



Pharma
绿叶制药

Luye Pharma Group Ltd.

绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

Stock Code: 2186

2022 INTERIM REPORT



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COMPANY OVERVIEW

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the People's Republic of China ("PRC" or "China"), the United States ("the U.S."), Europe and other countries or districts, namely oncology, central nervous system ("CNS"), cardiovascular system, alimentary tract and metabolism. The Group has a portfolio of over 30 products, covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets.

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in the first half of 2022. The Group's sales, marketing and distribution functions are conducted through around 1,000 sales and marketing personnel, a network of approximately 1,740 distributors that collectively enabled the Group to sell its products to over 18,100 hospitals. The business of the Group covers 80 countries or regions including the U.S., countries in the European Union ("EU"), Japan, Association of Southeast Asian Nations ("ASEAN"), Latin America, Gulf Cooperation Council ("GCC") region and other emerging countries or regions. The Group also has strong sales partnerships with more than 50 partners throughout the world.

The Group's R&D activities are organised around four platforms in the chemical drug sector — long acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. The Group has expanded its R&D capability to biological sector supported by Boan Biotech's three cutting-edge platforms, namely Human Antibody Transgenic Mouse and Phage Display Technology Platform, Bispecific T-cell Engager Technology Platform and ADC Technology Platform. The Group balances clinical development risks by strategically allocating its resources between proprietary formulations of proven compounds and new chemical entities as well as biosimilars and novel antibodies. The Group believes that its R&D capabilities will be the driving force behind the Group's long-term competitiveness, as well as the Group's future growth and development.

As at 30 June 2022, the Group's R&D team consisted of 839 employees, including 72 doctoral degree holders and 407 master's degree holders in medical, pharmaceutical and other related areas.

As at 30 June 2022, the Group had been granted 248 patents and had 82 pending patent applications in the PRC, as well as 615 patents and 126 pending patent applications overseas. The Group intends to continue investing in the products in four strategic therapeutic areas — oncology, CNS, cardiovascular and alimentary tract and metabolism.

As at 30 June 2022, the Group had 32 PRC pipeline product candidates in various stages of development. These candidates included 13 oncology products, 12 CNS products and 7 other products. Also, the Group had 13 pipeline product candidates in the U.S., Europe and Japan in various stages of development.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LIU Dian Bo
(Executive Chairman and Chief Executive Officer)
Mr. YANG Rong Bing *(Vice Executive Chairman)*
Mr. YUAN Hui Xian
Ms. ZHU Yuan Yuan

Non-executive Directors

Mr. SONG Rui Lin
Mr. SUN Xin

Independent Non-executive Directors

Mr. ZHANG Hua Qiao
Professor LO Yuk Lam
Mr. LEUNG Man Kit
Mr. CHOY Sze Chung Jojo

COMPANY SECRETARY

Ms. LEE Mei Yi

AUTHORIZED REPRESENTATIVES

Mr. YANG Rong Bing
Ms. ZHU Yuan Yuan

AUDIT COMMITTEE

Mr. LEUNG Man Kit *(Chairman)*
Mr. ZHANG Hua Qiao
Professor LO Yuk Lam

REMUNERATION COMMITTEE

Mr. CHOY Sze Chung Jojo *(Chairman)*
Mr. ZHANG Hua Qiao
Professor LO Yuk Lam

NOMINATION COMMITTEE

Professor LO Yuk Lam *(Chairman)*
Mr. ZHANG Hua Qiao
Mr. CHOY Sze Chung Jojo

REGISTERED OFFICE

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2 Church Street
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

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Shanghai
People's Republic of China

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Unit 3207, 32/F, Champion Tower
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
Clarendon House
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Bermuda

CORPORATE INFORMATION

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Registered Public Interest Entity Auditor
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979 King's Road
Quarry Bay
Hong Kong

STOCK CODE

2186

COMPANY'S WEBSITE

www.luye.cn

PRINCIPAL BANKERS

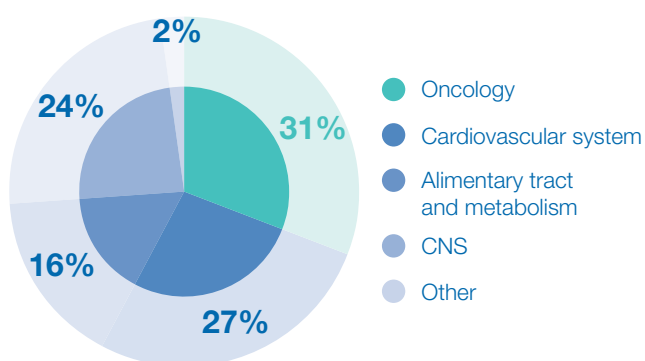
Bank of China Limited
China Everbright Bank
Industrial and Commercial Bank of China Limited
Citibank (China) Limited

FINANCIAL HIGHLIGHTS

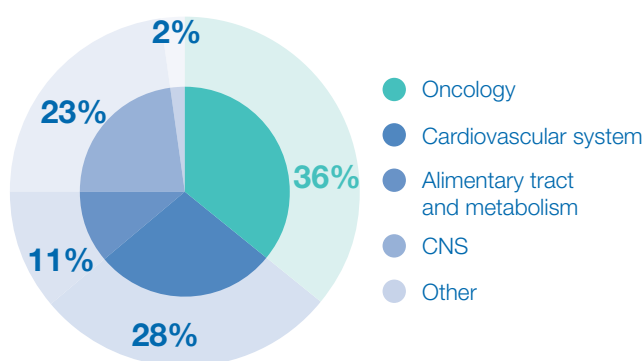
- Revenue decreased by RMB100.8 million or 3.4% to RMB2,850.8 million, as compared to the six months ended 30 June 2021.
- Gross profit increased by RMB96.4 million or 4.9% to RMB2,050.1 million, as compared to the six months ended 30 June 2021, and gross profit margin was 71.9%.
- Net profit decreased by RMB104.8 million or 25.7% to RMB303.2 million, as compared to the six months ended 30 June 2021.
- Profit attributable to shareholders decreased by RMB89.6 million or 23.2% to RMB297.0 million, as compared to the six months ended 30 June 2021.
- EBITDA decreased by RMB38.7 million or 4.1% to RMB916.0 million, as compared to the six months ended 30 June 2021.
- Earnings per share was RMB8.54 cents, as compared to RMB11.32 cents for the six months ended 30 June 2021.
- No interim dividend was proposed by the Board for the six months ended 30 June 2022.

	2018 RMB Million Restated	2019 RMB Million Restated	2020 RMB Million	2021 RMB Million	30 June 2021 RMB Million	30 June 2022 RMB Million
Revenue	5,172.5	6,357.9	5,539.6	5,200.2	2,951.7	2,850.8
Gross Profit	4,049.4	4,879.2	3,990.6	3,396.7	1,953.7	2,050.1
EBITDA	1,893.1	2,385.1	1,877.1	906.9	954.7	916.0
Net Profit	1,204.9	1,354.1	703.3	(144.8)	408.0	303.2
Profit attributable to owners of the Parent	1,202.2	1,396.2	706.6	(134.4)	386.6	297.0
Total Assets	17,702.9	19,407.7	20,630.6	22,582.1	21,844.1	22,568.0
Total Liability	10,082.6	10,487.3	12,531.6	13,468.2	12,146.4	13,119.3
Equity	7,620.3	8,920.4	8,099.0	9,113.9	9,697.7	9,448.7

30 June 2021



30 June 2022



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fastest growing therapeutic areas in the People's Republic of China ("PRC" or "China"), the United States (the "U.S."), Europe and certain emerging countries or regions, namely oncology, central nervous system ("CNS"), cardiovascular system, alimentary tract and metabolism. The Group has a portfolio of over 30 products, covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets. During the six months ended 30 June 2022, the Group's business was influenced by the pandemic of coronavirus disease 2019 ("COVID-19") and global economic fluctuations but still maintained stability. The Group recorded a decrease in revenue of 3.4% in the first half of 2022 as compared to that of 2021. The Group continually invests in research and development ("R&D") to maintain its competitiveness, and has a robust product pipeline including 32 pipeline product candidates in the PRC and 13 pipeline product candidates in the U.S., Europe and Japan.

MARKET POSITIONING

In China, the Group's key products are competitively positioned in four key therapeutic areas and have gained top-ranking market shares measured by revenue. According to IQVIA, oncology-related pharmaceutical products constituted the largest market in China for pharmaceutical products in the first half of 2022. The Group's portfolio of oncology products includes Lipusu, CMNa and Boyounuo. Lipusu is the first and only paclitaxel liposome product approved for sale globally as of 30 June 2022. CMNa is a Class I New Chemical Drug and the only China National Medical Products Administration (the "NMPA", formerly known as the China Food and Drug Administration) approved sensitiser for cancer radiotherapy in China. Boyounuo is an anti-VEGF humanized monoclonal antibody injection and a biosimilar to Avastin independently developed by Shandong Boan Biotechnology Co., Ltd. ("Boan Biotech"), a member of the Group. IQVIA data showed that cardiovascular system-related pharmaceutical products constituted the fourth largest market for pharmaceutical products in the PRC in the first half of 2022. According to IQVIA, the Group's key cardiovascular system products, Xuezhikang and Maitongna, were the most popular natural medicine for the treatment of hypercholesterolaemia and the fifth largest vasoprotective pharmaceutical product in China in the first half of 2022, respectively. According to IQVIA, alimentary tract and metabolism-related pharmaceutical products constituted the second largest market for pharmaceutical products in the PRC in the first half of 2022. According to IQVIA, the Group was the second largest domestic pharmaceutical manufacturer of oral diabetic medications in China in the first half of 2022. IQVIA data showed that CNS-related pharmaceutical products constituted the fifth largest market for pharmaceutical products in the PRC in the first half of 2022. The Group's portfolio of CNS products includes Seroquel and Rykindo. Based on IQVIA data, the Group's key product Seroquel was the seventh largest product in schizophrenia therapeutic area and the largest quetiapine product in terms of sales in the PRC in the first half of 2022, and Rykindo was the only Risperidone Microspheres for Injection for sale in China as of 30 June 2022.

For international markets, the Group's products are mainly positioned in CNS therapeutic area, including Seroquel, Seroquel XR, Rivastigmine once-daily transdermal patch, Rivastigmine Multi-Day Transdermal Patch ("Rivastigmine MD" or "LY30410"), Fentanyl patches and Buprenorphine patches.

For the six months ended 30 June 2022, the Group's revenue from cardiovascular system products decreased by 1.7% to RMB787.1 million. Revenue from alimentary tract and metabolism products decreased by 29.6% to RMB322.7 million. Revenue from sales of oncology products increased by 10.6% to RMB1,025.0 million. Revenue from CNS products decreased by 6.1% to RMB651.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY PRODUCTS

The Company believes that the Group's nine key products are competitively positioned for high prevalence medical conditions that are expected to grow or maintain stably globally.

Lipusu[®] (力撲素[®])

Lipusu is the Group's proprietary formulation of paclitaxel using an innovative liposome injection delivery vehicle and a chemotherapy treatment of certain types of cancer. As of 30 June 2022, Lipusu was the first and only paclitaxel liposome product approved for sale globally. In December 2020, Lipusu has been included in the category B of the new Catalogue of National Reimbursement Drug List ("NRDL"). All indications of Lipusu, including non-small cell lung cancer, ovarian and breast cancer, are reimbursed under the NRDL. The 2020 NRDL has come into effect in March 2021.

CMNa[®] (希美納[®])

CMNa is sodium glycididazole, a proprietary compound that the Group prepares in injectable form and is indicated for use in connection with radiotherapy for certain solid tumours. It is a Class I New Chemical Drug and the only NMPA approved sensitiser for cancer radiotherapy in China. According to the NMPA, CMNa was the only glycididazole product available for sale in the first half of 2022. An study conducted by an independent third party in 2009 concluded that the use of CMNa for the treatment of certain cancers increased the probability of complete or partial remission and reduced overall treatment costs.

Boyounuo[®] (博優諾[®])

Boyounuo was approved to the market by the NMPA in April 2021. It is an anti-VEGF humanized monoclonal antibody injection and a biosimilar to Avastin[®] independently developed by Boan Biotech. Avastin[®] has been approved worldwide for the treatment of non-small cell lung cancer, metastatic colorectal cancer, glioblastoma, renal cell carcinoma, cervical cancer, ovarian cancer and other solid tumors. Its significant efficacy and good safety have been widely recognized. According to the data from IQVIA, the sales of Bevacizumab injection in China reached RMB3.20 billion in the first half of 2022.

Xuezhikang[®] (血脂康[®])

Xuezhikang is the Group's proprietary natural medicine derived from red yeast rice indicated for hypercholesterolaemia. According to the NMPA, the Group was the only Xuezhikang manufacturer in China as of 30 June 2022. According to IQVIA, the market for lipid-regulating drugs in China was estimated to be approximately RMB5.1 billion in the first half of 2022. According to IQVIA, Xuezhikang ranked as the most popular natural medicine for the treatment of hypercholesterolaemia and the fourth most-used lipid-regulating drug in China in the first half of 2022.

Maitongna[®] (麥通納[®])

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral edema and edema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IQVIA, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB1.5 billion in the first half of 2022. Maitongna was the best-selling domestically manufactured sodium aescinate product in China in the first half of 2022 and ranked as the fourth most-used vasoprotective pharmaceutical product domestically manufactured in China in the first half of 2022.

Bei Xi[®] (貝希[®])

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to the NMPA, the Group was the only manufacturer of acarbose in capsule form in the first half of 2022. According to IQVIA, the market for acarbose products in China was estimated to be approximately RMB0.7 billion in the first half of 2022 and Bei Xi ranked as the second most popular oral diabetic medication domestically manufactured in China in the first half of 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Rivastigmine Transdermal Patches (the “Rivastigmine Patch”)

The Rivastigmine Patch is rivastigmine in transdermal patches form approved in China, the U.S., Europe and other emerging countries or regions, indicated for mild to moderate dementia of the Alzheimer’s type and dementia due to Parkinson’s disease.

Seroquel® (思瑞康®) and Seroquel XR® (思瑞康緩釋片®)

Seroquel (quetiapine fumarate, immediate release, IR) and Seroquel XR (extended release formulation) are atypical antipsychotic medicines with antidepressant properties. The main indications for Seroquel are the treatment of schizophrenia and bipolar disorder. Seroquel XR is also approved in some markets for major depressive disorder and generalised anxiety disorder. According to IQVIA, Seroquel was the seventh most-used product in schizophrenia therapeutic area and the most-used quetiapine product in the PRC in the first half of 2022. In addition to China, Seroquel and Seroquel XR are also marketed by the Group in other 50 developed and emerging countries.

Rykindo® (瑞欣妥®)

Rykindo was approved for marketing by the NMPA in January 2021. It is the first innovative formulation developed under the Group’s long acting and extended technology platform that received marketing approval. Rykindo is an extended-release microsphere for injection administered bi-weekly for the treatment of schizophrenia and is the only Risperidone Microspheres for Injection for sale in China as of 30 June 2022. Rykindo can significantly improve the medication compliance issues which are common among patients with schizophrenia in relation to oral antipsychotic drugs, and simplify the treatment regimen. Patients using Rykindo are also expected to have stable clinically effective plasma drug level and can benefit from more convenient clinical treatment. In December 2021, Rykindo has been included in the 2021 NRDL in China.

RESEARCH AND DEVELOPMENT

The Group’s R&D activities are organised around four platforms in the chemical drug sector — long acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. The Group has expanded its R&D capability to biological sector supported by Boan Biotech’s three cutting-edge platforms, namely Human Antibody Transgenic Mouse and Phage Display Technology, Bispecific T-cell Engager Technology and ADC Technology Platform. The Group balances clinical development risks by strategically allocating its resources between proprietary formulations of proven compounds and new chemical entities as well as biosimilars and novel antibodies. The Group believes that its R&D capabilities will be the driving force behind the Group’s long-term competitiveness, as well as the Group’s future growth and development. As at 30 June 2022, the Group’s R&D team consisted of 839 employees, including 72 Ph.D. degree holders and 407 master’s degree holders in medical, pharmaceutical and other related areas. As at 30 June 2022, the Group had been granted 248 patents and had 82 pending patent applications in the PRC, as well as 615 patents and 126 pending patent applications overseas.

The Group intends to continue investing in the products in four strategic therapeutic areas — oncology, CNS, cardiovascular and alimentary tract and metabolism. As at 30 June 2022, the Group had 32 PRC pipeline product candidates in various stages of development. These candidates included 13 oncology products, 12 CNS products and 7 other products. Also, the Group had 13 pipeline product candidates in the U.S., Europe and Japan in various stages of development.

MANAGEMENT DISCUSSION AND ANALYSIS



For global R&D progress:

In January 2022, the Group's monthly microspheres injection LY03009 ("LY03009") has been approved to initiate clinical trial in the U.S.. LY03009 is indicated for the treatment of Parkinson's disease and restless legs syndrome. It has been developed on the Group's long-acting and extended release technology platform. LY03009 is a microspheres injection for once-monthly dosing, which can maintain a stable drug level in blood plasma during the target dosing intervals. It possesses the benefit of continuous dopaminergic stimulation, which can delay and treat motor complications and delay introduction of levodopa in the treatment of Parkinson's disease. The maintenance of an effective drug level overnight is expected to improve nocturnal symptoms control and the drug's wake-promotion function. The one-month target dosing interval can reduce administration frequency, simplify treatment regimen, and thus contribute to the improvement of treatment compliance and clinical outcomes.

For China R&D progress:

In January 2022, the marketing authorization application for the Group's analgesic product under development, oxycodone and naloxone extended-release tablets ("LY021702"), has been accepted by the Centre for Drug Evaluation ("CDE") in China. LY021702 is the first oxycodone and naloxone extended release tablet product that has high technical barriers developed by a Chinese company. It consists of oxycodone hydrochloride, a strong opioid receptor agonist, and naloxone hydrochloride, an opioid antagonist, for the treatment of moderate to severe chronic pain that cannot be effectively controlled by non-opioids, with pain relief lasting up to 12 hours. It has a deterrent feature regarding opioid abuse and can relieve gastrointestinal adverse effects such as opioid-induced constipation.

In March 2022, the Group has submitted a NDA for Lurbinectedin ("LY01017") for injection, a product of the Group licensed in from Pharma Mar, S.A. ("PharmaMar") in Hong Kong, China, for the treatment of adult patients with metastatic small cell lung cancer ("SCLC") with disease progression on or after receiving platinum-based chemotherapy. In July 2022, LY01017 has been approved by the Hainan Medical Products Administration for import to specific medical institutions in Hainan Boao Lecheng International Medical Tourism Pilot Zone ("Boao Lecheng Pilot Zone") for urgent clinical use. To date, Lurbinectedin has received the accelerated approval in the U.S., and provisional marketing approval in Australia, the United Arab Emirates, Canada, Singapore and Qatar. In 2019, the Group was exclusively licensed by PharmaMar to develop and commercialize Lurbinectedin in China, covering all indications including SCLC.

In March 2022, the Class 1 new chemical entity (NCE) product LY03005 ("LY03005") under development by the Group has been approved by the CDE in China to initiate phase III clinical trial for the treatment of generalized anxiety disorder. LY03005 is a new chemical entity therapeutic drug with a new mechanism of action. It is a serotonin (5-HT), norepinephrine (NE) and dopamine (DA) reuptake inhibitor (SNDRI/TRI). The approved clinical trial is a phase III clinical study evaluating the efficacy and safety of LY03005 on patients with generalized anxiety disorder. Previously, LY03005 has completed Phase I to Phase III clinical trials for the treatment of depressive disorder in China, and its marketing authorization application has been accepted by CDE in June 2021.



MANAGEMENT DISCUSSION AND ANALYSIS

In April 2022, the marketing authorization application for the CNS product Rivastigmine Twice-Weekly Transdermal Patch developed by the Group has been accepted by CDE in China. The product is indicated for the treatment of mild to moderate dementia associated with Alzheimer's disease. Rivastigmine Twice-Weekly Transdermal Patch requires lower frequency of application than the Rivastigmine Single-Day Transdermal Patch generally available in the market, enabling it to improve patients' medication adherence. Due to its transdermal route of administration, Rivastigmine Twice-Weekly Transdermal Patch is convenient for patients who have difficulty in swallowing, and it was shown to reduce the incidence of gastrointestinal adverse reactions such as nausea and vomiting compared with the oral form. The product has received marketing authorization for several European countries in 2021. In order to promote the product for the benefit of more Chinese patients, the Group and Changchun GeneScience Pharmaceutical Co., Ltd. ("GENSCI") entered into an agreement in December 2021 to grant GENSCI the commercialization rights of Rivastigmine TwiceWeekly Transdermal Patch and other products in mainland China.

In May 2022, Class 1 new drug LPM3480392 injection ("LY03014") developed by the Group has completed phase I clinical trial in the China. LY03014 is a small molecule Gi protein biased at muopioid receptor agonist, and is indicated for the treatment of moderate to severe acute postoperative pain and breakthrough cancer pain.

In July 2022, the phase III clinical trial of the Group's new drug, Rotigotine Extended-Release Microspheres for injection ("LY03003"), in Parkinson's disease has met expected endpoints in China. LY03003 delivers medication by weekly intramuscular injection. This is the first product worldwide to produce long-term Continuous Dopamine Stimulation (CDS). It is expected to improve the patients' symptoms throughout the day and quality of life. The stable release of the drug in the human body can improve the motor and non-motor symptoms in patients with early and advanced stage of Parkinson's disease, reduce the "on-off" phenomenon and motor complications in patients with Parkinson's disease. It is expected that long-term application of the drug will delay the development of motor complications.

In July 2022, the phase III clinical trial of the Group's new drug, Goserelin Acetate Extended-release Microspheres for Injection ("LY01005") for the treatment of breast cancer has met expected endpoints in China. LY01005 is the Group's monthly extended release microspheres for intramuscular formulation of goserelin acetate, a gonadotropin-releasing hormone agonist, developed under the Group's microspheres technology platform. As far as the Company is aware, the only dosage form of goserelin currently on the market is a subcutaneous implant. LY01005 can effectively reduce the adverse reactions at the injection site by applying the innovative microsphere technology, improve patient experience for its usage, reduce nursing difficulty and improve the patient's tolerance and compliance. Currently, the new drug application for LY01005 for prostate cancer indication is under review in China. In August 2022, the new drug application for LY01005 for the treatment of breast cancer has been accepted by CDE in China.

For Boan Biotech:

In July 2022, the dulaglutide injection ("BA5101") developed by Boan Biotech has entered into phase III clinical trial (comparative clinical efficacy and safety studies) in China. As a biosimilar to Trulicity[®], BA5101 is indicated for glycemic control in adults with type 2 diabetes mellitus.

MANAGEMENT DISCUSSION AND ANALYSIS



SALES, MARKETING AND DISTRIBUTION

For global market:

The business of the Group covers 80 countries or regions including the U.S., countries in the European Union (“EU”), Japan, Association of Southeast Asian Nations (“ASEAN”), Latin America, Gulf Cooperation Council (“GCC”) region and other emerging countries or regions. The Group also has strong sales partnerships with more than 50 partners throughout the world.

In March 2022, the Group has granted Exeltis Pharma Mexico, S.A de C.V and Exeltis Pharmaceuticals Holding, S.L (collectively, “Exeltis”) the exclusive rights to commercialize Rivastigmine MD in Mexico and Poland.

For China market:

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in the first half of 2022. The Group’s sales, marketing and distribution functions are conducted through around 1,000 sales and marketing personnel, a network of approximately 1,740 distributors that collectively enabled the Group to sell its products to over 18,100 hospitals, which comprised approximately 2,200 or approximately 87.0% of all Class III hospitals, approximately 5,400 or approximately 65.0% of all Class II hospitals and approximately 10,500 or approximately 57.0% of all Class I and other hospitals and medical institutions, in the PRC in the first half of 2022. The Group believes that its sales and marketing model and extensive coverage of hospitals and other medical institutions represent a significant competitive advantage and a culmination of both academic promotions by the Group’s in-house personnel in different regions and partnerships with high-quality distributors across China. The Group also believes that its sales and marketing model provides a solid foundation for the Group to continue to enhance market awareness of its brand and expand the market reach of its products.

In December 2021, Rykindo has been included in the latest edition of the NRDL. This drug, an intramuscular injection administered once every two weeks, is used to treat clear positive or negative symptoms of acute and chronic schizophrenia as well as various other psychotic disorders. It can alleviate the affective symptoms associated with schizophrenia. The 2021 NRDL has come into effect in January 2022.

BUSINESS COLLABORATIONS

In February 2022, the Group has entered into an agreement with Chengdu Biostar Pharmaceutical Co., Ltd., a wholly-owned subsidiary of Beijing Biostar Pharmaceutical Co., Ltd. (“Biostar”) in relation to their collaboration in the promotion of natural microbial small molecule anti-tumor drug and national class 1 new drug 优替帝® (generic name: Utidelone injection) in 26 provinces in mainland China. Utidelone injection, the first epothilone antitumor innovative drug in China independently developed by Biostar, was approved by the NMPA in 2021 for the treatment of recurrent or metastatic advanced breast cancer, and has been included in the “Chinese Society of Clinical Oncology (“CSCO”) Guidelines for the Diagnosis and Treatment of Breast Cancer (2021 Edition)” and “Guidelines for Clinical Diagnosis and Treatment of Advanced Breast Cancer in China (2020 Edition)”. In addition, clinical studies related to multiple new indications of Utidelone injection are also in progress, involving the treatment of various advanced solid tumors such as non-small cell lung cancer, digestive tract tumors, gynecological tumors, and head and neck tumors.

In March 2022, the Group has granted Exeltis the exclusive rights to commercialize Rivastigmine MD in Mexico and Poland.



MANAGEMENT DISCUSSION AND ANALYSIS

MANUFACTURING

For the six months ended 30 June 2022, the Group has been working on establishing a global quality control and quality assurance system as well as information platform to ensure the successful integration of the Group's global manufacturing facility system. The manufacturing facility of Denosumab injection ("BA6101") has successfully passed the inspection by NMPA. The manufacturing site for transdermal patches in Miesbach, Germany, maintained full capacity and continuously increases output along growing customer demands. Customer audits during the reporting period were performed partly remotely, partly on site and underlined the compliance with GMP standards. Several new customers were on-boarded during the reporting period and their product launches were supported as per customer timelines. With the launch of Rivastigmine MD a proprietary and innovative formulation has reached marketing stage in Europe, complementing the product portfolio of the Miesbach site.

INDUSTRY POLICY RISK

Volume-based Procurement ("VBP")

In the past three years, Chinese medical insurance policy had undergone substantial changes. The National Healthcare Security Administration ("NHSA") of China has organised several rounds of VBP. In the round of "4+7" VBP, 25 drugs won the bid with an average price cut of 51.0%. In the first round of national VBP in the "Alliance area", the 25 products cut price 24.0% on average compared with the first round of "4+7" VBP. While in the second round of national VBP in 31 provinces and cities in January 2020, another 32 drugs won the bid with an average price cut of 55.0%.

The Group's major product Bei Xi was included in the second round of national VBP with a price cut of approximately 60.0%. Even if the sales volume will significantly increase, there would still be an uncertainty in relation to its sales value growth.

In the third round of national VBP organised in August 2020, there are 56 products on the procurement list. Quetiapine fumarate, immediate release was included in the list and the Group's product Seroquel, as the originator, did not win the bidding. Three generic products won the bidding with a price cut of approximately 60.0%.

In the fourth round of national VBP in February 2021, there are 45 products on the procurement list. Quetiapine extended release formulation was included in the list and the Group's product Seroquel XR, as the originator, did not win the bidding. Three generic products won the bidding with a price cut of approximately 60.0%.

The Group's products were not included in the fifth, sixth and seventh round of national VBP.

With the further advancement of medical reform, VBP is expected to become the core task of NHSA. It is generally believed that the drug VBP is expected to be fully implemented and become the standard practice in China.

National Reimbursement Drug List Adjustment

For the NRDL, a yearly dynamic adjustment has becoming the new normal. Hundreds of exclusive products have been included in the NRDL by the negotiation with NHSA in the past two years. In 2019, exclusive products successfully included in the NRDL by the negotiation had an average price cut of 60.7%. In 2020, exclusive products successfully included in the NRDL by the negotiation had an average price cut of 50.6%. Lipusu has been included in the 2020 NRDL with a price cut of 67%. Even if the sales volume will significantly increase, there would still be an uncertainty in relation to its sales value growth. In 2021, exclusive products successfully included in the NRDL by the negotiation had an average price cut of 61.7%.

MANAGEMENT DISCUSSION AND ANALYSIS



OUTLOOK

Although the Group's business was influenced by the Chinese medical insurance policy, market factors as well as the pandemic of COVID-19, it recorded a slight decrease in revenue of 3.4%.

Since it is a highly competitive industry, inevitably all the pharmaceutical companies are facing intense competition from other market participants. Furthermore, the industry is highly constrained by the government policy, which may cause great uncertainty during the pharmaceutical companies' developments. In recent years, policies such as VBP and NRDL have been creating significant impacts to the industry.

However, the Group continued to introduce measures to enhance efficiency in key aspects of its operations. With respect to its sales and marketing activities, the Group will continue to undertake a series of changes and initiatives to enable it to focus its marketing and promotion resources on the regions and products where marketing and promotion expenditure yields higher returns, thereby increasing its overall sales efficiency. The Group also intends to increase its profitability through production efficiency. In addition, the Group intends to further strengthen its R&D capabilities and develop its pipeline product candidates.

In December 2020, Lipusu, being the Group's paclitaxel formulation with innovative liposome delivery system, has been included in the category B of the new Catalogue of NRDL. All indications of Lipusu, including non-small cell lung cancer, ovarian and breast cancer, are reimbursed under the NRDL. The inclusion of Lipusu in the NRDL demonstrates that NHSA recognizes, among other factors, the clinical value, patients benefit and novelty of Lipusu. This will also allow more patients to be able to afford Lipusu, increase its penetration into the relevant indications, and provide momentum to its long-term growth.

The Group has also made significant efforts on the academic studies of the marketed products. The Group's major product Lipusu has been recommended under the CSCO guidelines (the "Guidelines") on diagnosis and treatment of breast cancer for first-line rescue chemotherapy for Her2-negative advanced breast cancer and also as a first-line drug on diagnosis and treatment of primary lung cancer. The Group believes that the inclusion of Lipusu in the Guidelines represents a high recognition of its clinical value, which will significantly increase its penetration into the relevant indications.

In January 2021, the marketing registration of Risperidone Microspheres for Injection (II) ("LY03004" or "Rykindo") has been approved by the NMPA of China. It is the first innovative formulation developed under the Group's long acting and extended technology platform that received marketing approval. Rykindo is an extended-release microspheres for injection administered bi-weekly for the treatment of schizophrenia.

Compared to orally administered antipsychotics, long-acting formulations do not require daily administration, and are thus better received by patients and could lower the sense of self-stigmatization associated with their diseases. Patients are also less unlikely to skip drug administration, and face a lower risk of drug overdose with long-acting drugs. Patients using long-acting injectables have steady plasma drug levels and will not suffer an immediate relapse when drugs are not administered in a timely manner due to a slower drop of plasma drug level. Rykindo can significantly improve the medication compliance issues which are common among patients with schizophrenia in relation to oral antipsychotic drugs, and simplify the treatment regimen.



MANAGEMENT DISCUSSION AND ANALYSIS

Rykindo also has several advantages over another marketed long-acting injectable drug. For example, unlike the reference drug, there is no need for administration of the oral formulation following the first injection of Rykindo. Furthermore, steady plasma drug levels can be reached much faster with Rykindo than with the reference product. Thus, patients at acute phase who are less compliant and cooperative can benefit from the fast symptom control afforded by Rykindo. After the discontinuation of use, the concentration of Rykindo in human body drops markedly faster than that of the reference drug, making it convenient for doctors to adjust dosage according to patients' conditions. Patients using Rykindo also have stable clinically effective plasma drug level and can benefit from more convenient clinical treatment as a result.

In December 2021, Rykindo has been included in the latest edition of the NRDL, which is expected to bring new hope to about 10 million schizophrenia patients in China. The 2021 NRDL has come into effect in January 2022.

In May 2021, the marketing registration in relation to the Bevacizumab injection ("LY01008" or "Boyounuo") product of Boan Biotech has been approved by NMPA for the treatment of advanced, metastatic or recurrent non-small cell lung cancer and metastatic colorectal cancer. It is the first antibody drug developed by Boan Biotech which received marketing approval. In July 2021, LY01008 has been approved by NMPA for the treatment of recurrent glioblastoma. In February 2022, Boyounuo has been approved by NMPA for the treatment of epithelial ovarian, fallopian tube or primary peritoneal cancer, and cervical cancer. Boyounuo is an anti-VEGF humanized monoclonal antibody injection and a biosimilar to Avastin independently developed by Boan Biotech. The significant efficacy and safety of Bevacizumab injection have been widely recognized in the world. According to the data from IQVIA, the sales of Bevacizumab injection in China reached RMB3.20 billion in the first half of 2022.

In May 2021, Rivastigmine MD is eligible for marketing authorization by individual member states in the EU. In September 2021, the Rivastigmine MD received marketing authorization in the UK.

Rivastigmine MD is a twice-weekly innovative patch formulation of Rivastigmine for the treatment of mild to moderate dementia associated with Alzheimer's disease. The product was developed by the Group on its proprietary transdermal patch platform and is one of the Group's core products in the CNS therapeutic field.

Rivastigmine is in a class of medicines called cholinesterase inhibitors. Such medicines can improve cognitive functions, such as memory and thinking, by increasing the amount of a certain natural substance in the brain and amplifying the communication channels between nerve cells, which are less active in individuals with mild to moderate Alzheimer's disease. The drug is currently available in the form of tablets and patches.

Rivastigmine MD requires lower frequency of application than the Rivastigmine once-daily patches generally available in the market, enabling it to improve patients' medication adherence. Due to its transdermal route of administration, Rivastigmine MD is convenient for patients who have difficulty in swallowing, and it might have the potential to lower the incidence of gastrointestinal adverse reactions such as nausea and vomiting compared with the oral form. The Group has filed, and has been issued, a portfolio of international patents protecting Rivastigmine MD.

In addition to Rykindo, Boyounuo and Rivastigmine MD, the Group has made remarkable progresses in R&D fields since 2021. In China, the marketing authorization application of LY03005, BA6101, LY01005, LY021702 and LY03013 has been accepted by CDE; marketing authorization application of LY01017 has submitted in Hong Kong, China; phase III clinical trial of LY03003 for the treatment of Parkinson's disease has met expected endpoints; phase III clinical trial of LY01005 for the treatment of breast cancer has met expected endpoints; BA9101 and BA5101 entered into phase III clinical trial; LY-CovMab entered into phase II clinical trial; LY03014 completed phase I clinical trial; LY09606, BA1104, BA1105, LY03009 and BA1201 entered into phase I clinical trial. Internationally, LY03003 completed phase I clinical trial in Japan; LY03009 commenced phase I clinical trial in Australia; LY03009 has been approved to initiate clinical trial in the U.S.; LY03015 has submitted the IND application in the U.S..

MANAGEMENT DISCUSSION AND ANALYSIS



For sales and distribution of oncology products, with the Lipusu included in the NRDL, the Group will deepen the penetration of market coverage into lower-tier hospitals. In addition, Utidelone injection will synergize with the Group's existing resources and advantages in the field of oncology to benefit more patients, and is also expected to enhance the Group's product portfolio in complement with its anti-tumor products, accelerating the Group's layout and development in this field. For sales and distribution of CNS products, the Group has built a CNS sales team of over 110 representatives. With the market synergy of Seroquel and Seroquel XR, Rykindo approved to be marketed and included in the latest NRDL in China will become the Group's new growth points. For global markets, the Group will continuously search regional partners. The Group's Rivastigmine MD has been approved in EU and UK market, it will contribute to the growth of the Group's global sales.

Boan Biotech has also established a sales and marketing team to commercialize Boyounuo in the principal markets of China. In the meanwhile, Boan Biotech granted AstraZeneca the exclusive promotion rights of Boyounuo in the county markets of several provinces, cities and autonomous regions in China in May 2021. Boan Biotech and AstraZeneca will work closely together, playing to the strengths of each other, to consolidate and expand the business and market coverage of Boyounuo and enable more patients to benefit from the drug in China. Boan Biotech has successfully commercialized Boyounuo® and recorded a revenue of RMB158.7 million in about eight months in 2021. Additionally, Boan Biotech has developed several innovative antibody products with international intellectual property protection and biosimilar products. Its diversified products will also contribute to the long term growth of the Group.

In addition, Boan Biotech is applying for a separate listing on the The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and proposes to conduct an offering of its shares by way of a global offering. On 13 May 2022, Boan Biotech submitted a listing application to the Stock Exchange to apply for the listing of, and the permission to deal in, the H shares of Boan Biotech on the Main Board of the Stock Exchange. The Board is of the view that the proposed spin-off of Boan Biotech from the Group will be in the interests of the Company and Boan Biotech and their respective shareholders as a whole considering that the proposed spin-off will allow Boan Biotech to build its identity as a separately listed company, to have a separate fund-raising platform for its fast growing business and to broaden its investor base, among other things. Upon completion of the proposed spinoff, Boan Biotech is expected to remain as a subsidiary of the Company, which will thus be able to continue enjoying the benefits from the growth of Boan Biotech's business notwithstanding its separate listing. The proposed spin-off is still subject to, among other things, the approval of the Listing Committee of the Stock Exchange, the final decisions of the Board and the board of directors of Boan Biotech, market conditions and other considerations.

Significant changes have taken place for the macro-economic environment. The outbreak of COVID-19, the global economic fluctuations and policy changes have brought new challenges to the daily operation of the industry. Facing these challenges, the Group needs to further improve the management efficiency and place additional efforts to the R&D of key products, speeding up the launch of the pipeline product candidates. Externally, the Group will keep penetrating into the domestic and international markets and actively seek for cooperation opportunities with third parties to ensure the business maintains high-quality and healthy growth.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2022, the Group's revenue amounted to approximately RMB2,850.8 million, as compared to RMB2,951.7 million for the six months ended 30 June 2021, representing a decrease of approximately RMB100.8 million, or 3.4%. The decrease was mainly attributable to decrease in sales of some of the Group's key products.

For the six months ended 30 June 2022, revenue from sales of oncology products increased to RMB1,025.0 million, as compared to RMB927.0 million for the six months ended 30 June 2021, representing an increase of approximately RMB98.0 million, or 10.6%, primarily attributable to the increase in sales of some key oncology products of the Group.

For the six months ended 30 June 2022, revenue from sales of cardiovascular system products decreased to RMB787.1 million, as compared to RMB800.7 million for the six months ended 30 June 2021, representing a decrease of approximately RMB13.6 million, or 1.7%, primarily attributable to the decrease in sales of a few cardiovascular system products of the Group.

For the six months ended 30 June 2022, revenue from sales of alimentary tract and metabolism products decreased to RMB322.7 million, as compared to RMB458.3 million for the six months ended 30 June 2021, representing a decrease of approximately RMB135.6 million, or 29.6%, primarily attributable to the decrease in the sales volume of some alimentary tract and metabolism products of the Group.

For the six months ended 30 June 2022, revenue from sales of CNS products decreased to RMB651.7 million, as compared to RMB694.4 million for the six months ended 30 June 2021, representing a decrease of approximately RMB42.7 million or 6.1%, primarily attributable to the decrease in sales of CNS products.

For the six months ended 30 June 2022, revenue from sales of other products decreased to RMB64.4 million, as compared to RMB71.3 million for the six months ended 30 June 2021, representing a decrease of approximately RMB6.9 million, or 9.7%, primarily attributable to the decrease in sales volume of various other products of the Group.

Cost of Sales

The Group's cost of sales decreased from RMB998.0 million for the six months ended 30 June 2021 to approximately RMB800.7 million for the six months ended 30 June 2022, which accounted for approximately 28.1% of the Group's total revenue for the same period.

Gross Profit

For the six months ended 30 June 2022, the Group's gross profit increased to RMB2,050.1 million, as compared to RMB1,953.7 million for the six months ended 30 June 2021, representing an increase of approximately RMB96.4 million, or 4.9%. The gross profit margin increased slightly to 71.9% for the six months ended 30 June 2022, from 66.2% for the six months ended 30 June 2021 mainly due to the higher sales of products with slightly higher margin.

Other Income and Gains

The Group's other income and gains mainly comprised government grants, interest income and investment income. For the six months ended 30 June 2022, the Group's other income and gains decreased to RMB141.9 million, as compared to RMB162.3 million for the six months ended 30 June 2021, representing a decrease of approximately RMB20.4 million, or 12.5%. The decrease was mainly attributable to a decrease in government grants recognized during the period.

MANAGEMENT DISCUSSION AND ANALYSIS



Selling and Distribution Expenses

The Group's selling and distribution expenses consisted of expenses that were directly related to the Group's marketing, promotion and distribution activities. For the six months ended 30 June 2022, the Group's selling and distribution expenses amounted to RMB838.2 million, as compared to RMB770.7 million for the six months ended 30 June 2021, representing an increase of RMB67.4 million, or 8.7%. The increase was mainly attributable to increase in promotion expenses and conference expenses. On the other hand, as a percentage of revenue, the Group's selling and distribution expenses increased from 26.1% for the six months ended 30 June 2021 to 29.4% for the six months ended 30 June 2022, primarily as a result of the lower sales during the period.

Administrative Expenses

The Group's administrative expenses primarily consisted of staff cost, general operating expenses, conference and entertainment expenses, travel and transportation expenses, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the six months ended 30 June 2022, the Group's administrative expenses amounted to approximately RMB266.2 million, as compared to RMB281.9 million for the six months ended 30 June 2021, representing a decrease of approximately RMB15.7 million, or 5.6%. The decrease was primarily attributable to lower staff cost during the period.

Other Expenses

The Group's other expenses primarily consisted of its R&D costs, changes in fair value of financial instruments, donations, loss on disposals of property, plant and equipment and miscellaneous expenses. For the six months ended 30 June 2022, the Group's other expenses amounted to approximately RMB498.8 million, as compared to RMB379.3 million for the six months ended 30 June 2021, representing an increase of approximately RMB119.4 million, or 31.5%. The increase was mainly due to higher R&D costs during the period.

Finance Costs

For the six months ended 30 June 2022, the Group's finance costs amounted to RMB214.1 million, as compared to RMB196.0 million for the six months ended 30 June 2021, representing an increase of approximately RMB18.1 million, or 9.3%. The increase was mainly due to higher bank borrowings and convertible bonds interests during the six months ended 30 June 2022 as compared to the corresponding period of 2021.

Income Tax Expense

For the six months ended 30 June 2022, the Group's income tax expense amounted to RMB72.2 million, as compared to RMB80.4 million for the six months ended 30 June 2021, representing a decrease of RMB8.3 million, or 10.3%. The effective tax rates for the six months ended 30 June 2022 and 2021 were 19.2% and 16.5%, respectively.

Net Profit

The Group's net profit for the six months ended 30 June 2022 was approximately RMB303.2 million, as compared to RMB408.0 million for the six months ended 30 June 2021, representing a decrease of approximately RMB104.8 million, or 25.7%.



MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 30 June 2022, the Group had net current assets of approximately RMB2,865.8 million, as compared to approximately RMB3,066.5 million as at 31 December 2021. The current ratio of the Group decreased slightly to approximately 1.39 as at 30 June 2022 from approximately 1.42 as at 31 December 2021. The decrease in net current assets was mainly attributable to slightly higher level of loans and borrowings under the Group's current liabilities.

Borrowings and Pledge of Assets

As at 30 June 2022, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB7,184.9 million, as compared to approximately RMB7,578.2 million as at 31 December 2021. Amongst the loans and borrowings, approximately RMB5,395.7 million are repayable within one year, and approximately RMB1,789.2 million are repayable after one year. RMB4,306.2 million of the loans and borrowings of the Group carried interest at fixed interest rate. The increase in loans and borrowings is mainly for working capital of the Group. The bank loans were secured by the Group's time deposits, property, plant and equipment, other unlisted investments and notes receivable. As at 30 June 2022, the Group's borrowings were primarily denominated in RMB, Euro and U.S. dollars, and the cash and cash equivalents were primarily denominated in RMB, Euro and U.S. dollars. Please refer to note 16 to the unaudited consolidated financial statements of the Group for details of the maturity profile, currency and interest rate structure of such borrowings.

Gearing Ratio

As at 30 June 2022, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, decreased to 76.4% from 83.6% as at 31 December 2021. The decrease was primarily due to a decrease in the Group's total borrowings taken during the reporting period.

Contingent Liabilities

As at 30 June 2022, the Group had no material contingent liabilities.

Foreign Exchange and Exchange Rate Risk

The Group primarily operates in the PRC and is exposed to foreign currency risk arising from fluctuations in exchange rate between RMB and other currencies in which the Group conducts its business. The Group is subject to foreign currency risk attributable to the bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. The Group seeks to limit the exposure to foreign currency risk by minimising its net foreign currency position. The Group did not enter into any hedging transactions in respect of foreign currency risk as at 30 June 2022. The Directors expect that the fluctuation of the RMB exchange rate will not have a material adverse effect on the operation of the Group.

Share Award Scheme (the "Scheme")

The Company adopted the Scheme on 10 January 2017. The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group. As at 30 June 2022, the Board has not granted any share to employees (2021: Nil) under the Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS



Hedging Activities

As at 30 June 2022, the Group did not use any financial instruments for hedging purposes and did not enter into any hedging transactions in respect of foreign currency risk or interest rate risk.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not hold any significant investment with a value greater than 5% of its total assets as at 30 June 2022. The Group does not have plans for material investments or capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2022, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2022, the Group employed a total of 4,800 employees, as compared to a total of 4,845 employees as at 31 December 2021. The staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB432.9 million for the six months ended 30 June 2022 as compared to RMB467.4 million for the corresponding period in 2021. The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long-term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as 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 arrangements 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 participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Group makes contributions to the Central Provident Fund (the "CPF") Scheme in Singapore, a defined contribution pension scheme, for its employees in Singapore. Further, members of the Group established and operate in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC (the "PRC Pension Scheme"). The Group's employer contributions to the CPF and the PRC Pension Scheme vest fully with the employees upon the contributions are made and hence no forfeited contributions arise when the employees leave the respective scheme. In addition, the Group has a defined benefit pension plan in Switzerland, which was adopted by Luye Supply AG.



MANAGEMENT DISCUSSION AND ANALYSIS

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

The Company has received optional put exercise notices in respect of US\$291,611,000 in principal amount of the convertible bonds (ISIN: XS2019971279; Common Code: 201997127; Stock code: 5993) (the “Convertible Bonds”) requiring the Company to redeem such bonds at 107.07 per cent. of their principal amount on 9 July 2022. The Company has settled the amount payable for the repurchase of the bonds. Following the completion of the redemption, no such Convertible Bonds were outstanding and the delisting of such bonds has taken place in July 2022. For further details of the optional put exercise and the redemption of the Convertible Bonds, please refer to the announcements dated 11 July 2022 and 14 July 2022.

On 16 August 2022, the Company issued convertible bonds in an aggregate principal amount of Hong Kong dollars equivalent of RMB1,200 million (the “Firm Bonds”). For further details of the Firm Bonds, please refer to the announcements of the Company dated 28 July 2022 and 16 August 2022.

On 13 September 2022, the Company issued convertible bonds in an aggregate principal amount of Hong Kong dollars equivalent of RMB300 million. For further details of such bonds, please refer to the announcements of the Company dated 2 September 2022 and 13 September 2022.

OTHER INFORMATION



INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2022 (the six months ended 30 June 2021: Nil per share).

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) as its own code of corporate governance.

During the six months ended 30 June 2022, the Company has complied with all the applicable code provisions set out in the CG Code, save and except for the deviation from Code Provision C.2.1 of the CG Code, which requires the roles of chairman and chief executive officer should be separate and performed by different individuals.

Under the current organisation structure of the Company, Mr. Liu Dian Bo is the Executive Chairman of the Board and the Chief Executive Officer. With extensive experience in the pharmaceutical industry, the Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high-caliber individuals.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuer (the “Model Code”) of Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On 27 May 2022, 8,298,419 shares of the Company were issued in relation to the exercise of the conversion rights by the convertible bondholders in respect of the Convertible Bonds issued by the Company.

Save as disclosed above, there was no purchase, sale or redemption by of the Company or any of its subsidiaries of any listed securities of the Company for the six months ended 30 June 2022.

OTHER INFORMATION

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the unaudited interim condensed consolidated financial statements and interim results announcement of the Group for the six months ended 30 June 2022 and recommended its adoption by the Board.

In addition, the independent auditor of the Company, Ernst & Young, has reviewed the unaudited interim results for the six months ended 30 June 2022 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

CHANGES IN DIRECTORS' INFORMATION

Upon specific enquiry by the Company and following confirmations from Directors, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's annual report for the year ended 31 December 2021.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this interim report, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate for the six months ended 30 June 2022.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2022, to the best of the Directors' knowledge, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interests and/or short position in the shares or the underlying shares which fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") or as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of securities ⁽¹⁾	Approximate percentage of shareholding
LuYe Pharmaceutical Investment Co., Ltd. ⁽¹⁾	Beneficial owner	1,257,196,703(L) 72,701,950(S)	35.42% 2.05%
LuYe Pharmaceutical International Co., Ltd. ⁽¹⁾	Interest in controlled corporation	1,257,196,703(L) 72,701,950(S)	35.42% 2.05%
Luye Pharma Holdings Ltd. ⁽¹⁾	Interest in controlled corporation	1,257,196,703(L) 72,701,950(S)	35.42% 2.05%
Luye Life Sciences Group Ltd. ⁽²⁾	Interest in controlled corporation	1,257,196,703(L) 72,701,950(S)	35.42% 2.05%
Nelumbo Investments Limited ⁽²⁾	Interest in controlled corporation	1,257,196,703(L) 72,701,950(S)	35.42% 2.05%
Ginkgo (PTC) Limited ⁽²⁾	Trustee	1,257,196,703(L) 72,701,950(S)	35.42% 2.05%
Shorea LBG ⁽²⁾	Interest in controlled corporation	1,257,196,703(L) 72,701,950(S)	35.42% 2.05%
Hillhouse Capital Management, Ltd. ⁽³⁾	Investment Manager	552,324,108(L)	15.56%
Hillhouse Fund V, L.P. ⁽³⁾	Interest in controlled corporation	552,324,108(L)	15.56%
Hillhouse NEV Holdings Limited ⁽³⁾	Beneficial Owner	552,324,108(L)	15.56%

Remark: The Letter "L" denotes long position in such securities and "S" denotes short position in such securities.

Notes:

- LuYe Pharmaceutical Investment Co., Ltd. is wholly-owned by LuYe Pharmaceutical International Co., Ltd., which is in turn wholly-owned by Luye Pharma Holdings Ltd..
- Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd. The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo (PTC) Limited is wholly-owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.
- Hillhouse NEV Holdings Limited is wholly-owned by Hillhouse Fund V, L.P. and Hillhouse Capital Management, Ltd. is the sole investment manager of Hillhouse NEV Holdings Limited.

Save as disclosed above, as at 30 June 2022, the Directors have not been aware of any person who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2022, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

(i) Interest in the Company

Name of Director	Nature of interest	Number of securities ⁽¹⁾	Approximate percentage of shareholding
Liu Dian Bo ⁽¹⁾⁽²⁾	Founder of a discretionary trust	1,257,196,703(L) 72,701,950(S)	35.42% 2.05%
Zhang Hua Qiao ⁽³⁾	Beneficial owner	250,000(L)	0.01%
Lo Yuk Lam ⁽³⁾	Beneficial owner	250,000(L)	0.01%
Leung Man Kit ⁽³⁾	Beneficial owner	250,000(L)	0.01%
Choy Sze Chung Jojo ⁽³⁾	Beneficial owner	250,000(L)	0.01%
Song Rui Lin ⁽³⁾	Beneficial owner	250,000(L)	0.01%

Remark: The Letter "L" denotes long position in such securities and "S" denotes short position in such securities.

Notes:

1. Mr. Liu Dian Bo through his controlled corporations, namely Shorea LBG, Ginkgo (PTC) Limited, Nelumbo Investments Limited, Luye Life Sciences Group Ltd., Luye Pharma Holdings Ltd., LuYe Pharmaceutical International Co., Ltd. and LuYe Pharmaceutical Investment Co., Ltd., is deemed to be interested in 1,257,196,703 ordinary shares and 72,701,950 short position in the Company held by LuYe Pharmaceutical Investment Co., Ltd. Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd.
2. The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo, who is the founder of such trust. Ginkgo (PTC) Limited is wholly-owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.
3. These represent the interests in underlying shares in respect of the awarded shares granted by the Company under Luye Pharma Share Award Scheme.

OTHER INFORMATION

(ii) Interest in associated corporations

Name of Director	Associated Corporation	Nature of interest	Number of securities	Approximate percentage in the registered capital of the associated corporation
Liu Dian Bo	Luye Life Sciences Group Ltd. ⁽²⁾	Founder of a discretionary trust	8,400(L)	70%
Liu Dian Bo	Ginkgo (PTC) Limited ⁽¹⁾	Founder of a discretionary trust	1(L)	100%
Liu Dian Bo	Luye Pharma Holdings Ltd. ⁽²⁾	Founder of a discretionary trust	1,136,852(L)	100%
Liu Dian Bo	LuYe Pharmaceutical International Co., Ltd. ⁽²⁾	Founder of a discretionary trust	202,180,988(L)	100%
Liu Dian Bo	LuYe Pharmaceutical Investment Co., Ltd. ⁽²⁾	Founder of a discretionary trust	1(L)	100%
Liu Dian Bo	Nelumbo Investments Limited ⁽¹⁾	Founder of a discretionary trust	1(L)	100%
Yang Rong Bing	Luye Life Sciences Group Ltd. ⁽²⁾	Beneficial interest	1,800(L)	15%
Yuan Hui Xian	Luye Life Sciences Group Ltd. ⁽²⁾	Beneficial interest	1,800(L)	15%

Remark: The Letter "L" denotes long position in such securities.

Notes:

- The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo, who is the founder of such trust.
- Luye Life Sciences Group Ltd. holds the entire issued ordinary share capital of Luye Pharma Holdings Ltd. LuYe Pharmaceutical International Co., Ltd. is wholly-owned by Luye Pharma Holdings Ltd. and LuYe Pharmaceutical Investment Co., Ltd. is wholly-owned by Luye Pharmaceutical International Co., Ltd.

Save as disclosed above, as at 30 June 2022, none of our Directors and chief executive of the Company has any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register required to be kept under Section 352 of the SFO, or (ii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REVIEW REPORT OF INTERIM FINANCIAL INFORMATION



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To the board of directors of Luye Pharma Group Ltd.

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 27 to 66, which comprises the condensed consolidated statement of financial position of Luye Pharma Group Ltd. (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2022 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by the International Accounting Standards Board (“IASB”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

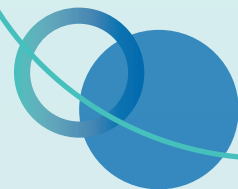
Certified Public Accountants

Hong Kong

29 August 2022

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022



	Notes	30 June 2022 (Unaudited) RMB'000	30 June 2021 (Unaudited) RMB'000
REVENUE	4	2,850,826	2,951,664
Cost of sales		(800,742)	(997,983)
Gross profit		2,050,084	1,953,681
Other income and gains	4	141,924	162,288
Selling and distribution expenses		(838,152)	(770,728)
Administrative expenses		(266,183)	(281,873)
Other expenses		(498,757)	(379,309)
Finance costs	6	(214,111)	(195,981)
Share of profit of an associate		568	358
PROFIT BEFORE TAX	5	375,373	488,436
Income tax expense	7	(72,187)	(80,446)
PROFIT FOR THE PERIOD		303,186	407,990
Attributable to:			
Owners of the parent		296,997	386,585
Non-controlling interests		6,189	21,405
		303,186	407,990
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic (RMB)		8.54 cents	11.32 cents
Diluted (RMB)		8.54 cents	11.29 cents

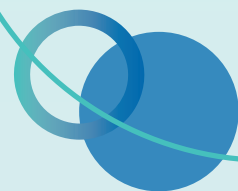
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	30 June 2022 (Unaudited) RMB'000	30 June 2021 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	303,186	407,990
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(35,960)	(7,663)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	(5,237)	34,372
Income tax effect	481	—
	(4,756)	34,372
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(40,716)	26,709
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	262,470	434,699
Attributable to:		
Owners of the parent	256,281	413,294
Non-controlling interests	6,189	21,405
	262,470	434,699

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022



	Notes	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	4,019,317	3,858,491
Advance payments for property, plant and equipment and other intangible assets		364,534	390,989
Right-of-use assets		331,276	344,990
Goodwill		966,739	985,413
Other intangible assets	11	5,673,071	5,441,833
Investment in an associate		7,562	8,659
Long-term receivables		8,380	8,380
Equity investments designated at fair value through other comprehensive income		95,370	95,273
Financial assets at fair value through profit or loss	12	478,263	478,263
Pledged time deposits	14	230,000	440,000
Deferred tax assets		127,436	133,106
Total non-current assets		12,301,948	12,185,397
CURRENT ASSETS			
Inventories		784,625	746,344
Trade and notes receivables	13	1,934,990	1,765,096
Prepayments, other receivables and other assets		437,765	1,039,538
Financial assets at fair value through profit or loss	12	1,826,166	2,684,198
Restricted cash		32,095	31,982
Pledged time deposits	14	1,511,152	1,303,395
Time deposits with original maturity of over three months	14	366,500	387,859
Cash and cash equivalents	14	3,372,826	2,438,252
Total current assets		10,266,119	10,396,664
CURRENT LIABILITIES			
Trade and notes payables	15	442,598	570,890
Other payables and accruals		1,309,192	1,318,092
Interest-bearing bank and other borrowings	16	5,411,607	5,263,216
Government grants		69,235	31,353
Tax payable		167,705	141,142
Dividend payable		—	5,500
Total current liabilities		7,400,337	7,330,193
NET CURRENT ASSETS		2,865,782	3,066,471
TOTAL ASSETS LESS CURRENT LIABILITIES		15,167,730	15,251,868

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

	Notes	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		15,167,730	15,251,868
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	16	1,806,269	2,356,923
Convertible bonds	17	1,969,050	1,870,654
Contingent consideration payables		346,714	334,378
Redemption liabilities on non-controlling interests		1,240,119	1,202,818
Employee defined benefit obligation		6,566	6,793
Government grants		156,257	209,387
Deferred tax liabilities		63,170	57,874
Other non-current liabilities		130,854	99,138
Total non-current liabilities		5,718,999	6,137,965
Net assets		9,448,731	9,113,903
EQUITY			
Equity attributable to owners of the parent			
Issued capital		456,953	455,835
Treasury shares		(279,558)	(279,558)
Share premium		1,779,350	1,715,981
Equity component of convertible bonds		284,222	292,398
Reserves		6,572,746	6,303,467
		8,813,713	8,488,123
Non-controlling interests		635,018	625,780
Total equity		9,448,731	9,113,903

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the parent													
	Issued capital	Treasury shares	Share premium account	Equity component			Statutory surplus reserves*	Share award reserve*	Retained earnings*	Fair value reserve of financial assets at fair value through other comprehensive income*	Foreign currency translation reserve*	Total	Non-controlling interests	Total equity
				of convertible bonds	Safety production reserve*					RMB'000				
At 1 January 2022	455,835	(279,558)	1,715,981	292,398	25,294	1,082,027	193,034	4,979,802	1,916	21,394	8,488,123	625,780	9,113,903	
Profit for the period	-	-	-	-	-	-	-	296,997	-	-	296,997	6,189	303,186	
Other comprehensive income for the period:														
Changes in fair value of investments, net of tax	-	-	-	-	-	-	-	-	(4,756)	-	(4,756)	-	(4,756)	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(35,960)	(35,960)	-	(35,960)	
Total comprehensive income for the period	-	-	-	-	-	-	-	296,997	(4,756)	(35,960)	256,281	6,189	262,470	
Conversion of convertible bonds (note a)	1,118	-	63,369	(8,176)	-	-	-	-	-	-	56,311	-	56,311	
Appropriation to safety production reserve	-	-	-	-	7,916	-	-	(7,916)	-	-	-	-	-	
Safety production reserve used	-	-	-	-	(3,752)	-	-	3,752	-	-	-	-	-	
Share-based payment arrangements	-	-	-	-	-	-	12,998	-	-	-	12,998	3,049	16,047	
At 30 June 2022 (unaudited)	456,953	(279,558)	1,779,350	284,222	29,458	1,082,027	206,032	5,272,635	(2,840)	(14,566)	8,813,713	635,018	9,448,731	

Note:

(a) On 27 May 2022, convertible bonds with an aggregate principal amount of US\$8,389,000 were converted into 8,298,419 ordinary shares at a conversion price of HK\$7.90 per share.

* These reserve accounts comprise the consolidated reserves of RMB6,572,746,000 in the consolidated statement of financial position as at 30 June 2022.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

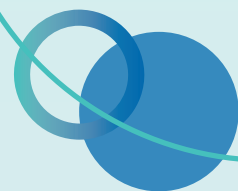
	Attributable to owners of the parent												
	Issued capital	Treasury shares	Share premium account	Equity component of convertible bonds	Safety production reserve	Statutory surplus reserves	Share award reserve	Retained earnings	Fair value reserve of financial assets at fair value through other comprehensive income	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	417,991	(279,558)	1,042,005	292,398	11,518	1,025,835	149,443	5,183,442	(3,771)	51,928	7,891,231	207,784	8,099,015
Profit for the period	–	–	–	–	–	–	–	386,585	–	–	386,585	21,405	407,990
Other comprehensive income for the period:													
Changes in fair value of investments, net of tax	–	–	–	–	–	–	–	–	34,372	–	34,372	–	34,372
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	(7,663)	(7,663)	–	(7,663)
Total comprehensive income for the period	–	–	–	–	–	–	–	386,585	34,372	(7,663)	413,294	21,405	434,699
Issue of shares (note a)	37,844	–	1,006,633	–	–	–	–	–	–	–	1,044,477	–	1,044,477
Appropriation to safety production reserve	–	–	–	–	10,637	–	–	(10,637)	–	–	–	–	–
Safety production reserve used	–	–	–	–	(2,846)	–	–	2,846	–	–	–	–	–
Share-based payment arrangements	–	–	–	–	–	–	23,201	–	–	–	23,201	2,294	25,495
Capital contribution from non-controlling interests (note b)	–	–	692,325	–	–	–	–	–	–	–	692,325	326,973	1,019,298
Redemption rights on non-controlling interests	–	–	(925,277)	–	–	–	–	–	–	–	(925,277)	–	(925,277)
At 30 June 2021 (unaudited)	455,835	(279,558)	1,815,686	292,398	19,309	1,025,835	172,644	5,562,236	30,601	44,265	9,139,251	558,456	9,697,707

Notes:

- (a) On 8 February 2021, 292,406,881 subscription shares have been allotted and issued to Hillhouse NEV Holdings Limited at the subscription price of HK\$4.28 per share.
- (b) During the period, non-controlling shareholders contributed RMB1,019,298,000 in a subsidiary, Shandong Boan Biotechnology Co., Ltd. ("Boan Biotech").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022



	Notes	30 June 2022 (Unaudited) RMB'000	30 June 2021 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		375,373	488,436
Adjustments for:			
Share of profit of an associate		(568)	(358)
Depreciation and amortisation of non-current assets		326,472	270,260
(Gain)/loss on disposal of non-current assets	5	(201)	165
Share-based payment expense	5	16,047	25,495
Bank interest income	4	(45,445)	(55,091)
Investment income from financial instruments at fair value through profit or loss	4	(4,571)	(25,244)
Changes in fair value of investments	4	(41,904)	(23,673)
Fair value adjustment of contingent considerations		12,336	45,608
Fair value adjustment of redemption liabilities on non-controlling interests		37,301	27,473
Interest expense	6	214,111	195,981
Provision for a legal claim		7,967	—
		896,918	949,052
Increase in inventories		(38,281)	(14,433)
Increase in trade and notes receivables		(169,993)	(215,615)
Decrease/(increase) in prepayments, other receivables and other assets		622,068	(51,389)
(Increase)/decrease in pledged time deposits		(374,435)	28,622
(Increase)/decrease in restricted cash		(113)	639
(Decrease)/increase in trade and notes payables		(128,292)	237,357
Increase/(decrease) in other payables and accruals		24,902	(80,755)
(Decrease)/increase in government grants		(14,888)	9,780
Cash generated from operations		817,886	863,258
Interest paid		(159,861)	(145,572)
Income tax paid		(53,578)	(168,508)
Net cash flows from operating activities		604,447	549,178

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	30 June 2022 (Unaudited) RMB'000	30 June 2021 (Unaudited) RMB'000
Net cash flows from operating activities	604,447	549,178
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of non-current assets	(578,689)	(730,797)
Purchases of investments	(30,000)	(431,000)
Proceeds from disposals of investments	930,000	625,000
Dividend income from investments	4,571	15,524
Proceeds from disposals of items of property, plant and equipment	3,862	4,441
Dividend received from an associate	1,387	—
Increase in government grants	—	7,140
Decrease/(increase) in time deposits with original maturity of over three months	21,359	(41,000)
(Increase)/decrease in pledged time deposits	(76,346)	991
Interest received	43,632	56,410
Net cash flows from/(used in) investing activities	319,776	(493,291)
CASH FLOWS FROM FINANCING ACTIVITIES		
New loans	3,358,826	3,331,020
Repayment of loans	(3,752,123)	(4,428,995)
Decrease in pledged time deposits	453,024	356,395
Issue of shares	—	1,044,477
Payments for a business combination involving entities under common control	—	(361,683)
Capital contribution from non-controlling interests	—	1,019,298
Dividend paid to non-controlling interests	(5,500)	—
Principal portion of lease payments	(8,563)	(8,832)
Net cash flows from financing activities	45,664	951,680
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Effect of foreign exchange rate changes, net	(35,313)	70,694
Cash and cash equivalents at 1 January	2,438,252	3,865,385
CASH AND CASH EQUIVALENTS AT 30 JUNE	3,372,826	4,943,646

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2021.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRS Standards 2018–2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to IFRS Standards 2018–2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:
- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. OPERATING SEGMENT INFORMATION

The Group manages its businesses by type of products. The Group's chief operating decision maker is the Chief Executive Officer, who reviews revenue from and results of the major type of products sold for the purpose of resources allocation and assessment of segment performance. Segment result is evaluated based on gross profit less selling expenses allocated. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

For the six months ended 30 June 2022 (Unaudited)

	Oncology drugs RMB'000	Cardio- vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Segment revenue						
Sales of products	600,605	783,446	322,716	575,607	64,405	2,346,779
Sales of product know-how	400,000	—	—	—	—	400,000
Provision of research and development services	24,384	3,615	—	—	—	27,999
Out-licensing agreements	—	—	—	76,048	—	76,048
Total revenue	1,024,989	787,061	322,716	651,655	64,405	2,850,826
Segment results	571,726	278,888	62,791	271,159	27,368	1,211,932
Other income and gains						141,924
Administrative expenses						(266,183)
Other expenses						(498,757)
Finance costs						(214,111)
Share of profit of an associate						568
Profit before tax						375,373

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2021 (Unaudited)

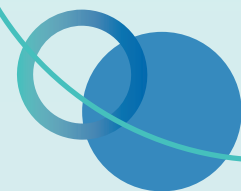
	Oncology drugs RMB'000	Cardio- vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Segment revenue						
Sales of products	587,060	734,683	458,331	618,703	71,327	2,470,104
Sales of product know-how	339,938	65,970	—	74,092	—	480,000
Out-licensing agreements	—	—	—	1,560	—	1,560
Total revenue	926,998	800,653	458,331	694,355	71,327	2,951,664
Segment results	590,934	325,883	68,874	179,691	17,571	1,182,953
Other income and gains						162,288
Administrative expenses						(281,873)
Other expenses						(379,309)
Finance costs						(195,981)
Share of profit of an associate						358
Profit before tax						488,436

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Revenue from contracts with customers	2,850,826	2,951,664

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



4. REVENUE, OTHER INCOME AND GAINS

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2022 (Unaudited)

	Oncology drugs RMB'000	Cardio-vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Type of goods or services						
Sales of products	600,605	783,446	322,716	575,607	64,405	2,346,779
Sales of product know-how	400,000	—	—	—	—	400,000
Provision of research and development services	24,384	3,615	—	—	—	27,999
Out-licensing agreements	—	—	—	76,048	—	76,048
Total revenue from contracts with customers	1,024,989	787,061	322,716	651,655	64,405	2,850,826
Geographical markets						
Mainland China	1,024,989	783,472	319,687	216,472	63,983	2,408,603
Other countries	—	3,589	3,029	435,183	422	442,223
Total revenue from contracts with customers	1,024,989	787,061	322,716	651,655	64,405	2,850,826
Timing of revenue recognition						
Transferred at a point in time	1,000,605	783,446	322,716	651,655	64,405	2,822,827
Transferred over time	24,384	3,615	—	—	—	27,999
Total revenue from contracts with customers	1,024,989	787,061	322,716	651,655	64,405	2,850,826

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

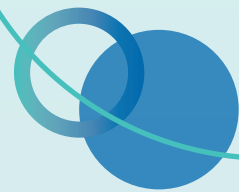
4. REVENUE, OTHER INCOME AND GAINS (Continued)

Disaggregated revenue information for revenue from contracts with customers (Continued)

For the six months ended 30 June 2021 (Unaudited)

	Oncology drugs RMB'000	Cardio- vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Type of goods or services						
Sales of products	587,060	734,683	458,331	618,703	71,327	2,470,104
Sales of product know-how	339,938	65,970	—	74,092	—	480,000
Out-licensing agreements	—	—	—	1,560	—	1,560
Total revenue from contracts with customers	926,998	800,653	458,331	694,355	71,327	2,951,664
Geographical markets						
Mainland China	926,998	794,836	455,982	241,073	70,816	2,489,705
Other countries	—	5,817	2,349	453,282	511	461,959
Total revenue from contracts with customers	926,998	800,653	458,331	694,355	71,327	2,951,664
Timing of revenue recognition						
Transferred at a point in time	926,998	800,653	458,331	694,355	71,327	2,951,664
Total revenue from contracts with customers	926,998	800,653	458,331	694,355	71,327	2,951,664

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



4. REVENUE, OTHER INCOME AND GAINS (Continued)

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Other income and gains		
Bank interest income	45,445	55,091
Government grants	34,440	54,177
Changes in fair value of investments	41,904	23,673
Investment income from financial instruments at fair value through profit or loss	4,571	25,244
Lease and property management service income	5,083	—
Others	10,481	4,103
	141,924	162,288

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Depreciation of items of property, plant and equipment	166,389	150,336
Amortisation of other intangible assets	145,969	106,483
Depreciation of right-of-use assets	14,114	13,441
Auditor's remuneration	4,500	2,900
Research and development costs	426,348	303,742
Cost of products sold	800,742	997,983
Foreign exchange loss, net	11,680	1,164
Share-based payment expense	16,047	25,495
Remeasurement of contingent considerations	12,336	45,608
Fair value adjustment of redemption liabilities on non-controlling interests	37,301	27,473
(Gain)/loss on disposal of non-current assets	(201)	165

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. FINANCE COSTS

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Interest on bank loans	121,005	119,280
Interest on convertible bonds	68,838	64,971
Interest on discounted notes receivable	19,171	6,604
Interest on discounted letters of credit	4,447	4,748
Interest on lease liabilities	650	378
	214,111	195,981

7. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of profit or loss are:

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Current tax	61,461	100,508
Deferred tax	10,726	(20,062)
	72,187	80,446

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



8. DIVIDENDS

No interim dividend was declared by the Company for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,477,478,391 (six months ended 30 June 2021: 3,414,484,434) in issue during the period. The number of shares for the current period has been arrived at after eliminating the shares of the Company held under the share award scheme and shares repurchased.

The calculation of the diluted earnings per share amount for the six months ended 30 June 2021 is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award scheme.

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2021 in respect of a dilution from the impact of the convertible bonds outstanding, as it had an anti-dilutive effect on the basic earnings per share amount presented.

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2022 in respect of a dilution as the impact of the convertible bonds outstanding and share award scheme had an anti-dilutive effect on the basic earnings per share amount presented.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	296,997	386,585



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Shares		
Weighted average number of shares in issue during the period	3,477,478,391	3,414,484,434
Effect of dilution — weighted average number of ordinary shares under the share award scheme	—	10,971,775
	3,477,478,391	3,425,456,209

10. PROPERTY, PLANT AND EQUIPMENT

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Carrying amount at beginning of period	3,858,491	3,677,698
Additions	336,414	518,910
Depreciation provided during the period	(166,389)	(309,211)
Exchange realignment	(5,538)	(20,993)
Disposals	(3,661)	(7,913)
Carrying amount at end of period	4,019,317	3,858,491

As at 30 June 2022, the Group was applying for the certificates of ownership for certain properties with a net book value of RMB106,018,000 (31 December 2021: RMB107,386,000). The directors of the Company are of the opinion that the use of the properties and the conduct of operating activities at those properties referred to above are not affected by the fact the Group had not yet obtained the relevant property title certificates. The Group is not able to assign, transfer or mortgage these assets until these certificates are obtained.

As at 30 June 2022, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB529,391,000 (31 December 2021: RMB557,809,000) were pledged to secure bank loans (note 16).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. OTHER INTANGIBLE ASSETS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Carrying amount at beginning of period	5,441,833	4,770,004
Additions	269,573	1,027,381
Amortisation provided during the period	(145,969)	(239,255)
Exchange realignment	107,634	(116,297)
Carrying amount at end of period	5,673,071	5,441,833

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Current		
Other unlisted investments, at fair value	1,825,369	1,752,050
Unlisted equity investments, at fair value	—	930,000
Listed equity investment, at fair value	797	2,148
	1,826,166	2,684,198
Non-current		
Unlisted equity investments, at fair value	478,263	478,263
	2,304,429	3,162,461

The above other unlisted investments were wealth management products issued by licensed financial institutions in Mainland China with a maturity period within one year. The fair values of the financial assets approximate to their costs plus expected interest.

The above unlisted equity investments were partnerships established in accordance with Partnership Enterprise Law of PRC. The fair value of the unlisted equity investments which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

The fair value of the listed equity investment is derived from quoted price in an active market.

As at 30 June 2022, other unlisted investments of RMB30,000,000 (31 December 2021: Nil) were pledged to secure intra-group notes payable.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13. TRADE AND NOTES RECEIVABLES

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Trade receivables	1,628,892	1,518,185
Notes receivable	309,591	250,315
	1,938,483	1,768,500
Less: Impairment of trade receivables	(3,493)	(3,404)
	1,934,990	1,765,096

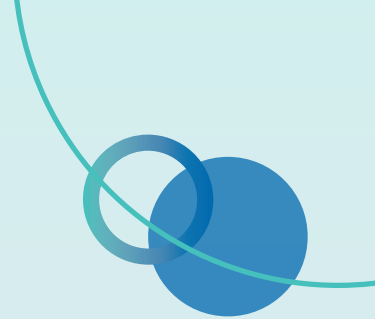
The Group's trading terms with its customers are mainly on credit. The credit period is generally one month to three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

The notes receivable are due within twelve months. As at 30 June 2022, notes receivable of RMB309,591,000 (31 December 2021: RMB250,315,000) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under IFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant for the six months ended 30 June 2022.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Less than 3 months	1,486,578	1,008,416
Between 3 and 6 months	39,875	57,993
Between 6 and 12 months	100,689	449,895
Between 1 and 2 years	454	697
Over 2 years	1,296	1,184
	1,628,892	1,518,185

As at 30 June 2022, the Group has pledged notes receivable of RMB3,306,000 (31 December 2021: RMB11,932,000) to secure notes payable (note 15).



13. TRADE AND NOTES RECEIVABLES (Continued)

As at 30 June 2022, the Group has pledged intra-group notes receivable of RMB183,242,000 (31 December 2021: RMB50,000,000) to secure bank loans (note 16).

As at 30 June 2022, notes receivable and intra-group notes receivable of RMB56,492,000 (31 December 2021: RMB6,170,000) and RMB1,184,822,000 (31 December 2021: RMB750,000,000) were discounted.

As at 30 June 2022, the Group endorsed certain notes receivable accepted by certain banks in the PRC (the “Endorsed Notes”) to certain of its suppliers in order to settle the trade and other payables due to such suppliers with carrying amounts in aggregate of RMB290,776,000 (31 December 2021: RMB463,670,000). In addition, the Group discounted certain notes receivable accepted by certain banks in the PRC (the “Discounted Notes”) to certain banks to finance its operating cash flows with carrying amounts in aggregate of RMB953,830,000 (31 December 2021: RMB1,142,309,000) (the “Discount”). The Endorsed Notes and the Discounted Notes had a maturity from one to twelve months as at 30 June 2022. In accordance with the Law of Negotiable Instruments and relevant discounting arrangements with certain banks in the PRC, the holders of the Endorsed Notes and the Discounted Notes have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”).

In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to certain Endorsed Notes with amounts of RMB210,031,000 (31 December 2021: RMB362,386,000) and certain Discounted Notes with amounts of RMB432,516,000 (31 December 2021: RMB384,190,000) accepted by large and reputable banks as at 30 June 2022 (the “Derecognised Notes”). Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Notes are not significant.

Because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Notes and Discounted Notes, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Notes and the Discounted Notes. Subsequent to the Endorsement or the Discount, the Group did not retain any rights on the use of the Endorsed Notes or the Discounted Notes, including the sale, transfer or pledge of the Endorsed Notes or the Discounted Notes to any other third parties. As at 30 June 2022, the aggregate carrying amounts of the trade and other payables settled by the Endorsed Notes to which the suppliers have recourse was RMB80,745,000 (31 December 2021: RMB101,284,000), and the aggregate carrying amounts financed by the Discounted Notes to which the banks have recourse was RMB521,314,000 (31 December 2021: RMB758,119,000).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Cash and bank balances	3,106,058	2,249,252
Time deposits	2,374,420	2,320,254
	5,480,478	4,569,506
Less:		
Pledged time deposits for letters of credit	(124,104)	(47,758)
Pledged time deposits for bank loans	(274,760)	(727,784)
Current pledged time deposits for notes payable	(99,708)	(235,513)
Current pledged time deposits for intra-group notes payable	(726,580)	(292,340)
Current pledged deposits for a letter of guarantee	(286,000)	—
Non-current pledged time deposits for intra-group notes payable	(230,000)	(200,000)
Non-current pledged time deposits to issue a letter of guarantee	—	(240,000)
Non-pledged time deposits with original maturity over three months when acquired	(366,500)	(387,859)
Cash and cash equivalents	3,372,826	2,438,252
Denominated in RMB	3,211,619	1,979,986
Denominated in US\$	119,781	341,735
Denominated in EUR	21,178	83,944
Denominated in others	20,248	32,587
Cash and cash equivalents	3,372,826	2,438,252

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

As at 30 June 2022, time deposits of RMB274,760,000 (31 December 2021: RMB727,784,000) were pledged to secure bank loans (note 16).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS (Continued)

As at 30 June 2022, time deposits of RMB956,580,000 (31 December 2021: RMB492,340,000) and RMB99,708,000 (31 December 2021: RMB235,513,000) were pledged to secure intra-group notes payable and notes payable (note 15), respectively.

As at 30 June 2022, time deposits of RMB124,104,000 (31 December 2021: RMB47,758,000) were pledged to secure letters of credit.

15. TRADE AND NOTES PAYABLES

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Trade payables	319,684	323,445
Notes payable	122,914	247,445
	442,598	570,890

An ageing analysis of the trade and notes payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Less than 3 months	399,550	538,576
Between 3 and 6 months	25,758	18,815
Between 6 and 12 months	8,733	6,906
Between 1 and 2 years	3,970	4,894
Over 2 years	4,587	1,699
	442,598	570,890

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

As at 30 June 2022, the Group's notes payable were secured by certain of the Group's notes receivable and time deposits amounting to approximately RMB3,306,000 (31 December 2021: RMB11,932,000) (note 13) and RMB99,708,000 (31 December 2021: RMB235,513,000) (note 14), respectively.

The maturity dates of the notes payable are within twelve months.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. INTEREST-BEARING BANK AND OTHER BORROWINGS

As at 30 June 2022

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	1-year LPR-0.25-4.65	2022-2023	2,852,726
Bank loan — secured US\$10,001,250	1-year LIBOR+0.89	2023	67,122
Bank loans — secured EUR39,034,836	3-month EURIBOR+0.6-0.6	2023	273,572
Current portion of long-term bank loans — secured	4.00-4.90	2022-2023	251,273
Current portion of long-term bank loans — secured US\$48,374,130	3-month LIBOR+2.85	2023	324,658
Current portion of long-term bank loan — secured EUR12,645,778	3-month EURIBOR+1.70	2023	88,626
Discounted notes receivable	1.07-4.80	2022-2023	1,226,851
Discounted letters of credit	2.90-3.65	2023	310,866
Lease liabilities	3.80	2022	15,913
			5,411,607
Non-current			
Bank loans — secured	1-year LPR+0.30-4.90	2023-2026	691,383
Bank loans — secured US\$163,574,656	3-month LIBOR+2.85	2025	1,097,815
Lease liabilities	3.80	2029	17,071
			1,806,269
Total interest-bearing loans and borrowings			7,217,876
Convertible bonds	7.29	2022-2024	1,969,050
			9,186,926

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

As at 31 December 2021

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	3.80–4.80	2022	2,981,722
Bank loan — secured US\$15,012,042	1.70	2022	95,712
Bank loans — secured EUR92,078,921	3-month EURIBOR+0.60–1.35	2022	664,782
Current portion of long-term bank loans — secured	4.13–4.90	2022	148,628
Current portion of long-term bank loans — secured US\$39,249,509	3-month LIBOR+2.85	2022	250,245
Current portion of long-term bank loan — secured EUR14,092,522	3-month EURIBOR+1.70	2022	101,744
Discounted notes receivable	0.80–4.80	2022	738,452
Discounted letters of credit	3.65–4.15	2022	259,186
Lease liabilities	3.98	2022	22,745
			5,263,216
Non-current			
Bank loans — secured	4.35–4.90	2023–2026	836,583
Bank loans — secured US\$221,320,765	3-month LIBOR+2.85	2025	1,411,075
Bank loan — secured EUR12,474,157	3-month EURIBOR+1.70	2023	90,060
Lease liabilities	3.98	2029	19,205
			2,356,923
Total interest-bearing loans and borrowings			7,620,139
Convertible bonds	7.29	2022–2024	1,870,654
			9,490,793

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Certain of the Group's bank loans are secured by:

- (i) the pledge of certain of the Group's time deposits of RMB274,760,000 (31 December 2021: RMB727,784,000) (note 14);
- (ii) the pledge of certain of the Group's intra-group notes receivable of RMB183,242,000 (31 December 2021: RMB50,000,000) (note 13);
- (iii) the pledge of certain of the Group's property, plant and equipment, which had a net carrying value at the end of the reporting period of approximately RMB529,391,000 (31 December 2021: RMB557,809,000) (note 10);
- (iv) the pledge of certain of the Group's right-of-use assets, which had a net carrying value at the end of the reporting period of approximately RMB5,327,000 (31 December 2021: RMB5,386,000); and
- (v) the pledge of certain of the Group's subsidiaries' shares.

17. CONVERTIBLE BONDS

On 9 July 2019, the Company issued 1.50 per cent convertible bonds with an aggregate principal amount of US\$300,000,000. The bonds are convertible at the option of the bondholders into ordinary shares with the initial conversion price of HK\$8.15 per share at any time on or after 19 August 2019 and up to the close of business on the date falling ten days prior to 9 July 2024. The bonds are redeemable at the option of the bondholders at a 3.75 per cent gross yield upon early redemption. Any convertible bonds not converted will be redeemed on 9 July 2024 at 112.25 per cent of its principal amount together with accrued but unpaid interest thereon. The bonds carry interest at a rate of 1.50 per cent per annum, which is payable semi-annually in arrears on 9 January and 9 July. As at 30 June 2022, the conversion price was HK\$7.90 per share after adjustment as a result of the declaration of the dividends. During the period, convertible bonds with an aggregate principal amount of US\$8,389,000 were converted into 8,298,419 ordinary shares at a conversion price of HK\$7.90 per share.

18. PROVISION

In September 2019, Luye Pharma Hong Kong Limited ("Luye Hong Kong"), a subsidiary of the Group was involved in an arbitration brought by the former distributor of Seroquel in Mainland China disputing the subsidiary's basis of terminating the distribution agreement with such distributor. On 21 October 2021, Luye Hong Kong received the arbitral award from the Hong Kong International Arbitration Centre in relation to the arbitration. On 14 December 2021, Luye Hong Kong submitted the application for revoking the arbitral award to the Hong Kong High Court. On 31 December 2021, the tribunal made final verdict on the amount of claim as approximately RMB273,482,000, which also included such distributor's arbitration fees and interests related. Accordingly, a provision for the claimed amount was made in the financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19. COMMITMENTS

The Group had the following capital commitments as at the end of the reporting period:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Contracted, but not provided for:		
Buildings	332,833	335,382
Plant and machinery	523,214	590,832
Other intangible assets	53,691	51,006
	909,738	977,220

20. RELATED PARTY TRANSACTIONS

Details of the Group's principal related parties are as follows:

Company	Relationship
Steward Cross Pte. Ltd. ("Steward Cross")	Associate
Luye Life Science Group Ltd. ("Luye Life Science")	A controlling shareholder of the Company
Yantai Painuo Biotech Co., Ltd. ("Yantai Painuo")	An entity controlled by the controlling shareholder
Shandong International Biotech Park Development Co., Ltd. ("Biotech Park Development")	An entity controlled by the controlling shareholder
Yantai Yunyue Winery Management Co., Ltd. ("Yunyue Winery")	An entity controlled by the controlling shareholder
Geneleap Biotech LLC (formerly known as "Luye Boston Research & Development LLC") ("Luye Boston")*	An entity controlled by the controlling shareholder
Yantai Cellzone Medical Diagnostics Center Co., Ltd. ("Yantai Cellzone")	An entity controlled by the controlling shareholder

* As at 30 June 2022, Luye Boston has ceased to be a related party of the Group. The outstanding balances with the entity are not disclosed as balances with related parties in note (b) below and the transaction amounts with the entity during the six months ended 30 June 2022 disclosed in note (a) only covered the periods when the entity was a related party.

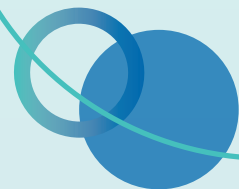
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

20. RELATED PARTY TRANSACTIONS (Continued)

(a) The Group had the following transactions with related parties during the period:

	Notes	For the six months ended 30 June	
		2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Sales of products to:			
Steward Cross	(i)	4,195	4,546
Lease and property management services to:			
Yantai Painuo	(ii)	5,083	—
Provision of manufacturing service to:			
Yantai Painuo	(ii)	986	—
Accommodation services from:			
Yunyue Winery	(ii)	44	111
Research and development services from:			
Yantai Cellzone	(ii)	1,164	—
Lease and property management services from:			
Biotech Park Development	(ii)	1,808	—
Payment on behalf by:			
Biotech Park Development	(iii)	904	1,149
Luye Boston	(iii)	111	2,317
		1,015	3,466
Repayment to:			
Biotech Park Development	(iii)	771	1,319
Luye Boston	(iii)	104	1,984
		875	3,303
Advances from:			
Luye Life Science	(iii)	2,013	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



20. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

- (i) The sales to Steward Cross were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The transaction fees were determined on normal commercial terms and negotiated on arm's length basis, on similar basis as the Group conducted businesses with other independent third parties.
- (iii) The payments and advances were unsecured, interest-free and repayable on demand.

(b) Outstanding balances with related parties:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Other receivables		
Biotech Park Development	1,236	—
Yantai Painuo	12,108	5,522
	13,344	5,522
Other payables		
Biotech Park Development	—	222
Luye Boston	—	31
Luye Life Science	2,013	—
	2,013	253
Lease liabilities		
Biotech Park Development	7,246	5,620
Luye Boston	—	3,536
	7,246	9,156

All outstanding balances with related parties were trade in nature except for other payables to related parties.

The balances with related parties except for lease liabilities are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

21. SHARE-BASED PAYMENTS

Share award scheme

The Company adopted a share award scheme on 10 January 2017 (the “Scheme”). The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group.

Subject to any early termination as may be determined by the board of directors in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of ten years commencing on 10 January 2017 (the “Adoption Date”).

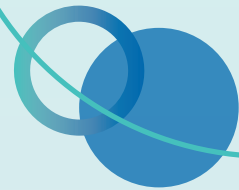
The Scheme shall be administered by the board of directors and Bank of Communications Trustee Limited (the “Trustee”) in accordance with the rules of the Scheme and the trust deed in respect of the Scheme to be entered into between the Company and the Trustee (the “Trust Deed”). The decision of the board of directors with respect to any matter arising under the Scheme (including the interpretation of any provision) shall be final and binding. The Trustee will hold the Company’s shares in accordance with the terms of the Trust Deed. The Trustee may not exercise the voting rights in respect of any Shares held under the Trust.

The board of directors may from time to time cause to be paid an amount to the Trustee by way of settlement or otherwise contributed by the Company or other member of the Group as directed by the board of directors. The committee appointed and authorised by the board of directors to administer the Scheme, which shall consist of three members of the senior management of the Company to be appointed by the board of directors, may from time to time instruct the Trustee in writing to purchase shares on the Stock Exchange specifying the timing of purchase, maximum amount of funds to be used and the range of prices within which such shares are to be purchased.

The board of directors may from time to time select any employee (excluding any employee who is resident in a place where the award of, in respect of a selected employee, such number of shares awarded by the Board (the “Awarded Shares”) and/or the vesting and transfer of the Awarded Shares pursuant to the terms of the Scheme is not permitted under the laws or regulations of such place or where in the view of the board of directors or the Trustee of the Scheme, compliance with applicable laws or regulations in such place makes it necessary or expedient to exclude such employee) for participation in the Scheme as a selected employee and grant to such selected employee Awarded Shares in such number at a stated price at which an Award Share is granted to a selected employee (the “Grant Price”) and on and subject to such terms and conditions as it may in its discretion determine.

The board of directors is entitled to impose any conditions as it deems appropriate in its discretion with respect to the vesting of the Awarded Shares on the selected employee. Upon the vesting of the Awarded Shares, the selected employee may elect to have the Awarded Shares transferred to him or effect the sale of the Awarded Shares and receive the net proceeds from such sale. In either case, the selected employee shall pay the Company the Grant Price for the Awarded Shares.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



21. SHARE-BASED PAYMENTS (Continued)

Share award scheme (Continued)

A selected employee will not have any interest or rights (including the right to vote at general meetings of the Company or the right to receive dividends) in the Awarded Shares prior to, in respect of a selected employee, the date on which his entitlement to the Awarded Shares is vested in such selected employee pursuant to the terms of the Scheme (the "Vesting Date"). Prior to the Vesting Date, any award of Awarded Shares is personal to the selected employee to whom it is made and is not assignable and no selected employee may in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to the Awarded Shares referable to him pursuant to such award. In the event that a selected employee has ceased to be an employee, the relevant award made to such selected employee will automatically lapse and the relevant Awarded Shares will remain part of the funds under the Trust.

The Scheme will terminate on the earlier of (i) the 10th anniversary date of the Adoption Date; and (ii) such date of early termination as determined by the board of directors provided that such termination shall not materially and adversely affect any subsisting rights of any selected employee.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the share option is measured based on the general accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties.

Pursuant to share award notices issued on 15 May 2017 to those selected employees, an aggregate of 17,724,000 shares (the "2017 Awarded Shares") of the Company of US\$0.02 each were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2017 Awarded Shares is 15 May 2021. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meet the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2018 to those selected employees, an aggregate of 20,098,000 shares (the "2018 Awarded Shares") of the Company of US\$0.02 each were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2018 Awarded Shares is 15 May 2022. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meet the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2019 to those selected employees, an aggregate of 25,206,000 shares (the "2019 Awarded Shares") of the Company of US\$0.02 each were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2019 Awarded Shares is 15 May 2022. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meet the expectation of the Company on daily performance.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

21. SHARE-BASED PAYMENTS (Continued)

Share award scheme (Continued)

The following awarded shares were outstanding under the Scheme during the period:

	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2022	8,960,500	56,538,000
Forfeited	1,183,000	(1,183,000)
At 30 June 2022	10,143,500	55,355,000
Exercisable as at 30 June 2022	—	55,355,000

	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2021	7,019,500	58,479,000
Forfeited	1,941,000	(1,941,000)
At 31 December 2021	8,960,500	56,538,000
Exercisable as at 31 December 2021	—	34,555,000

The Group recognised a share-based payment expense of RMB6,966,000 during the period (six months ended 30 June 2021: RMB18,431,000). Out of the share-based payment expense, nil was included in the directors' remuneration (six months ended 30 June 2021: RMB103,000).

Share-based payment scheme of Boan Biotech

In December 2020, the board of directors of Boan Biotech passed a resolution to grant equity interests of Boan Biotech to the eligible employees (including directors) in order to provide incentives and rewards to participants for the business development of Boan Biotech. Subsequently, Yantai Bolian Investment Centre Limited Partnership ("Yantai Bolian"), Yantai Bosheng Investment Centre Limited Partnership ("Yantai Bosheng") and Yantai Bofa Investment Centre Limited Partnership ("Yantai Bofa"), three employee incentive platforms established in the PRC, subscribed paid-in capital of RMB21,380,000, RMB14,930,000 and RMB11,250,000 of Boan Biotech for total considerations of RMB64,140,000, RMB44,790,000 and RMB33,750,000, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



21. SHARE-BASED PAYMENTS (Continued)

Share-based payment scheme of Boan Biotech (Continued)

On 27 January 2021, 4.4247% of the then equity interest in Boan Biotech was granted to 36 selected directors and employees of Boan Biotech for a consideration of RMB64,140,000 through Yantai Bolian. 3.0898% of the then equity interest in Boan Biotech was granted to 45 selected directors and employees of Boan Biotech for a consideration of RMB44,790,000 through Yantai Bosheng. 2.3282% of the then equity interest in Boan Biotech was granted to 47 selected directors and employees of Boan Biotech for a consideration of RMB33,750,000 through Yantai Bofa. The management has the power to select the eligible employees and Boan Biotech derive benefits from the services of the employees who have been granted the then equity interest through their continued employment with Boan Biotech.

Pursuant to the partnership agreements of Yantai Bolian, Yantai Bosheng and Yantai Bofa (collectively referred to as the "ESOP Entities"), (i) the ESOP Entities shall not dispose of any of the shares they held within 36 months immediately following the date of Boan Biotech's listing (the "ESOP Lock-up Period"); and (ii) a partner is entitled to direct the ESOP Entities to dispose of his/her share of the shares held by the ESOP Entities (based on his/her shareholding percentage in the ESOP Entities) (the "ESOP Shares") in the following manner: (a) 25% of his/her ESOP Shares upon the expiry of 12 months following the day after the ESOP Lock-up Period; (b) 50% of his/her ESOP Shares upon the expiry of 24 months following the day after the ESOP Lock-up Period; (c) 75% of his/her ESOP Shares upon the expiry of 36 months following the day after the ESOP Lock-up Period; and (d) 100% of his/her ESOP Shares upon the expiry of 48 months following the day after the ESOP Lock-up Period. If a person cease to be qualified as a partner during the vesting period, the general partner shall have the right to purchase or appoint other eligible employees to purchase the share of that person at cost or cost plus market interest. In August 2021, the ESOP Lock-up Period was revised as 12 months immediately following the date of Boan Biotech's listing pursuant to the updated partnership agreements.

The fair value of services received in return for equity interests granted is measured by reference to the fair value of the equity interests granted less the consideration received by Boan Biotech.

The fair value of the equity interests granted is determined by the back-solve method and equity value allocation based on the option pricing model at the grant date.

The following table lists the inputs to the model used:

	Year ended 31 December 2021
Risk-free interest rate (%)	2.9%
Volatility (%)	42.0%

The Group recognised a share-based payment expense of RMB9,081,000 during the period (six months ended 30 June 2021: RMB7,064,000).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at 30 June 2022 (Unaudited)

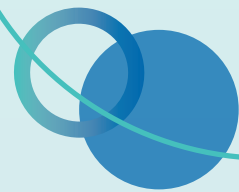
Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000			
Equity investments designated at fair value through other comprehensive income	—	—	95,370	—	95,370
Notes receivable	—	—	309,591	—	309,591
Trade receivables	—	—	—	1,625,399	1,625,399
Financial assets included in prepayments, other receivables and other assets	—	—	—	208,062	208,062
Financial assets at fair value through profit or loss	478,263	1,826,166	—	—	2,304,429
Cash and cash equivalents	—	—	—	3,372,826	3,372,826
Time deposits with original maturity of over three months	—	—	—	366,500	366,500
Pledged time deposits	—	—	—	1,741,152	1,741,152
Long-term receivables	—	—	—	8,380	8,380
Restricted cash	—	—	—	32,095	32,095
	478,263	1,826,166	404,961	7,354,414	10,063,804

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost RMB'000	Total RMB'000
	Designated as such upon initial recognition RMB'000	Held for trading RMB'000		
Trade and notes payables	—	—	442,598	442,598
Financial liabilities included in other payables and accruals	—	—	777,476	777,476
Convertible bonds	—	—	1,969,050	1,969,050
Other non-current liabilities	—	—	130,854	130,854
Interest-bearing bank and other borrowings	—	—	7,217,876	7,217,876
Redemption liabilities on non-controlling interests	1,240,119	—	—	1,240,119
Contingent consideration payables	346,714	—	—	346,714
	1,586,833	—	10,537,854	12,124,687

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



22. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

As at 31 December 2021 (Audited)

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	Designated as such upon initial recognition	Mandatorily designated as such	Equity investments		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income	—	—	95,273	—	95,273
Notes receivable	—	—	250,315	—	250,315
Trade receivables	—	—	—	1,514,781	1,514,781
Financial assets included in prepayments, other receivables and other assets	—	—	—	622,610	622,610
Financial assets at fair value through profit or loss	478,263	2,684,198	—	—	3,162,461
Cash and cash equivalents	—	—	—	2,438,252	2,438,252
Time deposits with original maturity of over three months	—	—	—	387,859	387,859
Pledged time deposits	—	—	—	1,743,395	1,743,395
Restricted cash	—	—	—	31,982	31,982
Long-term receivables	—	—	—	8,380	8,380
	478,263	2,684,198	345,588	6,747,259	10,255,308

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost	Total
	Designated as such upon initial recognition	Held for trading		
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and notes payables	—	—	570,890	570,890
Financial liabilities included in other payables and accruals	—	—	742,193	742,193
Convertible bonds	—	—	1,870,654	1,870,654
Other non-current liabilities	—	—	99,138	99,138
Interest-bearing loans and borrowings	—	—	7,620,139	7,620,139
Dividend payable	—	—	5,500	5,500
Redemption liabilities on non-controlling Interest	1,202,818	—	—	1,202,818
Contingent consideration payables	334,378	—	—	334,378
	1,537,196	—	10,908,514	12,445,710

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

During the reporting period, the fair values of the Group's financial instruments approximated to their respective carrying amounts.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

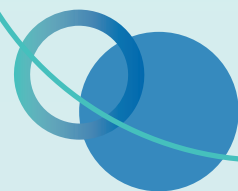
Management has determined that the carrying amounts of cash and cash equivalents, pledged time deposits, restricted cash, trade receivables, other receivables and other assets, trade and notes payables, financial liabilities included in other payables and accruals and short-term interest-bearing bank and other borrowings, based on their notional amounts, reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

The fair values of the non-current portion of pledged time deposits, interest-bearing loans and other borrowings, long-term receivables and other non-current liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings and lease liabilities as at the end of the reporting period was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income are based on recently executed transaction prices in securities of the issuer. The fair value of the unlisted equity investment at fair value through profit or loss has been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the management to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, which is price to book value ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by a book value measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to measure the fair value of the unlisted equity investment. The management believes that the estimated fair value resulting from the valuation technique, which is recorded in the consolidated statement of financial position, and the related change in fair values, which is recorded in the consolidated statement of profit and loss, are reasonable, and that it was the most appropriate value at the end of the reporting period.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair values of the notes receivable classified as financial assets at fair value through other comprehensive income as at 30 June 2022 have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within twelve months, thus their fair values approximate to their carrying values.

The fair values of the contingent consideration payables and redemption liabilities on non-controlling interests were determined using discounted cash flow method and are within Level 3 fair value measurement.

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2022:

	Valuation technique	Significant unobservable inputs	Weighted average rate	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss	Market approach	Discount for lack of marketability	20% (31 December 2021: 20%)	1% (31 December 2021: 1%) increase/decrease in discount would result in decrease/increase in fair value by RMB16,000/RMB16,000 (31 December 2021: RMB16,000/RMB16,000)
Redemption liabilities on non-controlling interests	Discounted cash flow method	Discount rate	7.58% (31 December 2021: 7.37%)	0.1% (31 December 2021: 0.1%) increase/decrease in discount would result in decrease/increase in fair value by RMB2,877,000/RMB2,887,000 (31 December 2021: RMB3,355,000/RMB3,367,000)
Contingent consideration payables	Discounted cash flow method	Discount rate	4.9% (31 December 2021: 4.9%)	2% (31 December 2021: 2%) increase/decrease in discount would result in decrease/increase in fair value by RMB3,799,000/RMB3,915,000 (31 December 2021: RMB7,046,000/RMB6,772,000)
		Discount for own non-performance risk	5% (31 December 2021: 5%)	1% (31 December 2021: 1%) increase/decrease in discount would result in decrease/increase in fair value by RMB1,026,000/RMB1,018,000 (31 December 2021: RMB1,835,000/RMB1,826,000)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

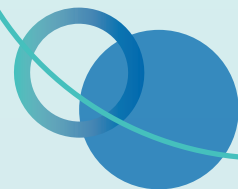
As at 30 June 2022 (Unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	3,070	92,300	—	95,370
Notes receivable	—	309,591	—	309,591
Financial assets at fair value through profit or loss	797	2,302,369	1,263	2,304,429
	3,867	2,704,260	1,263	2,709,390

As at 31 December 2021 (Audited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	5,870	89,403	—	95,273
Notes receivable	—	250,315	—	250,315
Financial assets at fair value through profit or loss	2,148	3,159,050	1,263	3,162,461
	8,018	3,498,768	1,263	3,508,049

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments: (Continued)

Liabilities measured at fair value:

As at 30 June 2022 (Unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Contingent consideration payables	—	—	346,714	346,714
Redemption liabilities on non-controlling interests	—	—	1,240,119	1,240,119
	—	—	1,586,833	1,586,833

As at 31 December 2021 (Audited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Contingent consideration payables	—	—	334,378	334,378
Redemption liabilities on non-controlling interests	—	—	1,202,818	1,202,818
	—	—	1,537,196	1,537,196

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2021: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. EVENTS AFTER THE REPORTING PERIOD

The Company has received optional put exercise notices in respect of US\$291,611,000 in principal amount of the convertible bonds requiring the Company to redeem such bonds at 107.07 per cent. of their principal amount on 9 July 2022. The Company has settled the amount payable for the repurchase of the bonds. Following the completion of the redemption, no such convertible bonds were outstanding and the delisting of such bonds has taken place in July 2022. For further details of the optional put exercise and the redemption of the convertible bonds, please refer to the announcements dated 11 July 2022 and 14 July 2022.

On 16 August 2022, the Company issued the convertible bonds in the principal amount of Hong Kong dollars equivalent of RMB1,200,000,000 (the "Firm Bonds"). For further details of the Firm Bonds, please refer to the announcements of the Company dated 28 July 2022 and 16 August 2022.