HUA MEDICINE

華領醫藥

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2552)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

The board (the "**Board**") of directors (the "**Directors**") of Hua Medicine (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the "**Group**", "**we**" or "**us**") for the year ended December 31, 2022 (the "**Reporting Period**"), together with comparative figures for the year ended December 31, 2021. Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meaning as those defined in the prospectus of the Company dated August 31, 2018 (the "**Prospectus**").

BUSINESS HIGHLIGHTS

- In October 2022, we received formal notice of the commercial approval of our HuaTangNing (华堂宁®) (aka dorzagliatin) from the National Medical Products Administration (NMPA) of China. HuaTangNing (华堂宁®) is the first approved glucokinase activator (GKA) worldwide.
- HuaTangNing (华堂宁®) was approved for two indications, both to improve blood glucose control for Type 2 diabetes (T2D) patients, as monotherapy for T2D patients, or in combination with metformin in metformin tolerated T2D patients to control blood glucose level.
    - In addition, three allowances were included in the approval of HuaTangNing (华堂宁®). For patients with chronic kidney disease (CKD) and Type 2 diabetes (i.e., diabetes kidney disease), no dose adjustment is required. For the combination of HuaTangNing (华堂宁®) with either empagliflozin (SGLT-2 inhibitor) or sitagliptin (DPP-IV inhibitor), the combination is expected to better improve blood glucose control and pancreatic islet functions in T2D patients than either empagliflozin or sitagliptin taken alone.

- Most significantly, in the official label approved by the NMPA, HuaTangNing (华堂宁®) is identified as a GKA, which acts on glucokinase targets in pancreatic islets, intestinal endocrine cells, liver and other glucose storage and output organs, and improves impaired glucose-stimulated insulin secretion and GLP-1 secretion in Type 2 diabetes patients, and thus improves β-cell function and reduces insulin resistance. Accordingly, it improves blood glucose homeostasis in patients with Type 2 diabetes and has a mechanism of action designed specifically to restore the autonomous physiological regulation of blood glucose homeostasis.

- By the end of October 2022, we recorded our first commercial sales of HuaTangNing (华堂宁®). Commercial sales of HuaTangNing (华堂宁®) were made through hospitals, retail pharmacies and online channels in China. The commercialization of HuaTangNing (华堂宁®) represents the first time globally in almost ten years that a new mechanism of action to treat Type 2 diabetes is introduced, and the first time in history that a global first-in-class drug for Type 2 diabetes is introduced first in China.

- The commercial approval and launch of HuaTangNing (华堂宁®) entitled us to receive an aggregate milestone payment of RMB400 million from our commercialization partner in China, Bayer Healthcare Company Limited. We received the RMB400 million cash payment in January 2023.

- The initial commercialization of HuaTangNing (华堂宁®) in China has been very successful and well received by the medical community and patients. Due to significant demand and initial launch supply constraints, we voluntarily restricted sales after the first week of launch to ensure adequate continuous supply was available for patients who successfully secured HuaTangNing (华堂宁®) prescriptions.

- In December 2022, we acquired 100% equity interest in Nanjing AscendRare Pharmaceutical Technology Co., Ltd (南京盛德瑞爾醫藥科技有限公司) ("**AscendRare**") for approximately RMB1 million in cash and assumption of its liabilities. AscendRare is principally engaged in conducting pancreatic islet research-based development of new drugs for islet-related diseases, including congenital hyperinsulinism and diabetes, both in rare disease indications as well as for broader metabolic disorders.

FINANCIAL HIGHLIGHTS

- Cash position was approximately RMB490.6 million as of December 31, 2022.
- Total revenue generated by the Company for the year ended December 31, 2022 was approximately RMB17.6 million, reflecting sales of HuaTangNing (华堂宁®) since its commercial launch in the fourth quarter of 2022.
- Total expenditures incurred by the Company for the year ended December 31, 2022 was approximately RMB278.7 million, of which approximately RMB129.5 million consisted of research and development expenses.
- For the year ended December 31, 2022, research and development expenses decreased by approximately RMB57.3 million or approximately 31% to approximately RMB129.5 million.
- For the year ended December 31, 2022, loss before tax decreased by approximately RMB122.2 million or approximately 38% to approximately RMB203.5 million.
- For the year ended December 31, 2022, total comprehensive expense for the year decreased by approximately RMB121.9 million or approximately 37% to approximately RMB203.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

We are a China-based drug development company principally focused on advancing Type 2 diabetes treatment through the commercialization of HuaTangNing (华堂宁®) (aka dorzagliatin tablets), a global first-in-class oral drug approved by the National Medical Products Administration (NMPA) of China on September 30, 2022, and for which we received notice of approval from the NMPA on October 8, 2022. As differentiated from other approved anti-diabetes drugs, HuaTangNing (华堂宁®) is a first-in-class glucokinase allosteric activator (GKA), designed specifically to restore the autonomous physiological regulation of blood glucose homeostasis.

HuaTangNing (华堂宁®) was approved for two indications, both to improve blood glucose control for Type 2 diabetes (T2D) patients, as monotherapy for T2D patients, or in combination with metformin in metformin tolerated T2D patients to control blood glucose level.

- In addition, three allowances were included in the approval of HuaTangNing (华堂宁®). For patients with chronic kidney disease (CKD) and Type 2 diabetes (i.e., diabetes kidney disease), no dose adjustment is required. For the combination of HuaTangNing (华堂宁®) with either empagliflozin (SGLT-2 inhibitor) or sitagliptin (DPP-IV inhibitor), the combination is expected to better improve blood glucose control and pancreatic islet functions in T2D patients than either empagliflozin or sitagliptin taken alone.

- Most significantly, in the official label approved by the NMPA, HuaTangNing (华堂宁®) is identified as a GKA, which acts on glucokinase targets in pancreatic islets, intestinal endocrine cells, liver and other glucose storage and output organs, and improves impaired glucose-stimulated insulin secretion and GLP-1 secretion in Type 2 diabetes patients, and thus improves β-cell function and reduces insulin resistance. Accordingly, it improves blood glucose homeostasis in patients with Type 2 diabetes and has a mechanism of action designed specifically to restore the autonomous physiological regulation of blood glucose homeostasis.

The scientific data and medical records for the development and approval of HuaTangNing (华堂宁®) is extensive. Hua Medicine has successfully completed eight Phase I trials in China, four Phase I trials in the United States, one Phase II trial in China, two Phase III trials in China, and one clinical study for a 52-week drug-free period after the completion of SEED Phase III trial (which demonstrated a 65.2% diabetes remission rate)[1]. The results of our Phase II trial was published in *The Lancet Diabetes & Endocrinology*, a leading international medical journal, in May 2018. In May 2022, we published two peer-reviewed papers on the Phase III clinical trials results of dorzagliatin in *Nature Medicine*, a leading international medical journal. These two papers described and analyzed the clinical efficacy and safety characteristics of dorzagliatin monotherapy (SEED) in drug-naïve T2D patients and the combination therapy of dorzagliatin and metformin (DAWN) in patients who failed in metformin adequacy therapy for the treatment of Type 2 diabetes, respectively.

In summary, 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.

We were notified of HuaTangNing (华堂宁®) approval on October 8, 2022, and we commenced sales on October 28, 2022. Commercial sales of HuaTangNing (华堂宁®) were made through hospitals, retail pharmacies and online channels in China. The commercialization of HuaTangNing (华堂宁®) represents the first time globally in almost ten years that a new mechanism of action to treat Type 2 diabetes is introduced, and the first time in history that a global first-in-class drug for Type 2 diabetes is introduced first in China.

The commercial approval and launch of HuaTangNing (华堂宁®) entitled us to receive an aggregate milestone payment of RMB400 million from our commercialization partner in China, Bayer Healthcare Company Limited. We received the RMB400 million cash payment in January 2023.

1 In September 2021 at the 6th China BioMed Innovation and Investment Conference, certain principal investigators from our SEED Phase III trial presented the extensive results from the clinical study called DREAM. The main objective of the DREAM study was to evaluate the ability of T2D patients who participated in our SEED study and achieved glycemic control as defined by investigators, to maintain normal to near-normal HbA1c levels (i.e., remission of T2D), without any glucose-lowering medication after the completion of the SEED study for a minimum follow-up period of 52-weeks. The results showed that the subjects had a 52-week diabetes remission rate of 65.2% at week 52 (95% CI, 53.4%, 77.0%) during the research period.

The initial commercialization of HuaTangNing (华堂宁®) in China has been very successful and well received by the medical community and patients. Due to significant demand and initial launch supply constraints, we voluntarily restricted sales after the first week of launch to ensure adequate continuous supply was available for patients who successfully secured HuaTangNing (华堂宁®) prescriptions. Normalized commercial sales resumed in January 2023. For the period from the first commercial sales at end of October 2022 through the end of January 2023, approximately 148,000 packs (28 tablets/pack) (unaudited) of HuaTangNing (华堂宁®) have been sold, generating net sales revenues of approximately RMB49 million (unaudited).

In February 2022, we announced a supply agreement with WuXi STA for the commercial manufacturing of dorzagliatin to further enhance our existing collaboration.

In June 2022, three research findings on dorzagliatin were presented at the 2022 82nd American Diabetes Association ("2022 ADA"): i) an oral presentation at the 2022 ADA Scientific Sessions on the results of SENSITIZE, a clinical study demonstrating dorzagliatin improved insulin secretion and glucose sensitivity; ii) a post-hoc analysis of the Phase III trials of dorzagliatin to validate the potential of dorzagliatin in improving early phase insulin secretion and restoring glucose sensitivity in T2D patients; and iii) the results of the DREAM study from the dorzagliatin monotherapy (SEED) study to explore the potential of dorzagliatin in diabetes remission.

In December 2022, we acquired 100% equity interest in AscendRare for approximately RMB1 million in cash and assumption of its liabilities. AscendRare is principally engaged in conducting pancreatic islet research-based development of new drugs for islet-related diseases, including congenital hyperinsulinism and diabetes, both in rare disease indications as well as for broader metabolic disorders.

In addition to our commercialization activities for HuaTangNing (华堂宁®) in China, we continued to advance the development of our second generation GKA, with the potential for once daily administration and a more efficient manufacturing process. Since the acquisition of AscendRare in December 2022, we also continued to develop our newly-acquired glucokinase compounds candidate for congenital hyperinsulinism.

Cautionary Statement required under Rule 18A.08(3) of the Listing Rules: 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 - monotherapy	Launched (China)							
	T2D - combination therapy with metformin	Launched (China)							
HuaTangNing (华堂宁®)	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							
Next Generation of GKA	Metabolic Diseases	Pre-clinical							
Glucokinase compound	Congenital Hyperinsulinism	Pre-clinical							
Fructose Kinase Inhibitor	Metabolic Disease	Pre-clinical							
mGLUR5 NAM - CNS	PD-LID	Pre-clinical							

Business outlook

In October 2022, we received formal notice of the commercial approval of our HuaTangNing (华堂宁®) from the NMPA and recorded our first commercial sales of HuaTangNing (华堂宁®) by the end of October 2022. The initial commercialization of HuaTangNing (华堂宁®) in China has been very successful and well received by the medical community and patients. We will continue to focus on the commercialization of HuaTangNing (华堂宁®) in China and advancing development of our fixed dose combinations with dorzagliatin, as well as the development of our second generation GKA, with the potential for once daily administration and a more efficient manufacturing process. We are also actively preparing to seek entry into the National Reimbursement Drug List for HuaTangNing (华堂宁®). Since the acquisition of AscendRare in December 2022, we will also continue to develop our newly-acquired glucokinase compound candidate for congenital hyperinsulinism.

Important events after the Reporting Period

On January 12, 2023 and January 19, 2023, we received RMB400 million in aggregate upon the grant of approval of HuaTangNing (华堂宁®) as monotherapy for T2D patients, the grant of approval of the use of HuaTangNing (华堂宁®) in combination with metformin in metformin tolerated T2D patients and the achievement of another commercialization milestone.

Save as disclosed above, there are no important events that have occurred 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 scientific data and medical records for the development and approval of HuaTangNing (华堂宁®) is extensive. Hua Medicine has successfully completed eight Phase I trials in China, four Phase I trials in the United States, one Phase II trial in China, two Phase III trials in China, and one clinical study for a 52-week drug-free period after the completion of SEED Phase III trial (which demonstrated a 65.2% diabetes remission rate). The results of our Phase II trial was published in *The Lancet Diabetes & Endocrinology*, a leading international medical journal, in May 2018. In May 2022, we published two peer-reviewed papers on the Phase III clinical trials results of dorzagliatin in *Nature Medicine*, a leading international medical journal. These two papers described and analyzed the clinical efficacy and safety characteristics of dorzagliatin monotherapy (SEED) in drug-naïve T2D patients and the combination therapy of dorzagliatin and metformin (DAWN) in patients who failed in metformin adequacy therapy for the treatment of Type 2 diabetes, respectively.

In summary, 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. From first commercial launch through December 31, 2022, approximately 53,000 packs of HuaTangNing (华堂宁®) were sold, generating sales of approximately RMB17.6 million.

Gross profit

For the year ended December 31, 2022, we recorded a gross profit of approximately RMB7.7 million and a gross profit rate of 43.7%. In view of the high unit production cost and high fixed cost ratio due to the sales volume at the early stage of commercialization, the gross profit rate for year 2022 is relatively low. As our commercialization scale increases, our gross profit rate is expected to increase to a more normalised rate.

Other income

Our other income consisted primarily of bank interest income, Bayer milestone income and government grants. Our other income increased by RMB29.6 million to RMB41.5 million for the year ended December 31, 2022 from RMB11.9 million for the year ended December 31, 2021, which was mainly attributable to an increase of RMB19.9 million in government grants and RMB10.8 million of monthly amortization of Bayer milestone income for the year ended December 31, 2022, adjusted for a decrease of RMB0.8 million in bank interest income from short-term time deposits. We received RMB23.3 million government grants from the local governments for research and development and operating activities, from which we recognized other income of RMB9.7 million for the year ended December 31, 2022. We recognized other income of RMB16.7 million from deferred revenue which we received in the past for the year ended December 31, 2022. We also recognized other income of RMB10.8 million from contract liability after we received NDA approval in the fourth quarter of 2022.

Other gains and losses

Our other gains and losses consisted primarily of gains or losses due to fluctuations in the exchange rates between the Renminbi and the U.S. dollar and between the Renminbi and the HK dollar. Our other gains and losses increased by RMB36.4 million to a gain of RMB26.0 million for the year ended December 31, 2022 from a loss of RMB10.4 million for the year ended December 31, 2021, which was mainly attributable to foreign exchange gains in connection with bank balances and cash denominated in U.S. dollars and HK dollars and the large appreciation of the U.S. dollar and HK dollar against the Renminbi in the year ended December 31, 2022, compared to the large depreciation of the U.S. dollar and HK dollar against the Renminbi in the year ended December 31, 2021.

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. dollars, HK dollars and Renminbi. We converted a portion of those U.S. dollar proceeds to Renminbi, with the remaining amounts reserved for additional conversions to Renminbi as needed. Conversion of our assets and liabilities for financial statement presentation purposes exposes us to currency-related gains or losses and the actual conversion of our U.S. dollar and HK dollar denominated cash balances (including the HK dollar proceeds received from the Global Offering (comprising the Hong Kong public offering of 10,476,000 shares of the Company (the "**Shares**") and the international offering of 94,280,000 Shares and 2,980,500 Shares pursuant to the partial exercise of the over-allotment option granted by the Company) (the "**Global Offering**") into Renminbi) 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 RMB4.9 million to RMB129.9 million in the year ended December 31, 2022 from RMB134.8 million in the year ended December 31, 2021, which was mainly attributable to i) decrease in labour costs which was attributable to the decrease of RMB7.5 million in share-based payment under the accelerated amortization method, adjusted for an increase of RMB4.0 million in cash compensation, ii) decrease of RMB1.9 million in marketing and public relations costs, mainly due to fewer national and regional meetings conducted in the year of 2022 which was impacted by our marketing strategy and COVID-19, iii) decrease of RMB2.0 million in recruitment expense due to our recruitment strategy, iv) decrease of RMB0.8 million in entertainment expense and RMB0.7 million in travelling expense due to decreased commercial and travel activities compared to the year 2021, which was impacted by COVID-19, and v) adjusted for the increase in consulting fee of RMB7.3 million mainly associated with the NDA approval application and commercialization strategy consulting in the year of 2022 and fewer such activities in the year of 2021.

Finance costs

Our finance cost consisted of expenses associated with the interest on lease liabilities and short-term loan. Our finance cost was RMB3.7 million for the year ended December 31, 2022 as compared to RMB4.0 million for the year ended December 31, 2021, which was mainly attributable to the payment of lease liabilities during the year 2022.

Selling expenses

Our selling expenses consisted primarily of expenses related to selling and marketing activities. Our selling expenses was RMB15.3 million for the year ended December 31, 2022, which consisted primarily of RMB5.8 million of employee compensation, RMB8.2 million of promotion expense and RMB1.3 million of meeting 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 year indicated.

	For the year ended December 31,			
	2022		2021	
	RMB'000	***%***	*RMB'000*	*%*
Dorzagliatin Clinical Trials	**4,928**	**3.8%**	22,162	11.9%
Dorzagliatin Non-clinical Studies	**4,368**	**3.4%**	3,670	2.0%
Chemical, Manufacturing and Control	**9,765**	**7.5%**	31,288	16.7%
Labor Cost	**84,341**	**65.1%**	98,064	52.5%
Dorzagliatin Licensing and Patent Fee	**2,453**	**1.9%**	2,549	1.4%
Others	**23,673**	**18.3%**	29,102	15.5%
Total	**129,528**	**100.0%**	186,835	100.0%

Research and development expenses decreased by RMB57.3 million to RMB129.5 million for the year ended December 31, 2022 from RMB186.8 million for the year ended December 31, 2021. The decrease in research and development expenses included:

- a decrease of RMB17.3 million for dorzagliatin clinical trials from RMB22.2 million for the year ended December 31, 2021 to RMB4.9 million for the year ended December 31, 2022, which was primarily attributable to the data analysis and trial master file report preparation of SEED/HMM0301 and DAWN/HMM0302 conducted in the year 2021. In the year 2022, we primarily focused on our NDA approval and conducted several additional clinical research to support the review by the NMPA;

- a decrease of RMB21.5 million in chemical, manufacturing, and control (CMC) expenses from RMB31.3 million for the year ended December 31, 2021 to RMB9.8 million for the year ended December 31, 2022. We focused on the process validation, drug substance and production for clinical trial which was required by NMPA in the first half of 2022, and transitioned to commercial production after NDA approval. In year of 2021, we focused on the chemical and process research for our fructose kinase inhibitor candidates and manufacture-dynamic process validation batch production to support our NDA approval;

- a decrease of RMB13.8 million in labor cost from RMB98.1 million for the year ended December 31, 2021 to RMB84.3 million for the year ended December 31, 2022, which was primarily attributable to the decrease of share-based payment under the accelerated amortization method; and

- a decrease of RMB5.4 million in other expenses from RMB29.1 million for the year ended December 31, 2021 to RMB23.7 million for the year ended December 31, 2022, which was primarily attributable to decreased travel cost, meeting cost and utility cost due to the impact of COVID-19 in the year 2022.

Income tax expense

We recognized no income tax expenses for the year ended December 31, 2022 and the year ended December 31, 2021.

Liquidity and capital resources

Since our inception, we have been in a net loss position with and net cash outflows from operations. Our primary use of cash is to fund our research and development activities. Our operating activities used RMB230.1 million for the year ended December 31, 2022. As of December 31, 2022, we had cash and cash equivalents of RMB490.6 million.

As of December 31, 2022, 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 31 December 2022), nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Cash Operating Cost

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

	For the year ended December 31,	
	2022	2021
	RMB'000	*RMB'000*
Research and development costs	**110,433**	159,904
Administrative costs		
– Workforce employment	**64,901**	50,500
– Others	**49,390**	62,577
Selling costs	**5,390**	–
	119,681	113,077
	230,114	272,981

Cash Flows

The following table provides information regarding our cash flows for the years ended December 31, 2021 and 2022:

	For the year ended December 31,	
	2022	2021
	RMB'000	*RMB'000*
Net cash used in operating activities	**(230,114)**	(272,981)
Net cash used in investing activities	**(4,752)**	(68,219)
Net cash from (used in) financing activities	**21,476**	(6,134)
Effect of exchange rate changes	**28,784**	(9,518)
Change in cash and cash equivalents	**(184,606)**	(356,852)

Net Cash Used in Operating Activities

The primary use of our cash was to fund our research and development 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 year ended December 31, 2022, our operating activities used RMB230.1 million of cash, which resulted principally from our loss before tax of RMB203.5 million, adjusted for non-cash charges and non-operating cash income of RMB0.5 million, and by cash used in increasing our working capital of RMB27.1 million. Our net non-cash charges and non-operating cash income during the year ended December 31, 2022 primarily consisted of RMB11.6 million of depreciation of equipment, RMB19.0 million of depreciation for right-of-use assets, RMB1.2 million of intangible assets amortization, RMB3.5 million of interest on lease liabilities; RMB21.3 million of share option expenses, RMB4.2 million of bank interest income, RMB23.3 million of income from government grants and RMB28.7 million net foreign exchange gains.

During the year ended December 31, 2021, our operating activities used RMB273.0 million of cash, which resulted principally from our loss before tax of RMB325.7 million, adjusted for non-cash charges and non-operating cash charges of RMB71.9 million, and by cash used in increasing our working capital of RMB19.2 million. Our net non-cash charges and non-operating cash charges during the year ended December 31, 2021 primarily consisted of RMB12.0 million of depreciation of equipment, RMB18.8 million of depreciation for right-of-use assets, RMB0.7 million of intangible assets amortization, RMB4.0 million of interest on lease liabilities; RMB32.7 million of share option expenses, RMB5.0 million of bank interest income, RMB1.0 million of income from government grants; RMB0.3 million of rent concession and RMB10.0 million net foreign exchange losses.

Net Cash used in Investing Activities

Net cash used in investing activities was RMB4.8 million for the year ended December 31, 2022, which resulted primarily from the purchase of equipment, useful right of Roche Royalty and construction of Lingang project, partially offset by the interest received from bank and government grant related to assets. Net cash used in investing activities was RMB68.2 million for the year ended December 31, 2021, which resulted primarily from the purchase of equipment, land and construction of Lingang project, partially offset by the interest received from bank.

Net Cash from (used in) Financing Activities

Net cash from financing activities was RMB21.5 million for the year ended December 31, 2022, which proceeds from short-term bank loan and exercise of share options, offset by payments relating to lease liabilities. Net cash used in financing activities was RMB6.1 million for the year ended December 31, 2021, which resulted from payments relating to lease liabilities, offset by proceeds from exercise of share options.

Financial position

Our net current assets increased from RMB597.7 million as of December 31, 2021 to RMB751.9 million as of December 31, 2022. Current assets increased from RMB704.6 million as of December 31, 2021 to RMB940.3 million as of December 31, 2022, primarily due to an increase in trade and other receivables from RMB24.7 million as of December 31, 2021 to RMB441.2 million as of December 31, 2022, which was due primarily to the commercial approval and launch of HuaTangNing (华堂宁®) entitled us to receive an aggregate milestone payment of RMB400.0 million from our commercialization partner in China, Bayer Healthcare Company Limited.

Indebtedness

As of December 31, 2022 and 2021, our lease liabilities and borrowings amounted to RMB97.6 million and RMB71.5 million, respectively. The following table sets forth our lease liabilities and borrowings as of the dates indicated:

	As of December 31,	
	2022	2021
	RMB'000	*RMB'000*
Current portion	**55,413**	13,296
Non-current portion	**42,169**	58,232
Total	**97,582**	71,528

Our lease liabilities as of December 31, 2022 were from leased properties lease contracts with lease terms of two to three years. As of December 31, 2022, 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, as 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 Trading 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 convert a portion of those funds to Renminbi immediately and place the remaining amount in time deposits. We convert additional amounts to Renminbi as needed. The value of the Renminbi against the U.S. dollar 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. dollar 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. dollar or other currencies for business purposes, appreciation of the U.S. or HK dollar against the Renminbi would have a negative effect on the U.S. dollar 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 Renminbi against U.S. dollars and HK dollars, the foreign currencies with which we may have material exposure. No sensitivity analysis has been disclosed for the Taiwan dollars denominated assets as the impact on profit is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative/positive number below indicates an increase/decrease in loss where Renminbi strengthens 5% against U.S. dollars and HK dollars. For a 5% weakening of Renminbi against U.S. dollars and HK dollars there would be an equal and opposite impact on loss for the year.

	As of December 31,	
	2022	2021
	RMB'000	*RMB'000*
Impact on profit or loss		
US$	**(9,893)**	(18,134)
HK$	**(2,250)**	(2,057)

Interest Rate Risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, lease liabilities, pledged bank deposits and bank balances. 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 December 31, 2022 and 2021, we recorded net current assets of RMB751.9 million and RMB597.7 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 December 31,	
	2022	2021
Current ratio[1]	**5.0**	6.6
Quick ratio[2]	**5.0**	6.6
Gearing ratio[3]	**34.9%**	15.9%

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 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 and quick ratio as of December 31, 2022 decreased by 1.6 compared with that as of December 31, 2021, which was mainly due to the cost of research activities and daily operation. The gearing ratio as of December 31, 2022 increased by 19.0% compared with that as of December 31, 2021, which was mainly due to the increase of short term loan caused by our financing strategy.

Charge of the Group's assets

Save as disclosed in this announcement, as of December 31, 2022, 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 (2021: RMB4,696,000) carry fixed interest rate of 1.50% and have been pledged to secure commencement of the factory construction. These deposits will be released within 10 working days upon the commencement of the factory construction. Deposits amounting to RMB1,565,000 (2021: RMB1,565,000) carry fixed interest rate of 2.75% and 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 (2021: RMB1,565,000) carry fixed interest rate of 2.75% and 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 December 31,	
	2022	2021
	RMB'000	*RMB'000*
Capital expenditure in respect of the acquisition of construction contracted for but not provided in the consolidated financial statements	**1,107**	4,381

Future plans for material investments or capital assets

Save as disclosed in this announcement, as of December 31, 2022, we plan to continually invest in Shanghai Huasheng Inc, which was established at Shanghai Lingang Special Area for ensuring adequate dorzagliatin commercial supply.

Contingent liabilities

Save as disclosed in this announcement, the Group had no material contingent liabilities as at 31 December 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	For the year ended December 31, 2022 RMB'000 (audited)	2021 RMB'000 (audited)
Revenue	3	**17,599**	**–**
Cost of sales		**(9,910)**	**–**
Gross profit		**7,689**	**–**
Other income	4	**41,511**	11,871
Other gains and losses	5	**26,026**	(10,373)
Administrative expenses		**(129,931)**	(134,835)
Finance costs	6	**(3,667)**	(3,950)
Selling expenses		**(15,348)**	**–**
Other expenses		**(259)**	(1,612)
Research and development expenses		**(129,528)**	(186,835)
Loss before tax	7	**(203,507)**	(325,734)
Income tax expense	8	**–**	–
Loss for the year		**(203,507)**	(325,734)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		**94**	454
Total comprehensive expense for the year		**(203,413)**	(325,280)
LOSS PER SHARE	10	**RMB**	RMB
Basic and diluted		**(0.21)**	(0.34)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	**As of December 31, 2022** ***RMB'000*** **(audited)**	As of December 31, 2021 *RMB'000* (audited)
Non-current assets			
Plant and equipment		**53,855**	57,942
Right-of-use assets	*11*	**85,853**	98,658
Intangible assets		**31,952**	9,026
Pledged bank deposits	*14*	**3,130**	3,130
Trade and other receivables	*13*	**6,450**	30,197
		181,240	198,953
Current assets			
Inventories	*12*	**1,915**	–
Trade and other receivables	*13*	**441,192**	24,666
Amounts due from related parties		**1,822**	–
Pledged bank deposits	*14*	**4,696**	4,696
Bank balances and cash	*14*	**490,632**	675,238
		940,257	704,600
Current liabilities			
Trade and other payables	*15*	**79,111**	79,738
Borrowings	*16*	**33,923**	–
Lease liabilities		**21,490**	13,296
Contract liabilities	*17*	**43,303**	–
Deferred income		**10,559**	13,850
		188,386	106,884
Net Current Assets		**751,871**	597,716
Total Assets Less Current Liabilities		**933,111**	796,669
Non-current liabilities			
Lease liabilities		**42,169**	58,232
Contract liabilities	*17*	**606,248**	283,019
Deferred income		**5,114**	5,087
		653,531	346,338
Net Assets		**279,580**	450,331

	NOTES	**As of December 31, 2022** ***RMB'000*** **(audited)**	As of December 31, 2021 *RMB'000* (audited)
Capital and reserves			
Share capital		**7,214**	7,211
Treasury shares held in trust		**(584)**	(626)
Reserves		**272,950**	443,746
Equity attributable to owners of the Company		**279,580**	450,331
Total Equity		**279,580**	450,331

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 are listed on The Stock Exchange of Hong Kong Limited on September 14, 2018 (the "Listing Date"). 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 Building 2, Lane 36, Xuelin Road, Pudong New Area, Shanghai 201203, PRC.

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

2. Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and complied with the Hong Kong Companies Ordinance.

The 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, which is the same as the presentation currency of the consolidated financial statements.

3. Revenue

The following is an analysis of the Group's revenue:

(i) Disaggregation of revenue from contracts with customers

	For the year ended December 31,	
	2022	2021
	RMB'000	*RMB'000*
	(audited)	(audited)
Timing of revenue recognition		
At a point in time		
Sales of pharmaceutical products	**17,599**	–

(ii) Performance obligations for contracts with customers

For the sale of pharmaceutical products, revenue is recognized when control of the goods has transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customers have the primary responsibility when selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognized by the Group when the goods are delivered to customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The normal credit term is 60 days upon delivery. Customers can only return or request refund if the goods delivered do not meet required quality standards. Therefore, the probability of the significant reversal in revenue in relation to sales return in the future is remote.

4. Other income

	For the year ended December 31,	
	2022	2021
	RMB'000	*RMB'000*
	(audited)	(audited)
Bank interest income	**4,240**	5,036
Government grants and subsidies *(Note a)*	**26,445**	6,490
Amortization of payments received for exclusive promotion rights granted *(Note b)*	**10,826**	–
Rental concession	**–**	345
	41,511	11,871

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: The amount represents the amortization of advance payments received to grant the promotion rights to an independent third party on dorzagliatin over the agreed exclusive promotion period.

5. Other gains and losses

Other gains and losses mainly represent the foreign exchange gains and losses during the years ended December 31, 2022 and 2021.

6. Finance costs

	For the year ended December 31,	
	2022	2021
	RMB'000	*RMB'000*
	(audited)	(audited)
Interest on lease liabilities	**3,547**	3,950
Interest on borrowings	**120**	–
	3,667	3,950

7. Loss before tax

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

	For the year ended December 31,	
	2022	2021
	RMB'000	*RMB'000*
	(audited)	(audited)
Depreciation of plant and equipment	**11,592**	11,984
Depreciation of right-of-use assets	**19,808**	19,189
Amortization of intangible assets	**1,183**	752
Total depreciation and amortization	**32,583**	31,925
Capitalized in construction in progress	**(806)**	(336)
	31,777	31,589
Other expenses *(Note a)*	**259**	1,612
Staff cost (including directors' emoluments):		
– Salaries and other benefits	**133,964**	130,579
– Retirement benefit scheme contributions	**11,466**	11,162
– Share-based payment	**21,276**	32,695
	166,706	174,436
Covid-19-related rent concessions	**–**	(345)
Auditors' remuneration		
– Audit services	**1,672**	1,670
– Non-audit services	**756**	906
	2,428	2,576
Expenses relating to short-term leases	**767**	1,316

Note a: In 2022, the amount mainly represents the acquisition-related costs. Except for the foregoing, the Company had no other expense in 2022 , as compared to 2021, when US$0.25 million (equivalent to RMB1,612,000) was donated for establishing a Type 2 diabetes research fund in the Department of Biochemistry and Biophysics at the Raymond and Ruth Perelman School of Medicine of the University of Pennsylvania, USA.

8. 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 periods presented in the consolidated financial statements.

Under the Law of the PRC of Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiary is 25% during the period, except for Hua Shanghai.

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 year 2022. 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 year ended December 31, 2022.

9. 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 New Drug Application ("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.

10. 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:

	For the year ended December 31,	
	2022	2021
	RMB'000	*RMB'000*
	(audited)	(audited)
Loss for the period attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(203,507)**	(325,734)

Number of shares:

	For the year ended December 31,	
	2022	2021
	(audited)	(audited)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**966,730,201**	957,488,541

The computation of basic loss per share for the years ended December 31, 2022 and 2021 respectively excluded the unvested restricted stock units of the Company.

The computation of diluted loss per share for the years ended December 31, 2022 and 2021 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.

11. Right-of-use assets

The Group entered into several lease modifications agreements for the use of leased properties for two to three years, and the net book value of right-of-use assets as of December 31, 2022 and 2021 is RMB85,853,000 and RMB98,658,000.

12. Inventories

	As of December 31, 2022	As of December 31, 2021
	RMB'000	*RMB'000*
	(audited)	(audited)
Raw materials and consumables	**1,470**	–
Work in progress	**368**	–
Finished goods	**77**	–
	1,915	–

13. Trade and other receivables

	As of December 31, 2022 ***RMB'000*** **(audited)**	As of December 31, 2021 *RMB'000* (audited)
Trade receivables	**11,121**	–
Prepayments for research and development services	**3,969**	14,303
Prepayment for raw materials and manufacture services	**16,542**	–
Utility and rental deposits		
– current	**603**	662
– non-current	**4,887**	4,609
Value add tax ("**VAT**") recoverable		
– current	**505**	–
– non-current	**1,133**	24,942
Interest receivables	**871**	52
Other receivables for considerations of options exercised	**744**	359
Others		
– current	**6,837**	9,290
– non-current	**430**	646
Receivables from exclusive promotion rights *(Note 17)*	**400,000**	–
	447,642	54,863
Analysis as		
– current	**441,192**	24,666
– non-current	**6,450**	30,197
	447,642	54,863

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

	As of December 31, 2022 ***RMB'000*** **(audited)**	As of December 31, 2021 *RMB'000* (audited)
0-60 days	**10,982**	–
61-90 days	**139**	–
	11,121	–

As at December 31, 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB139,000 (2021: nil) which are past due, out of which nil (2021: nil) is past due over 90 days as at reporting date. The Group maintains adequate credit policy to access the credit quality of the customers and closely monitored to minimize any credit risk associated with the trade debtors. The Group's customers have strong financial capacity.

14. 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 0.001% to 4.03% as of December 31, 2022 (2021: 0.001% to 1.95%) 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 (2021: RMB4,696,000) carry fixed interest rate of 1.50% and have been pledged to secure commencement of the factory construction. These deposits will be released within 10 working days upon the commencement of the factory construction. Deposits amounting to RMB1,565,000 (2021: RMB1,565,000) carry fixed interest rate of 2.75% and 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 (2021: RMB1,565,000) carry fixed interest rate of 2.75% and 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.

Bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As of December 31, 2022 *RMB'000* (audited)	As of December 31, 2021 *RMB'000* (audited)
US$	**196,872**	362,793
HK$	**43,944**	40,487
Taiwan Dollars ("TWD")	**3**	3

15. Trade and other payables

	As of December 31, 2022 *RMB'000* (audited)	As of December 31, 2021 *RMB'000* (audited)
Trade payables	**20,982**	23,785
Other payables	**2,553**	4,071
Accrued leasehold improvement expenditure	**1,468**	1,604
Construction expenditure payables	**9,828**	10,982
Payroll and bonus payables	**38,342**	32,149
Others	**5,906**	7,147
Interest Payable	**32**	–
	79,111	79,738

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

15. Trade and other payables – continued

The aging analysis of the trade payables presented based on the goods/services relevant invoice or billing date at the end of each reporting period is as follows:

	As of December 31, 2022 ***RMB'000*** **(audited)**	As of December 31, 2021 *RMB'000* (audited)
Uninvoiced or within 30 days	**20,792**	23,785
31 to 60 days	**190**	–
	20,982	23,785

Analysis of trade and other payables denominated in currency other than the functional currencies of the relevant group entities is set out below:

	As of December 31, 2022 ***RMB'000*** **(audited)**	As of December 31, 2021 *RMB'000* (audited)
US$	**45**	339

16. Borrowings

	As of December 31, 2022 ***RMB'000*** **(audited)**	As of December 31, 2021 *RMB'000* (audited)
Unsecured bank loans	**33,923**	–

In November 2022, the Group entered into a short-term loan agreement with a PRC bank which provided a loan facility amounted to RMB100,000,000. As at December 31, 2022, the Group has drawn down RMB28,923,000 with a fixed interest rate of 3.60%, which will be due within one year after the first drawn down date. As at December 31, 2022, the Group undertook the short-term loan amounting to RMB5,000,000 with a fixed interest rate of 4.35%, of which will be due within one year due to acquisition of Nanjing Ascendrare Pharmaceuticals.

17. Contract liabilities

	As of December 31, 2022 ***RMB'000*** **(audited)**	As of December 31, 2021 *RMB'000* (audited)
Advance from a customer for exclusive promotion rights	**649,551**	283,019
Analysis as		
– current	**43,303**	–
– non-current	**606,248**	283,019
	649,551	283,019

On August 17, 2020, the Group entered into an exclusive promotion service agreement with an independent third party under which the Group granted the exclusive promotion rights on dorzagliatin. Pursuant to the agreement, the Group is entitled to an 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. In August 2020, the Group received the non-refundable upfront payment, amounting to RMB300,000,000. The VAT-excluded amount was recognized in contract liabilities as RMB283,019,000 and amortized upon NDA approval within the agreed exclusive promotion period. In October 2022, the Group was further entitled to an aggregate milestone payment of RMB400,000,000 upon the receipt of dorzagliatin approval and commercialization. The VAT-excluded amount was recognized in contract liabilities as RMB377,358,000 and amortized upon NDA approval within the agreed exclusive promotion period.

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 year ended December 31, 2022.

Employees and remuneration policy

As at December 31, 2022, the Group employed a total of 144 employees, as compared to a total of 146 employees as at December 31, 2021. The majority of the employees are employed in mainland China. For the year ended December 31, 2022, staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB155.2 million as compared to RMB163.3 million for the year ended December 31, 2021.

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 labour dispute during the year ended December 31, 2022.

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 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 December 31, 2022:

		% of use of proceeds	Net proceeds from the Global Offering *RMB million*	Unutilized net proceeds as of January 1, 2022 *RMB million*	Utilization during the year ended December 31, 2022 *RMB million*	Actual usage up to December 31, 2022 *RMB million*	Unutilized net proceeds as of December 31, 2022 *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	26.8	14.5	54.9	12.3	By the end of year 2023
(c)	Dorzagliatin launch and commercialization	27%	201.8	148.8	50.2	103.2	98.6	By the end of year 2023
(d)	New product and diabetes care technology development	11%	82.2	60.3	1.5	23.4	58.8	By the end of year 2024
(e)	Product licensing and partnership	4%	29.9	23.5	23.5	29.9	–	N/A
(f)	General working capital	10%	74.7	–	–	74.7	–	N/A
Total		**100%**	**747.2**	**259.4**	**89.7**	**577.5**	**169.7**	**By the end of year 2024**

Final dividend

The Board has resolved not to declare any final dividend for the year ended December 31, 2022 (December 31, 2021: NIL).

Securities transactions by the Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as the guidelines for regulating the directors' dealings in the securities of the Company. Specific enquiry has been made to each Director and all Directors have confirmed that they have complied with the applicable standards set out in the Model Code throughout the year ended December 31, 2022.

Corporate governance

The Company is committed to maintaining 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 set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

Pursuant to 3.21 of the Listing Rules, the audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2).

Mr. Walter Teh-Ming Kwauk, who served as the Chairman of the Audit Committee, passed away on 24 November 2022. Following Mr. Kwauk's death, the number of members who are independent non-executive directors on the Audit Committee of the Company will be reduced to two, which falls short of the requirement under Rule 3.21 of the Listing Rules and also did not meet the requirement under Rule 3.10(2) that at least one of the independent non-executive director of the board of directors has appropriate professional qualifications or accounting or related financial management expertise.

Following the appointment of Mr. Yiu Leung Andy CHEUNG, who has over 30 years of professional accounting and auditing experience, as an independent non-executive Director and also as a chairman of the Audit Committee with effect from January 1, 2023, the Company has complied with the requirements as set out in Rules 3.10(2) and 3.21 of the Listing Rules.

Save as disclosed above, the Board is of the view that the Company has complied with all applicable code provisions of the CG Code throughout the year ended December 31, 2022. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

Review of annual results

The consolidated financial results of the Group for the year ended December 31, 2022 has been audited by the Company's auditor, Deloitte Touche Tohmatsu, and reviewed by the Audit Committee of the Company, which consists of Mr. Yiu Leung Andy Cheung, Mr. William Robert Keller and Mr. Yiu Wa Alec Tsui.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2022 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

Annual general meeting and closure of register of shareholders

The annual general meeting ("**AGM**") of the Company is scheduled to be held on June 29, 2023. A notice convening the AGM will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

For determining the entitlement to attend and vote at the AGM, the register of shareholders of the Company will be closed from June 26, 2023 to June 29, 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, located at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 pm on June 23, 2023.

Publication of the annual results and 2022 annual report on the websites of the Stock Exchange and the Company

This annual results announcement is published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.huamedicine.com). The Company's annual report for the year ended December 31, 2022 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.

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

Hong Kong, March 29, 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. Junling Liu, Mr. Yiu Wa Alec Tsui and Mr. Yiu Leung Andy Cheung as independent non-executive Directors.