30, 2023, we did not have any other indebtedness.

Qualitative and Quantitative Disclosures About Market Risk

We are exposed to a variety of market risks, including currency risk, interest rate risk, credit risk, and liquidity risk, details of which are set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner. We currently do not hedge or consider it necessary to hedge any of these risks.

Currency Risk

Our business mainly operates in the PRC with most of our transactions settled in Renminbi, and our financial statements are presented in Renminbi. Renminbi is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of Renminbi into foreign currencies. The value of Renminbi is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trade System market. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk.

Since our inception, we have raised funds through various rounds of offshore financings and received proceeds of such financings in U.S. dollars, HK dollars and Renminbi. We converted a portion of those funds to Renminbi immediately and placed the remaining amount in time deposits. We converted additional amounts to Renminbi as needed. The value of the Renminbi against the U.S. dollars and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. To the extent that we need to convert U.S. dollars or other currencies we have received in previous financings into Renminbi for our operations, or if any of our arrangements with other parties are denominated in U.S. dollars and need to be converted into Renminbi, appreciation of the Renminbi against the U.S. dollars or other currencies would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars or other currencies for business purposes, appreciation of the U.S. or HK dollars against the Renminbi would have a negative effect on the U.S. dollars or other currencies amounts available to us. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency rate.

The following table details our sensitivity to a 5% increase and decrease in the Renminbi against the U.S. dollar and the HK dollar, the foreign currencies to which we may have material exposure. No sensitivity analysis has been disclosed for the Taiwan dollar denominated assets as the impact on profit is immaterial. 5% represents management's assessment of the reasonably possible changes in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation as of June 30, 2023 for a 5% change in foreign currency rate. A negative number below indicates an increase in loss where Renminbi strengthens 5% against the U.S. dollar and the HK dollar. For a 5% weakening of the Renminbi against the U.S. dollar and the HK dollar, there would be an equal and opposite impact on gain for the period.

	As of June 30, 2023 RMB'000	As of December 31, 2022 RMB'000
Impact on profit or loss		
US$	**(9,342)**	(9,893)
HK$	**(2,499)**	(2,250)

Interest Rate Risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate short-term bank deposits. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk. Nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

Liquidity Risk

As of June 30, 2023 and December 31, 2022, we recorded net current assets of RMB717.5 million and RMB751.9 million, respectively. In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

Key Financial Ratios

The following table sets forth our key financial ratios as of the dates indicated:

	As of June 30, 2023	As of December 31, 2022
Current ratio(1)	**3.8**	5.0
Quick ratio(2)	**3.7**	5.0
Gearing ratio(3)	**104.2%**	34.9%

(1) Current ratio represents current assets divided by current liabilities as of the same date.

(2) Quick ratio represents current assets less inventories divided by current liabilities as of the same date.

(3) Gearing ratio represents liability divided by equity as of the same date. Liability is defined as short term loan, long term loan and lease liabilities (excluding trade and other payables, deferred income and contract liability). Equity includes all capital and reserves of the Group.

The current ratio as of June 30, 2023 decreased by 1.2 compared with that as of December 31, 2022, quick ratio as of June 30, 2023 decreased by 1.3 compared with that as of December 31, 2022, which was mainly due to the increase of short-term loan. The gearing ratio as of June 30, 2023 increased by 69.3% compared with that as of December 31, 2022, which was mainly due to the increase of short term and long term loan caused by our financing strategy.

Charge of the Group's assets

As of June 30, 2023, RMB7.8 million of the Group's bank deposits were charged by the bank for the performance guarantees to the Management Committee of Lingang New Area, Shanghai Pilot Free Trade Zone, China to secure commencement and completion of the factory construction and launch of production.

Deposits amounting to RMB4,696,000 (unaudited) (December 31, 2022: RMB4,696,000 (audited)) carrying a fixed interest rate of 1.50% have been pledged to secure commencement of the factory construction. Deposits amounting to RMB1,565,000 (unaudited) (December 31, 2022: RMB1,565,000 (audited)) carrying a fixed interest rate of 2.75% have been pledged to secure completion of the factory construction. These deposits will be released within 10 working days upon the completion of the factory construction, if such completion is before May 13, 2024. The remaining deposits amounting to RMB1,565,000 (unaudited) (December 31, 2022: RMB1,565,000 (audited)) carrying a fixed interest rate of 2.75% have been pledged to secure production of the factory. These deposits will be released within 10 working days upon the launch of production, if such launch is before November 12, 2024.

Capital commitments

The following table sets forth our capital commitments as of the dates indicated:

	As of June 30, 2023 *RMB'000*	As of December 31, 2022 *RMB'000*
Capital expenditure in respect of the acquisition of construction contracted for but not provided in the consolidated financial statements	**24**	1,107

Future plans for material investments or capital assets

As of June 30, 2023, we planned to continue to invest in Shanghai Huasheng Inc, which was established at Shanghai Lingang Special Area for ensuring adequate dorzagliatin commercial supply and the source of funding is expected to come from internal resources and/or external borrowings, as considered appropriate by the management of the Company.

Contingent liabilities

Save as disclosed in this announcement, the Group had no material contingent liabilities as of June 30, 2023.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended June 30,	
		2023	2022
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**70,331**	–
Cost of sales		**(26,284)**	–
Gross profit		**44,047**	–
Other income	*5*	**38,594**	21,352
Other gains and losses	*6*	**8,728**	16,656
Administrative expenses		**(54,017)**	(68,536)
Finance cost	*7*	**(3,529)**	(1,805)
Selling expenses		**(52,921)**	–
Research and development expenses		**(70,998)**	(72,286)
Loss before tax	*8*	**(90,096)**	(104,619)
Income tax expense	*9*	**–**	–
Loss for the period		**(90,096)**	(104,619)
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		**(451)**	72
Other comprehensive (expense) income for the period, net of income tax		**(451)**	72
Total comprehensive expense for the period		**(90,547)**	(104,547)
Total comprehensive expense for the period attributable to:			
– Owners of the Company		**(90,547)**	(104,547)
LOSS PER SHARE	*12*	***RMB***	*RMB*
Basic and diluted		**(0.09)**	(0.11)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	At June 30, 2023 RMB'000 (unaudited)	At December 31, 2022 RMB'000 (audited)
Non-current assets			
Plant and equipment	13	**49,479**	53,855
Right-of-use assets	13	**77,968**	85,853
Intangible assets		**30,311**	31,952
Pledged bank deposits	15	**3,130**	3,130
Prepayments and other receivables	14	**6,935**	6,450
		167,823	181,240
Current assets			
Inventories		**16,883**	1,915
Trade and other receivables	14	**70,912**	441,192
Amounts due from related parties		**230**	1,822
Pledged bank deposits	15	**4,696**	4,696
Bank balances and cash	15	**881,289**	490,632
		974,010	940,257
Current liabilities			
Trade and other payables	16	**79,008**	79,111
Borrowings	17	**105,000**	33,923
Lease liabilities		**23,717**	21,490
Contract liabilities		**43,303**	43,303
Deferred income		**5,518**	10,559
		256,546	188,386
Net Current Assets		**717,464**	751,871
Total Assets Less Current Liabilities		**885,287**	933,111
Non-current liabilities			
Borrowings	17	**57,684**	–
Lease liabilities		**30,831**	42,169
Contract liabilities		**584,596**	606,248
Deferred income		**3,750**	5,114
		676,861	653,531
Net Assets		**208,426**	279,580

	NOTES	At June 30, 2023 RMB'000 (unaudited)	At December 31, 2022 RMB'000 (audited)
Capital and reserves			
Share capital		**7,214**	7,214
Treasury shares held in trust		**(525)**	(584)
Reserves		**201,737**	272,950
Total Equity		**208,426**	279,580

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended June 30, 2023

1. General information

The Company was established in the Cayman Islands as an exempted company with limited liability on November 10, 2009 and its shares have been listed on The Stock Exchange since September 14, 2018. The address of the registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company is 275 Ai Di Sheng Road, Shanghai 201203, PRC.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as "Group") are principally engaged in developing and commercialization a global first-in-class oral drug, dorzagliatin or HMS5552, for the treatment of Type 2 diabetes.

2. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The functional currency of the Company is Renminbi ("RMB"), which is the same as the presentation currency of the condensed consolidated financial statements.

3. Revenue from contracts with customers

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Segment		
Timing of revenue recognition		
At a point in time		
Sales of pharmaceutical products	**70,331**	–

4. Operating segments

For the purpose of resources allocation and performance assessment, the Group's chief executive officer, being the chief operating decision maker, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment and no further analysis of this single segment is present.

Revenue by geographical location:

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
The PRC	**70,331**	–

5. Other income

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**7,944**	1,698
Government grants (Note a)	**8,998**	19,654
– R&D activities related grants	**4,500**	16,687
– Assets-related grants	**4,155**	2,423
– Others	**343**	544
Amortization of payments received for exclusive promotion rights granted (Note b)	**21,652**	–
	38,594	21,352

Note a: The amount mainly represents 1) government grant related to income received as compensation for future research and development costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income were recorded in deferred income when received and recognized in profit or loss when related costs were subsequently incurred and the Group received government acknowledge of compliance; and 2) amortisation of subsidies received from the PRC local government authorities to subsidize the purchase of the Group's leasehold improvement, furniture, fixture and equipment.

Note b: On August 17, 2020, the Group entered into an exclusive promotion service agreement with Bayer Healthcare Company Limited ("**Bayer**") under which the Group granted the exclusive promotion rights on dorzagliatin. Pursuant to the agreement, the Group is entitled to a non-refundable upfront payment and additional milestone payments, while the counterparty receives the exclusive rights to commercialize the product in China and will receive tiered service fee based on the net sales. The Group received an aggregate non-refundable payment of RMB700,000,000 up to June 30, 2023, the VAT-excluded amount was recognized in contract liabilities as RMB660,377,000 and amortized upon NDA approval within the agreed exclusive promotion period. The amortization of payments received for exclusive promotion rights grants during the current interim period is RMB21,652,000 (unaudited) (six months ended June 30, 2022: nil (unaudited)). The carrying amounts of contract liabilities at June 30, 2023 is RMB627,899,000 (unaudited) (December 31, 2022: RMB649,551,000 (audited)). Under the exclusive promotion service agreement, Bayer as the promotion service provider is responsible for the marketing, promotion, and medical education activities in China while the Group shall pay Bayer tiered service fees based on net sales in China, recognized as selling expenses in current interim period.

6. Other gains and losses

Other gains and losses mainly represent the foreign exchange gains and losses during the six months ended June 30, 2023 and 2022, respectively.

7. Finance cost

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on the lease liabilities	**1,486**	1,805
Interest on borrowings	**2,043**	–
	3,529	1,805

8. Loss before tax

Loss before tax for the period has been arrived at after charging:

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Depreciation of plant and equipment	**6,154**	5,894
Depreciation of right-of-use assets	**9,890**	9,871
Amortization of intangible assets	**1,742**	224
Total depreciation and amortization	**17,786**	15,989
Capitalized in construction in progress	**–**	(403)
	17,786	15,586
Staff cost (including directors' emoluments):		
– Salaries and other benefits	**70,298**	63,561
– Retirement benefit scheme contributions	**3,884**	5,725
– Share-based payment	**11,626**	16,810
	85,808	86,096
Auditors' remuneration	**720**	647
Expenses relating to short-term leases and leases of low-value assets	**511**	355

9. Income tax expense

The Company was incorporated in the Cayman Islands and is exempted from income tax.

No Hong Kong profit tax was provided for as there was no estimated assessable profit of the Group's Hong Kong subsidiary that was subject to Hong Kong profit tax during the period presented in the condensed consolidated financial statements.

Under the Law of the PRC of Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the estimated tax rate of the Group's PRC subsidiary is 25% during the period presented in the condensed consolidated financial statements, except for Hua Shanghai. No PRC Enterprise Income tax was provided for as there was no estimated assessable profit of the Group's PRC subsidiary during the period presented in the condensed consolidated financial statements.

Hua Shanghai has been certified as a "High and New Technology Enterprise" by the Science and Technology Committee of Shanghai and relevant authorities on December 14, 2022 for a term of three years from 2022 to 2024, and registered with the PRC tax authorities for enjoying a reduced 15% EIT rate. Accordingly, the profits derived by Hua Shanghai is subject to 15% EIT rate for the interim period of 2023. The qualification as a High and New Technology Enterprise will be subject to review by the PRC tax authorities every three years.

The subsidiary incorporated in the United States are subject to Federal and State Income taxes, the effective combined income tax rate is 21% for the current interim period.

Deferred taxation had not been recognized on the unused tax losses and deductible temporary differences due to the unpredictability of future profit streams.

10. License agreement

In December 2011, the Group entered into a research, development and commercialization agreement ("GKA Agreement") with Hoffman-La Roche Inc., and F. Hoffman-La Roche AG (collectively referenced as "Roche") under which Roche granted the Group an exclusive license of patent rights, know-how and regulatory filings with respect to a compound which is a glucokinase activator to research, develop and commercialize products ("Licensed Product") in the field of diabetes in the licensed territory ("Licensed Territory"). Pursuant to the GKA Agreement, the Group made US$2,000,000 non-refundable upfront payment to Roche in 2012.

In 2017, the Group made US$1,000,000 milestone payment to Roche upon the commencement of clinical trial Phase III in the PRC (excluding Hong Kong and Macau) for the Licensed Product.

In 2021, the Group made US$1,000,000 milestone payment to Roche upon NDA filing in the PRC (excluding Hong Kong and Macau) to the National Medical Products Administration.

In 2022, the Group made US$3,000,000 milestone payments to Roche upon the achievement of development of the Licensed Product through new drug approval in the PRC (excluding Hong Kong and Macau).

The Group is further obligated to make US$33,000,000 milestone payments upon the achievement of development of the Licensed Product through new drug approval in the Licensed Territory other than the PRC (excluding Hong Kong and Macau). Upon commercialization, the Group is contingently obligated to make US$15,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US$500,000,000 and US$40,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US$1,000,000,000. The Group is also obligated to make royalty payments at the applicable incremental royalty rate based on sales of the Licensed Product.

11. Dividends

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

12. Loss per share

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

Loss figures are calculated as follows:

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Loss for the period attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(90,096)**	(104,619)

Number of shares:

	Six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**974,001,822**	958,398,351

The computation of basic loss per share for the six months ended June 30, 2022 excluded the unvested restricted stock units of the Company.

The computation of diluted loss per share for the six months ended June 30, 2023 and 2022 respectively did not assume the exercise of share options and vesting of restricted stock units since their assumed exercise would result in a decrease in loss per share.

13. Plant and Equipment, and Right-of-use assets

During the current interim period, the Group acquired RMB1,805,000 (unaudited) (six months ended June 30, 2022: RMB4,319,000 (unaudited)) of plant and equipment. In addition, during the current interim period, the Group disposed of certain equipment with an aggregate carrying amount of RMB26,000 (unaudited) (six months ended 30 June 2022: nil (unaudited)) for cash proceeds of RMB64,000 (unaudited) (six months ended 30 June 2022: nil (unaudited)), resulting in a gain on disposal of RMB38,000 (unaudited) (six months ended 30 June 2022: nil (unaudited)). The net book value of plant and equipment at June 30, 2023 is RMB49,479,000 (unaudited) (December 31, 2022: RMB53,855,000 (audited)).

During the current interim period, the Group extended the lease terms of several existing lease agreements for one year. The Group is required to make fixed monthly or quarterly payments. On date of lease modification, the Group recognized right-of-use assets of RMB2,005,000 (unaudited) (six months ended June 30, 2022: RMB6,068,000 (unaudited)) and lease liabilities of RMB2,005,000 (unaudited) (six months ended June 30, 2022: RMB6,068,000 (unaudited)). The carrying amount of right-of-use assets and lease liabilities at June 30, 2023 is RMB77,968,000 (unaudited) (December 31, 2022: RMB85,853,000 (audited)) and RMB54,548,000 (unaudited) (December 31, 2022: RMB63,659,000 (audited)), respectively.

14. Trade and other receivables

	At June 30, 2023 *RMB'000* **(unaudited)**	At December 31, 2022 *RMB'000* (audited)
Trade receivables	**16,100**	11,121
Prepayments for research and development services	**4,822**	3,969
Prepayment for raw materials and manufacture services	**40,133**	16,542
Utility and rental deposits		
– current	**620**	603
– non-current	**4,897**	4,887
Value added tax recoverable		
– current	**1,596**	505
– non-current	**1,338**	1,133
Interest receivables	**1,829**	871
Other receivables for considerations of options exercised	**11**	744
Others		
– current	**5,801**	6,837
– non-current	**700**	430
Receivables from exclusive promotion rights	**–**	400,000
	77,847	447,642
Analyzed as		
– current	**70,912**	441,192
– non-current	**6,935**	6,450
	77,847	447,642

The Group allows an average credit period of 60 days to its trade customers. The following is an aging analysis of trade receivables, presented based on invoice date:

	At June 30, 2023 *RMB'000* **(unaudited)**	At December 31, 2022 *RMB'000* (audited)
0-60 days	**16,100**	10,982
61-90 days	**–**	139
	16,100	11,121

15. Bank balances and cash/pledged bank deposits

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of six months or less. The short-term bank deposits carry interests at market rates which ranged from 0.05% to 4.66% per annum as of June 30, 2023 (December 31, 2022: from 0.001% to 4.03% per annum).

Pledged bank deposits are for the performance guarantees to the Management Committee of Lingang New Area, Shanghai Pilot Free Trade Zone, China to secure commencement and completion of the factory construction and launch of production.

Deposits amounting to RMB4,696,000 (unaudited) (December 31, 2022: RMB4,696,000 (audited)) carrying a fixed interest rate of 1.50% have been pledged to secure commencement of the factory construction. Deposits amounting to RMB1,565,000 (unaudited) (December 31, 2022: RMB1,565,000 (audited)) carrying a fixed interest rate of 2.75% have been pledged to secure completion of the factory construction. These deposits will be released within 10 working days upon the completion of the factory construction, if such completion is before May 13, 2024. The remaining deposits amounting to RMB1,565,000 (unaudited) (December 31, 2022: RMB1,565,000 (audited)) carrying a fixed interest rate of 2.75% have been pledged to secure production of the factory. These deposits will be released within 10 working days upon the launch of production, if such launch is before November 12, 2024.

16. Trade and other payables

	At June 30, 2023 *RMB'000* **(unaudited)**	At December 31, 2022 *RMB'000* (audited)
Trade payables	**46,821**	20,982
Payroll and bonus payables	**19,218**	38,342
Other payables	**3,203**	2,553
Accrued leasehold improvement expenditure	**287**	1,468
Construction expenditure	**5,756**	9,828
Others	**3,571**	5,906
Interest Payable	**152**	32
	79,008	79,111

The average credit period on purchases of goods/services ranges up to 30 days.

The aging analysis of the trade payables presented based on the invoice date at the end of each reporting period is as follows:

	At June 30, 2023 *RMB'000* **(unaudited)**	At December 31, 2022 *RMB'000* (audited)
Uninvoiced or within 30 days	**46,821**	20,792
31 to 60 days	**–**	190
	46,821	23,785

17. Borrowings

During the current interim period, the Group obtained new bank loans amounting to RMB130,761,000 (six months ended June 30, 2022: nil (unaudited)). The loans carry interest at fixed market rates of 3.50%-3.65% and are repayable in instalments over a period of 1-2 years. The proceeds were used for daily operations.

OTHER INFORMATION

Purchase, sale or redemption of the Company's listed securities

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

Employees and remuneration policy

As of June 30, 2023, the Group employed a total of 170 employees, as compared to a total of 144 employees as of December 31, 2022. The majority of the employees are employed in mainland China. For the six months ended June 30, 2023, the staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB81.9 million as compared to RMB80.4 million for the six months ended June 30, 2022.

The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and agreements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve their working efficiency. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labor dispute during the six months ended June 30, 2023.

The Company has also adopted a Pre-IPO Share Incentive Scheme and a Post-IPO Share Option Scheme. Please refer to the section headed "Statutory and General Information – D. Share Incentive Schemes" in Appendix IV to the Prospectus and the annual and interim reports of the Company for further details.

Use of net proceeds from the Global Offering

The Shares were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on September 14, 2018. The net proceeds from the Global Offering have been, and will continue to be, applied according to the intentions set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The following table sets forth the status of the Company's use of proceeds raised in the Global Offering as of June 30, 2023:

	% of use of proceeds	Net proceeds from the Global Offering *RMB million*	Unutilized net proceeds as of January 1, 2023 *RMB million*	Utilization during the six months ended June 30, 2023 *RMB million*	Actual usage up to June 30, 2023 *RMB million*	Unutilized net proceeds as of June 30, 2023 *RMB million*	Expected time frame for unutilized amount
(a) Dorzagliatin research and development	39%	291.4	–	–	291.4	–	N/A
(b) Dorzagliatin lifecycle management and additional indications	9%	67.2	12.3	1.8	56.7	10.5	By the end of year 2024
(c) Dorzagliatin launch and commercialization	27%	201.8	98.6	86.8	190.0	11.8	By the end of year 2023
(d) New product and diabetes care technology development	11%	82.2	58.8	9.5	32.9	49.3	By the end of year 2024
(e) Product licensing and partnership	4%	29.9	–	–	29.9	–	N/A
(f) General working capital	10%	74.7	–	–	74.7	–	N/A
Total	100%	747.2	169.7	98.1	675.6	71.6	By the end of year 2024

Interim dividend

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2023 (June 30, 2022: Nil).

Securities transactions by the Directors

The Company has adopted the Model Code as the guidelines for the Directors' dealings in the securities of the Company since the Listing Date. Specific enquiry has been made of each Director and all Directors have confirmed that they have complied with the applicable standards set out in the Model Code for the six months ended June 30, 2023.

Corporate governance

The Company is committed to maintaining a high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the code provisions of the CG Code as its own code of corporate governance. The CG Code has been applicable to the Company with effect from the Listing Date.

The Board is of the view that the Company has complied with all applicable code provisions of the CG Code throughout the six months ended June 30, 2023. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

Changes to information in respect of the Directors

Mr. George Chien Cheng Lin had resigned as independent non-executive Director of Shanghai Bio-heart Biological Technology Co., Ltd., a company listed on the Main Board of the Stock Exchange (Stock code: 2185), with effect from June 26, 2023.

Save as disclosed above, there were no other changes to the information required to be disclosed by the Directors pursuant to Rule 13.51B of the Listing Rules.

Review of interim results

The unaudited condensed consolidated financial results of the Group for the six months ended June 30, 2023 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("**HKSRE 2410**") issued by the Hong Kong Institute of Certified Public Accountants.

The audit committee of the Company has reviewed and discussed with the management of the Company the unaudited interim results of the Group for the six months ended June 30, 2023, and confirms that the applicable accounting principles, standard and requirements have been complied with, and that adequate disclosures have been made.

Publication of the interim results and 2023 interim report on the websites of the Stock Exchange and the Company

This interim results announcement is published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.huamedicine.com). The Company's interim report for the six months ended June 30, 2023 containing all the information required under the Listing Rules will be published on the respective websites of the Stock Exchange and the Company and will be dispatched to the Shareholders of the Company in due course.

DEFINITIONS

In this interim results announcement, the following expressions have the meanings set out below unless the context requires otherwise.

"Board"	the board of Directors
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company"	Hua Medicine (華領醫藥), an exempt limited liability company incorporated under the laws of the Cayman Islands on November 10, 2009 and whose Shares are listed on the Stock Exchange
"Director(s)"	the director(s) of the Company
"Group", "our", "we", or "us"	the Company and its subsidiaries
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Listing Date"	September 14, 2018, being the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"NMPA"	National Medical Products Administration (國家藥品監督管理局), and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
"NDA"	new drug application
"PRC"	the People's Republic of China, excluding, for the purposes of this announcement, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Post-IPO Share Option Scheme"	the post-IPO share option scheme approved and adopted by the Company on August 26, 2018 for the benefit of any director, employee, adviser or consultant of the Company or any of its subsidiaries

"Pre-IPO Share Incentive Scheme"	the share incentive scheme approved and adopted by the Company on March 25, 2013 as amended from time to time, for the benefit of any director, employee, adviser or consultant of the Company or any of its subsidiaries
"Prospectus"	the prospectus of the company dated August 31, 2018
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Shareholder(s)"	holder of the Shares
"Share(s)"	ordinary share(s) with nominal value of US$0.001 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"T2D"	Type 2 Diabetes
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"U.S." or "United States"	the United States of America

By order of the Board
Dr. Li Chen
Chief Executive Officer
and
Executive Director

Hong Kong, August 24, 2023

As at the date of this announcement, the Board comprises Dr. Li Chen and Mr. George Chien Cheng Lin as executive Directors; Mr. Robert Taylor Nelsen and Ms. Wei Zhao as non-executive Directors; and Mr. William Robert Keller, Mr. Yiu Wa Alec Tsui and Mr. Yiu Leung Andy Cheung as independent non-executive Directors.