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HUA MEDICINE

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(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 6 @ ¹® (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 6 @ ¹® in China.

- Upon 6 @ ¹® 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

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 (6 @ [1®]).

- 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.

Business overview

Dorzagliatin was launched in China in 2022 with the trade name 6 @ 1 ® (HuaTangNing). Hua

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

Product pipeline

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

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 (6 @ $^{1®}$). The collective results of our clinical trials indicate HuaTangNing (6 @ $^{1®}$) 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 (6 @ $^{1®}$) were sold, generating sales of approximately RMB70.3 million. From first commercial launch through June 30, 2023, approximately 265,000 packs of HuaTangNing (6 @ $^{1®}$) 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%

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)

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)]		

3e 30,

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

	NOTES	Six months ended June 30, 2023 RMB'000 (unaudited)	2022 RMB'000 (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			

	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

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	–

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 t 5 gh5 Tc p thoxss.mt12.3 (exclus e66D(5

Note b)

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*

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	At December 31, 2022
	RMB	

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	Unutilized net proceeds as of January 1, 2023	Utilization uT..167 etn.56s

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.

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"	Tw 10.55E 1(s .167 T

"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.