



Beijing Luzhu Biotechnology Co., Ltd.
北京綠竹生物技術股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code : 2480




Interim Report 2023



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. KONG Jian (孔健) (*Chairman*)
Ms. ZHANG Yanping (張琰平)
Ms. JIANG Xianmin (蔣先敏)

Non-executive Directors

Mr. MA Biao (馬彪)
Mr. KONG Shuangquan (孔雙泉)

Independent non-executive Directors

Mr. LEUNG Wai Yip (梁偉業)
Mr. LIANG Yeshe (梁冶矢)
Ms. HOU Aijun (侯愛軍)

SUPERVISORS

Ms. PENG Ling (彭玲)
Ms. KONG Xi (孔茜)
Mr. CHEN Liang (陳亮)

JOINT COMPANY SECRETARIES

Mr. LIU Siyu (劉斯宇)
Ms. YUEN Wing Yan, Winnie (袁穎欣) (*FCG HKFCG(PE)*)

AUTHORISED REPRESENTATIVES

Mr. KONG Jian (孔健)
Ms. YUEN Wing Yan, Winnie (袁穎欣) (*FCG HKFCG(PE)*)

AUDIT COMMITTEE

Ms. HOU Aijun (侯愛軍) (*Chairlady*)
Mr. KONG Shuangquan (孔雙泉)
Mr. LEUNG Wai Yip (梁偉業)

REMUNERATION COMMITTEE

Mr. LIANG Yeshe (梁冶矢) (*Chairman*)
Mr. KONG Jian (孔健)
Mr. LEUNG Wai Yip (梁偉業)

NOMINATION COMMITTEE

Mr. KONG Jian (孔健) (*Chairman*)
Mr. LIANG Yeshe (梁冶矢)
Ms. HOU Aijun (侯愛軍)

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
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COMPLIANCE ADVISER

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Suite 2101-2105
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LEGAL ADVISERS

As to Hong Kong law
Eric Chow & Co. in Association with
Commerce & Finance Law Offices
3401, Alexandra House
18 Chater Road, Central
Hong Kong

As to PRC law
Commerce & Finance Law Offices
12-14/F, China World Office 2
No. 1 Jianguomenwai Avenue
Beijing
PRC

PRINCIPAL BANKS

Agricultural Bank of China Limited Beijing Free Trade Zone Zhangjiawan Design Town Branch
No. 7 Guanghua Road
Zhangjiawan Town
Tongzhou District
Beijing
PRC

China Construction Bank Corporation Beijing Desheng Branch
Hesheng Fortune Plaza
No. 13 Dewai Street
Xicheng District
Beijing
PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 3 Guangtong Street
Industrial Development Zone
Tongzhou District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place
348 Kwun Tong Road
Kowloon
Hong Kong

REGISTERED OFFICE

No. 3 Guangtong Street
Industrial Development Zone
Tongzhou District
Beijing
PRC

H SHARE REGISTRAR

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

STOCK CODE

2480

COMPANY'S WEBSITE

www.luzhubiotech.com

DATE OF LISTING

May 8, 2023

Financial and Operational Data Highlights

	For the six months ended June 30,		
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)	Change (%) (unaudited)
Other income	5,339	6,363	(16.1)
Other expenses	(280)	(2,895)	(90.3)
Other gains and losses, net	16,830	8,643	94.7
Fair value loss of financial liabilities at fair value through profit or loss ("FVTPL")	–	(551,546)	(100.0)
Administrative expenses	(41,239)	(44,603)	(7.5)
Research and development expenses	(33,157)	(55,186)	(39.9)
Finance costs	(386)	(343)	12.5
Listing expenses	(26,459)	(12,513)	111.5
Loss before tax	(79,352)	(652,080)	(87.8)
Income tax expense	–	–	–
Loss and total comprehensive expense for the period	(79,352)	(652,080)	(87.8)
Loss per share	RMB	RMB	
– Basic	(0.41)	(6.64)	(93.8)
– Diluted	(0.41)	(6.64)	(93.8)
Non-IFRSs Measure			
Adjusted loss for the period ^(Note)	(52,893)	(88,021)	(39.9)

Note: Adjusted for (i) fair value loss of financial liabilities at FVTPL, and (ii) listing expenses.

	As of June 30, 2023 RMB'000 (unaudited)	As of December 31, 2022 RMB'000 (audited)
Non-current assets	494,220	469,166
Current assets	756,275	601,004
Current liabilities	56,985	94,114
Net current assets	699,290	506,890
Non-current liabilities	41,737	38,590
Net assets	1,151,773	937,466

OVERVIEW

The Company is a biotechnology company committed to developing innovative human vaccines and therapeutic biologics to prevent and control infectious diseases and treat cancer and autoimmune diseases.

Since its inception in 2001, the Group has focused on human medicine and has established technology platforms with its understanding of immunology and protein engineering, which empowers the Group to develop the recombinant vaccine and antibody product candidates with favorable efficiency, high purity and improved stability.

As of June 30, 2023, the Group's product pipeline consisted of three clinical-stage product candidates, including its Core Product, LZ901, and four pre-clinical-stage product candidates.

As of June 30, 2023, the Group had two invention patents and seven pending applications relating to its Core Product. All of the registered patents and patent applications for the Core Product are related to the same set of patent claims filed to nine different jurisdictions to protect its intellectual property, given that in addition to China and the U.S., the other jurisdictions are also the target markets or potential markets in the future for LZ901.

The H Shares of the Company were listed on the Stock Exchange on May 8, 2023. The aggregate net proceeds received by the Company from the global offering of its H Shares (the "**Global Offering**"), after deducting underwriting commissions and other expenses payable by the Company in connection with the Global Offering, amounted to approximately HK\$241.6 million.

Management Discussion and Analysis

BUSINESS REVIEW

Research and development of product candidates

After two decades of research and development and introduction of technologies, the Group has established an innovative precision protein engineering platform empowering the full cycle of drug development, which provides a solid foundation for the development of the Group's human vaccines candidates, monoclonal antibody product candidates and bispecific antibody product candidates.

The Group's innovative antigen presentation technology for vaccine development starts from the concept of enhancing the immunogenicity of a target antigen, then streamlines the design of a recombinant virus vaccine antigen while retaining the primary structure of the natural antigen to enhance immunogenicity, improve safety and patient vaccination experience. The Group has an internally developed next-generation bispecific antibody development platform, Fabite[®], of which the Group owns intellectual property rights, has competitive advantages in the development of bispecific antibody products for the treatment of relapsed/refractory hematological malignancies. Fabite[®] has a fully controllable mechanism of action and mode of administration to ensure the safety of patients. It can be used in a variety of immunotherapies based on the activation of T cells to kill cancer cells. Fabite[®] optimizes the purification process of bispecific antibodies, achieving high purity of monomers. At the same time, the Group has developed several types of liquid formulations to address stability issues, resulting in bispecific antibody solutions that can be stable for more than three years in storage conditions of 2-8°C.

By employing the Fabite[®] technology platform and mammalian expression technology platform and leveraging its in-house biologics manufacturing infrastructure and capabilities, the Group established a diversified and advanced product pipeline covering human vaccine candidates, monoclonal antibody product candidates and bispecific antibody product candidates.

LZ901

LZ901, the independently developed recombinant herpes zoster vaccine candidate and Core Product of the Group, has a tetrameric molecular structure to prevent shingles caused by varicella-zoster virus ("VZV"). Its molecular structure has doubled the Fc regions for antigen presenting cells ("APCs") to bind to compared to naturally occurring VZV antigen. LZ901 actively presents VZV antigens to immune cells to trigger an immune response. In addition, LZ901 has demonstrated high immunogenicity, efficacy and safety profile in both the pre-clinical studies and the Phase I clinical trial in China, while inducing specific humoral and cellular immunity.

The Group has completed the Phase II clinical trial for LZ901 in China in May 2023. The results were statistically and clinically meaningful, and demonstrated a favorable profile. In terms of immunogenicity studies, the geometric mean concentration ("GMC"), geometric mean titer ("GMT") and the positive conversion rate of antibody in the high-dose LZ901 group were significantly higher than those in the low-dose cohorts. On the other hand, the GMC, GMT and the positive conversion rate of antibody in the high-dose and low-dose LZ901 group were significantly higher than those in the placebo group. In terms of safety studies, adverse events ("AEs") in the trial mainly occurred within 0-7 days, and the incidence rate of Grade I, Grade II and Grade III AEs of the trial vaccines were approximately 23.74%, 6.02% and 1.00%, respectively. The high-dose cohorts, low-dose cohorts and placebo group reported incidence rate of AEs of approximately 29.0%, 23.0% and 13.0%, respectively. No Grade IV AEs and no serious AEs had been observed during the Phase II clinical trial of LZ901

in China. Riding on the Phase II clinical trial data which provide definitive basis for the Phase III clinical trial, the Group expects to initiate the multi-center, randomized, double-blind, placebo-controlled Phase III clinical trial for LZ901 in China in the third quarter of 2023, file Biologics License Application (“**BLA**”) in the second half of 2024 for LZ901 to the NMPA, and achieve commercialization in the fourth quarter of 2025. In such connection, the subjects enrolled in the Phase I and Phase II clinical trial for LZ901 in China were aged 50 years and older, and the Group plans to expand the subject enrollment for the Phase III clinical trial for LZ901 in China to adults aged 40 years and older. In addition, the Group has received IND approval from the FDA in July 2022 for LZ901. The Group initiated a Phase I clinical trial for LZ901 in the U.S. in February 2023 and completed its subject enrollment in July 2023. The Group plans to complete the Phase I clinical trial for LZ901 in the U.S. in the first quarter of 2024. The Group plans to initiate a Phase II clinical trial for LZ901 in the U.S. in the second quarter of 2024 and complete the same in the third quarter of 2025. The Phase III clinical trial in the U.S. is expected to commence in the fourth quarter of 2025, and complete in the second quarter of 2027.

K3

K3, the independently developed recombinant human anti-tumor necrosis factor (“**TNF**”)- α monoclonal antibody injection product candidate of the Group, is a biosimilar of Humira[®] (adalimumab) and mainly used for the treatment of various autoimmune diseases, such as rheumatoid arthritis, ankylosing spondylitis and plaque psoriasis. The Group has initiated the Phase I clinical trial in China in September 2018, in which K3 displayed pharmacokinetics consistent with adalimumab, and completed the Phase I clinical trial in December 2019. The Group plans to initiate a Phase III clinical trial for K3 in China in the first quarter of 2024, complete the Phase III clinical trial in the fourth quarter of 2024 and submit a BLA to the NMPA in the fourth quarter of 2024 or the first quarter of 2025. The Group expects K3 to receive BLA approval from the NMPA in the second half of 2025 and achieve commercialization in the fourth quarter of 2025, thereby expanding the market in China for adalimumab biosimilars.

K193

K193 is an independently developed bispecific antibody injection (B-lymphocyte antigen CD19 (“**CD19**”)-cluster of differentiation 3 (“**CD3**”)) product candidate of the Group for the treatment of B cell leukemia and lymphoma. K193 is the world’s first bispecific antibody against CD19/CD3 with an asymmetric structure. K193 has an innovative molecular structure that was developed based on the internally developed bispecific antibody development platform of the Group, Fabite[®], and the Group’s mammalian expression technology platform, which makes it less prone to polymerization and decreased activity compared to other similar products in the market. During pre-clinical studies, K193 displayed high *in vivo* and *in vitro* anti-tumor activity, and its optimized formulation is stable and convenient to use. K193’s unique mechanism of action endows it with a strong ability to treat various types of B cell leukemia and lymphoma. The safe and controllable administration of K193 also reduces the impact of patient stress caused by medication administration. In December 2019, the Group initiated a Phase I clinical trial of K193 in China and expects to complete the Phase I clinical trial in the first quarter of 2024. The Group plans to initiate a Phase II clinical trial for K193 in the second quarter of 2024 and complete the Phase II clinical trial of K193 in China in the fourth quarter of 2027.

In addition, the other pipeline candidates of the Group include recombinant varicella vaccine, recombinant rabies vaccine, K333 bispecific antibody for the treatment of myeloid leukemia and K1932 bispecific antibody for the treatment of lymphoma, which are all in the pre-clinical stage.

Management Discussion and Analysis

The following diagram summarizes the status of the product pipeline of the Group as of June 30, 2023:

Product Type	Product Pipeline	Indications	Pre-clinical	Clinical Trials			Expected Timetable
				Phase I	Phase II	Phase III	
Recombinant Vaccine	LZ901 ⁽¹⁾	Herpes zoster	China				Initiate Phase III in Q3 2023, submit a BLA in H2 2024, and achieve commercialization in Q4 2025
		Herpes zoster	US				Complete Phase I in Q1 2024 and initiate Phase II in Q2 2024
Monoclonal Antibody	K3 ⁽²⁾	Ankylosing spondylitis, rheumatoid arthritis, plaque psoriasis	China				Initiate Phase III in Q1 2024, submit a BLA in Q4 2024 or Q1 2025, and achieve commercialization in Q4 2025
Bispecific Antibody	K193	Relapsed/Refractory B-cell lymphoma/leukemia	China				Complete Phase I in Q1 2024 and initiate Phase II in Q2 2024
Recombinant Vaccine	Recombinant Varicella Vaccine	Varicella	China				Initiate Phase I in Q2 2024
Recombinant Vaccine	Recombinant Rabies Vaccine	Rabies	China				Submit a pre-IND application in Q4 2023
Bispecific Antibody	K333	Myeloid leukemia	China				Submit a pre-IND application in H2 2024
Bispecific Antibody	K1932	Relapsed/Refractory B-cell lymphoma	China				Submit a pre-IND application in H2 2024

Notes: (1) Core Product.

(2) K3 is a biosimilar of adalimumab and therefore, is not required to conduct a Phase II clinical trial.

For further details of the product candidates of the Group, please refer to the Prospectus.

THE COMPANY MAY NOT BE ABLE TO SUCCESSFULLY DEVELOP AND/OR MARKET THE CORE PRODUCT, OR ANY OTHER PRODUCT CANDIDATES.

Research and development

The in-house R&D team of the Group is involved in all stages of novel vaccine and biologic therapeutic candidates development, from pre-clinical studies, laboratory research to clinical trials, regulatory filing and manufacturing process development, and the Group has thereby established a full range of in-house product discovery capabilities, including recombinant protein design and optimization, amplification, cultivation and harvesting. With its R&D capabilities, the Group now possesses a diversified and advanced product pipeline covering human vaccine candidates, monoclonal antibody product candidates and bispecific antibody product candidates.

Manufacturing and quality assurance

The Group has R&D and manufacturing facilities in both Beijing and Zhuhai, and the Group plans to expand the scale of its R&D and manufacturing facilities as it further develops its business in future. The Group provides training to its manufacturing team to ensure that each team member possesses the skills sets and techniques required in the relevant product process, and comply with the quality control requirements, as well as applicable laws and regulations. As of June 30, 2023, the manufacturing team of the Group consisted of 29 personnel.

The Group also has a quality management system designed to adhere to national standards, including the GMP standards, covering substantially every aspect of the operations including product design, raw materials and manufacturing, among others. As of June 30, 2023, the Group had an experienced quality management team consisting of 28 personnel, all of whom had received professional training in regulations, GMP standards and quality control analysis methods.

Future and outlook

The Group plans to implement the following strategies to achieve the goals and visions of the Group:

- actively promote the clinical development of the Group's pipeline candidates including LZ901, K3 and K193;
- rapidly advance the development of the other pre-clinical product candidates of the Group, including recombinant varicella vaccine, recombinant rabies vaccine, K333 and K1932;
- expand the production capacity of the Group to meet growing market demand;
- lay out strategic plans to promote commercialization in China and abroad; and
- expand the product pipeline of the Group through independent development and/or collaboration.

Management Discussion and Analysis

FINANCIAL REVIEW

The following table summarizes the Group's results of operations for the six months ended June 30, 2023 and 2022:

	For the six months ended June 30,		Change (%) (unaudited)
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)	
Other income	5,339	6,363	(16.1)
Other expenses	(280)	(2,895)	(90.3)
Other gains and losses, net	16,830	8,643	94.7
Fair value loss of financial liabilities at FVTPL	—	(551,546)	(100.0)
Administrative expenses	(41,239)	(44,603)	(7.5)
Research and development expenses	(33,157)	(55,186)	(39.9)
Finance costs	(386)	(343)	12.5
Listing expenses	(26,459)	(12,513)	111.5
Loss before tax	(79,352)	(652,080)	(87.8)
Income tax expense	—	—	
Loss and total comprehensive expense for the period	(79,352)	(652,080)	(87.8)
Loss per share	RMB	RMB	
Basic	(0.41)	(6.64)	(93.8)
Diluted	(0.41)	(6.64)	(93.8)
Non-IFRSs Measure			
Adjusted loss for the period ^(Note)	(52,893)	(88,021)	(39.9)

Note: Adjusted for (i) fair value loss of financial liabilities at FVTPL, and (ii) listing expenses.

Other income

Other income of the Group decreased by approximately 16.1% from approximately RMB6.4 million for the six months ended June 30, 2022 to approximately RMB5.3 million for the six months ended June 30, 2023, which was primarily due to the decrease in government grants related to research and development activities of approximately RMB3.6 million as no government grant relating to research and development activities was recognized by the Group for the six months ended June 30, 2023, partially offset by an increase in interest income on bank balances of approximately RMB1.6 million resulting from the increase in bank deposits of the Group.

Set out below are the components of other income for the periods indicated:

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Income from sales of immunoreagent testing kits	1,023	1,229
Government grants related to		
• Right-of-use assets and plant and machinery	2,585	1,473
• Research and development activities	–	3,590
• Others	71	18
Interest income on bank balances	1,651	41
Interest income from rental deposits	9	12
Total	5,339	6,363

Other expenses

Other expenses of the Group decreased by approximately 90.3% from approximately RMB2.9 million for the six months ended June 30, 2022 to approximately RMB0.3 million for the six months ended June 30, 2023. Such decrease was primarily attributable to the issue costs for financial liabilities at FVPTL of approximately RMB2.5 million incurred for the six months ended June 30, 2022 as a result of the issue of Shares pursuant to the series B+ financing of the Group completed in January 2022, whereas no such costs were recorded for the six months ended June 30, 2023.

Set out below are the components of other expenses for the periods indicated:

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Cost of immunoreagent testing kits sold	280	348
Issue costs for financial liabilities at FVPTL	–	2,547
Total	280	2,895

Management Discussion and Analysis

Other gains and losses, net

Net other gains of the Group increased by approximately 94.7% from approximately RMB8.6 million for the six months ended June 30, 2022 to approximately RMB16.8 million for the six months ended June 30, 2023, which was primarily attributable to the increase in (i) net foreign exchange gains of approximately RMB5.9 million, and (ii) fair value gains on financial assets at FVTPL of approximately RMB2.3 million, representing the gains from our wealth management products.

Set out below are the components of net other gains for the periods indicated:

	For the six months ended June 30, 2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Fair value gains on financial assets at FVTPL	10,226	7,953
Foreign exchange gains, net	6,579	684
Others	25	6
Total	16,830	8,643

Fair value loss of financial liabilities at FVTPL

Fair value loss of financial liabilities at FVTPL of the Group decreased from approximately RMB551.5 million for the six months ended June 30, 2022 to nil for the six months ended June 30, 2023, as the Shares issued to pre-IPO investors of the Company had been reclassified from financial liabilities to equity at their fair value in June 2022.

Administrative expenses

Administrative expenses of the Group decreased by approximately 7.5% from approximately RMB44.6 million for the six months ended June 30, 2022 to approximately RMB41.2 million for the six months ended June 30, 2023, which was primarily due to the decrease in amortized share based payments of approximately RMB9.4 million, partially offset by an increase in depreciation of approximately RMB2.1 million resulting from the capital expenditure on property, plants and equipment.

Research and development expenses

Research and development expenses of the Group decreased by approximately 39.9% from approximately RMB55.2 million for the six months ended June 30, 2022 to approximately RMB33.2 million for the six months ended June 30, 2023, which was primarily due to the decrease in amortized share based payments of approximately RMB26.3 million.

Finance costs

Finance costs of the Group increased by approximately 12.5% from approximately RMB0.3 million for the six months ended June 30, 2022 to approximately RMB0.4 million for the six months ended June 30, 2023, which was primarily attributable to the increase in bank borrowings of the Group.

Listing expenses

Listing expenses of the Group increased by approximately 111.5% from approximately RMB12.5 million for the six months ended June 30, 2022 to approximately RMB26.5 million for the six months ended June 30, 2023 in line with the progress of the Listing and it is expected that no such expenses will be incurred in the future.

Loss before tax

As a result of the foregoing, the loss before tax of the Group decreased by approximately 87.8% from approximately RMB652.1 million for the six months ended June 30, 2022 to approximately RMB79.4 million for the six months ended June 30, 2023.

Income tax expenses

No Hong Kong profit tax was provided for as there was no estimated assessable profit of the Group's subsidiary in Hong Kong, which was subject to Hong Kong profit tax during the six months ended June 30, 2023.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT Law, the basic tax rate of the Company and the PRC subsidiaries of the Group is 25%. As the Group was loss-making for the six months ended June 30, 2022 and 2023, no income tax expenses were incurred.

Non-IFRSs Measure: Adjusted loss for the period

To supplement the unaudited consolidated interim results of the Group, which are prepared and presented in accordance with IFRSs, the Company uses additional financial measure which is not required by or presented in accordance with IFRSs, namely, adjusted loss for the period. The Group's adjusted loss for the period is not calculated in accordance with IFRSs, and it is a non-IFRSs measure. The Company believes that the adjusted loss for the period is useful for investors in comparing the Group's performance, and it allows investors to consider metrics used by the management of the Group in evaluating the Group's performance. Adjusted loss for the period represents the loss for the period excluding the effect of items that are non-recurring, non-cash and/or non-operating in nature and not indicative of the actual operating performance of the Group. The following table reconciles the loss and total comprehensive expenses under IFRSs to adjusted loss for the periods indicated:

	For the six months ended	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Non-IFRSs measure:		
Loss and total comprehensive expenses for the period	(79,352)	(652,080)
Add:		
Fair value loss of financial liabilities at FVTPL	—	551,546
Listing expenses	26,459	12,513
Adjusted loss for the period	(52,893)	(88,021)

Management Discussion and Analysis

The adjusted loss for the period decreased by approximately 39.9% from approximately RMB88.0 million for the six months ended June 30, 2022 to approximately RMB52.9 million for the six months ended June 30, 2023. Such decrease was primarily attributable to the decrease in research and development expenses of approximately RMB22.0 million, as there was a decrease in amortized share-based payments for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022.

The use of non-IFRSs measure has limitations as an analytical tool, and Shareholders and potential investors of the Company should not consider it in isolation from, or as a substitute for or superior to analysis of, the Group's results of operations or financial condition as reported under IFRSs. In addition, the non-IFRSs measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measure presented by other companies.

Liquidity and capital resources

The bank balances and cash increased by approximately RMB297.2 million from approximately RMB69.0 million as of June 30, 2022 to approximately RMB366.2 million as of June 30, 2023, which was primarily due to the net proceeds from the Global Offering.

As of June 30, 2023, the Group has bank borrowings or loans of approximately RMB10.0 million which carries interest at 2.35% per annum and will mature in one year.

There had been no breach of loan agreement by the Group during the six months ended June 30, 2023.

Pledge of Assets

As of June 30, 2023, the Group had no pledge of assets.

Contingent Liabilities

As of June 30, 2023, the Group did not have any material contingent liabilities.

Gearing Ratio

The gearing ratio is calculated using the Group's total liabilities divided by its total assets. As of June 30, 2023, the Group's gearing ratio was 7.9% (December 31, 2022: 12.4%).

Capital Expenditure

The Group regularly incurs capital expenditures to expand and enhance its research and development facilities, establish manufacturing capacities and increase operating efficiency. The capital expenditures of the Group during the six months ended June 30, 2023 primarily consisted of expenditures on construction in progress and leasehold lands.

The Group's capital commitments increased from approximately RMB13.5 million as of December 31, 2022 to approximately RMB25.7 million as of June 30, 2023. The increase was primarily attributable to capital expenditures on machineries and equipment and construction in progress contracted but not yet incurred.

Foreign Exchange

Foreign currency risk refers to the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect their financial condition and results of operation. The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong dollars. The conversion of foreign currencies into RMB, including Hong Kong dollars, has been based on rates set by the People's Bank of China. The Group seeks to limit the exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. During the six months ended June 30, 2023, the Group did not enter into any currency hedging transactions.

Significant Investments, Material Acquisitions and Disposals

The Group did not have any significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures for the six months ended June 30, 2023.

Future Plans for Material Investments or Capital Assets

As of June 30, 2023, the Group had no concrete plans for material capital expenditure, investments or capital assets. The Company will make further announcement(s) in accordance with the Listing Rules, where applicable, if any investments and acquisition opportunities materialize.

Other Information

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2023 (for the six months ended June 30, 2022: nil).

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The H Shares of the Company were listed on the Stock Exchange on May 8, 2023. The aggregate net proceeds received by the Company from the Global Offering after deducting underwriting commissions and other expenses payable by the Company in connection with the Global Offering, amounted to approximately HK\$241.6 million. In such connection, the over-allotment option as described in the Prospectus had not been exercised. For details of the Global Offering, please refer to the Prospectus, the allotment results announcement of the Company dated May 5, 2023 and the announcement of the Company dated May 28, 2023 in relation to, among others, lapse of the over-allotment option.

The net proceeds from the Global Offering have been and will be used in accordance with the purposes as set out in the Prospectus. The following table sets forth the use of the net proceeds from the Global Offering as of June 30, 2023:

Proposed use of Proceeds	Allocation of the net proceeds from the Global Offering (HK\$ million)	Percentage of total net proceeds (%)	Utilized amount (as of June 30, 2023) (HK\$ million)	Unutilized amount (as of June 30, 2023)^(Note) (HK\$ million)
For clinical development, manufacturing and commercialization of the Core Product, LZ901.	140.7	58.2	–	140.7
To fund ongoing and planned clinical trials in China and the U.S. for LZ901	97.0	40.2	–	97.0
To fund commercial manufacturing of LZ901 in 2024 or after	14.6	6.0	–	14.6
To fund marketing and sales activities	29.1	12.0	–	29.1
For clinical development and manufacturing of K3.	53.4	22.1	–	53.4
To fund planned clinical trials for K3 between 2023 and 2024	38.8	16.1	–	38.8

Proposed use of Proceeds	Allocation of the net proceeds from the Global Offering (HK\$ million)	Percentage of total net proceeds (%)	Utilized amount (as of June 30, 2023) (HK\$ million)	Unutilized amount (as of June 30, 2023) ^(Note) (HK\$ million)
To fund commercial manufacturing of K3 in 2024 or after	14.6	6.0	–	14.6
For construction of the second-phase commercial manufacturing facility in Zhuhai.	38.8	16.1	–	38.8
For working capital and other general corporate purposes.	8.7	3.6	–	8.7
Total	241.6	100.0	–	241.6

Note: As of June 30, 2023, the unused net proceeds were deposited with licensed bank(s) in Hong Kong or the PRC.

The Company expects that the net proceeds from the Global Offering will be used up by 2026.

EMPLOYEE AND REMUNERATION POLICY

As of June 30, 2023, the Group employed 129 full-time employees. The following table sets forth the number of the full-time employees of the Group by function as of June 30, 2023.

Function	Number of Employees	Percentage
Management and General Administrative (including Financial Department)	38	29.4%
Research and Development (including Manufacturing Department and Quality Management Department)	72	55.8%
Medical Affairs and Clinical Operations	9	7.0%
Engineering	10	7.8%
Total	129	100.0%

The Group has designed an evaluation system to assess the performance of its employees periodically. Such system forms the basis of the Group's determinations of whether an employee should receive a salary raise, bonus, or promotion. The Group believes the salaries and bonuses the employees receive are competitive with market rates.

The Group places strong emphasis on providing training to its employees in order to enhance their technical and product knowledge. The Group designs and offers different training programmes for its employees in various positions. The Group makes contributions to the social insurance and housing provident fund for all of its employees in the PRC.

FUNDING AND TREASURY POLICY

The Group adopts a stable, conservative approach in its finance and treasury policy, aiming to maintain an optimal financial position, the most economic finance costs, and minimal financial risks. Cash and cash equivalents are normally placed at financial institutions that the Group considers the credit risk to be low. The Group regularly reviews its funding requirements to maintain adequate financial resources in order to support its business operations as well as its research and development, future investments and expansion plans.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of June 30, 2023, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, are set out as follows:

(i) *Interest in Shares and underlying Shares*

Name of Shareholder	Nature of interest	Number of Shares ⁽¹⁾	Description of Shares ⁽⁷⁾	Approximate percentage of shareholding in the Domestic Shares/ H Shares (as appropriate) ⁽⁷⁾	Approximate percentage of shareholding in the total issued share capital of the Company
Mr. KONG	Beneficial interest	58,294,513	Domestic Shares	97.60%	28.79%
	Interest of spouse ⁽²⁾	20,200,000	H Shares	14.15%	9.98%
	Interest in controlled corporation ⁽³⁾	12,307,500	H Shares	8.62%	6.08%
Ms. ZHANG	Beneficial interest	20,200,000	H Shares	14.15%	9.98%
	Interest of spouse ⁽²⁾	58,294,513	Domestic Shares	97.60%	28.79%
	Interest of spouse ⁽²⁾	12,307,500	H Shares	8.62%	6.08%
Ms. JIANG	Beneficial interest	4,000,000	H Shares	2.80%	1.98%
Mr. MA Biao	Interest in controlled corporation ⁽⁴⁾⁽⁵⁾	51,721,196	H Shares	36.24%	25.55%
Ms. PENG Ling	Interest in controlled corporation ⁽⁶⁾	12,307,500	H Shares	8.62%	6.08%
Ms. KONG Xi	Beneficial interest	550,000	H Shares	0.39%	0.27%

Notes:

- (1) All interests stated are long positions.
- (2) Mr. KONG and Ms. ZHANG are the spouse of each other. Accordingly, they are deemed to be interested in the same number of Shares that the other person is interested in for the purpose of the SFO.
- (3) These Shares are held by Hengqin Luzhu LP. As of June 30, 2023, Mr. KONG was the sole general partner of Hengqin Luzhu LP. Therefore, Mr. KONG is deemed to be interested in the Shares held by Hengqin Luzhu LP under the SFO.
- (4) As of June 30, 2023, (i) E-town Sun was the general partner and fund manager of Beijing Yizhuang and Beijing Yizhuang II, and in turn E-town Sun was owned as to approximately 34.00% and 46.00% by Saiding Fangde and Saide Ruibo, respectively; and (ii) Mr. MA Biao and Mr. MA Jianan (馬嘉楠) (the son of Mr. MA Biao) were the respective general partner of Saiding Fangde and Saide Ruibo, holding approximately 60.00% and 80.00% partnership interest thereof, respectively. Further, Saiding Fangde and Saide Ruibo have confirmed that they are acting in concert with respect to their shareholdings in E-town Sun. Accordingly, under the SFO, (i) E-town Sun is deemed to be interested in the Shares held by Beijing Yizhuang and Beijing Yizhuang II; (ii) Saiding Fangde and Saide Ruibo are deemed to be interested in the Shares in which E-town Sun is interested; (iii) Mr. MA Biao is deemed to be interested in the Shares in which Saiding Fangde is interested; and (iv) Mr. MA Jianan is deemed to be interested in the Shares in which Saide Ruibo is interested.
- (5) Mr. MA Biao is the Actual Controller of Beijing Science Sun and held approximately 49.51% of the issued shares of Beijing Science Sun as of June 30, 2023. Mr. MA Biao is therefore deemed to be interested in the Shares held by Beijing Science Sun under the SFO.
- (6) Hengqin Luzhu LP was owned as to 40.67% by Beijing Luzhu Kangrui Enterprise Management Partnership (Limited Partnership) (北京綠竹康瑞企業管理合夥企業(有限合夥)) (“**Beijing Luzhu Kangrui**”), and Ms. PENG Ling was the general partner of Beijing Luzhu Kangrui. Accordingly, under the SFO, (i) Beijing Luzhu Kangrui is deemed to be interested in the Shares held by Hengqin Luzhu LP; and (ii) Ms. PENG Ling is deemed to be interested in the Shares in which Beijing Luzhu Kangrui is interested in.
- (7) For the avoidance of doubt, both Domestic Shares and H Shares are ordinary Shares in the share capital of the Company, and are considered as one class of Shares.

(ii) Interest in associated corporations

To the best knowledge of the Directors, as of June 30, 2023, none of the Directors, Supervisors or chief executives of the Company had interests or short positions in the Shares, underlying Shares or debentures of the associated corporations of the Company.

Save as disclosed above, as of June 30, 2023, none of the Directors, Supervisors or chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or which were required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO; or which were required, pursuant to the Model Code as contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

Other Information

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

As of June 30, 2023, to the best knowledge of the Directors, the following persons (other than the Directors, Supervisors or chief executives of the Company as disclosed above) had interests or short positions in the Shares or underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register of the Company maintained under Section 336 of the SFO:

Name of Shareholder	Nature of interest	Number of Shares ⁽¹⁾	Description of Shares ⁽⁶⁾	Approximate percentage of shareholding in the Domestic Shares/ H Shares (as appropriate) ⁽⁷⁾	Approximate percentage of shareholding in the total issued share capital of the Company
Hengqin Luzhu LP	Beneficial interest	12,307,500	H Shares	8.62%	6.08%
Beijing Luzhu Kangrui	Interest in controlled corporation ⁽²⁾	12,307,500	H Shares	8.62%	6.08%
Beijing Yizhuang	Beneficial interest	19,645,000	H Shares	13.76%	9.70%
Beijing Yizhuang II	Beneficial interest	18,324,696	H Shares	12.84%	9.05%
E-town Sun	Interest in controlled corporation ⁽³⁾	37,969,696	H Shares	26.60%	18.76%
Saiding Fangde	Interest in controlled corporation ⁽³⁾	37,969,696	H Shares	26.60%	18.76%
Saide Ruiibo	Interest in controlled corporation ⁽³⁾	37,969,696	H Shares	26.60%	18.76%
Mr. MA Jianan (馬嘉楠)	Interest in controlled corporation ⁽³⁾	37,969,696	H Shares	26.60%	18.76%
Beijing Science Sun	Beneficial interest	13,751,500	H Shares	9.64%	6.79%
CCB International Capital Management (Tianjin) Ltd. (建銀國際資本管理(天津)有限公司) ("CCB Capital")	Beneficial interest	11,664,075	H Shares	8.17%	5.76%
CCB International (China) Limited (建銀國際(中國)有限公司) ("CCB China")	Interest in controlled corporation ⁽⁴⁾	11,664,075	H Shares	8.17%	5.76%
CCB International (Holdings) Limited (建銀國際(控股)有限公司) ("CCB Holdings")	Interest in controlled corporation ⁽⁴⁾	11,664,075	H Shares	8.17%	5.76%
CCB Financial Holdings Limited (建行金融控股有限公司) ("CCB Financial")	Interest in controlled corporation ⁽⁴⁾	11,664,075	H Shares	8.17%	5.76%
CCB International Group Holdings Limited (建行國際集團控股有限公司) ("CCB Group")	Interest in controlled corporation ⁽⁴⁾	11,664,075	H Shares	8.17%	5.76%
China Construction Bank Corporation (中國建設銀行) ("China Construction Bank")	Interest in controlled corporation ⁽⁴⁾	11,664,075	H Shares	8.17%	5.76%

Name of Shareholder	Nature of interest	Number of Shares ⁽¹⁾	Description of Shares ⁽⁶⁾	Approximate percentage of shareholding in the Domestic Shares/ H Shares (as appropriate) ⁽⁷⁾	Approximate percentage of shareholding in the total issued share capital of the Company
Central Huijin Investment Ltd. ("Central Huijin")	Interest in controlled corporation ⁽⁴⁾	11,664,075	H Shares	8.17%	5.76%
Jinjiang Zhenrui Equity Investment Partnership (Limited Partnership) (晉江禎睿股權投資合夥企業(有限合夥)) ("Jinjiang Zhenrui")	Beneficial Interest	7,776,050	H Shares	5.45%	3.84%
Herui Venture Capital Fund Management (Shenzhen) Co., Ltd. (和瑞創業投資基金管理(深圳)有限公司) ("Herui VC")	Interest in controlled corporation ⁽⁵⁾	10,000,744	H Shares	7.01%	4.94%
Mr. CHEN Ruolin (陳若霖)	Interest in controlled corporation ⁽⁵⁾	10,000,744	H Shares	7.01%	4.94%
Mr. WANG Zhixian (王智顯)	Interest in controlled corporation ⁽⁵⁾	10,000,744	H Shares	7.01%	4.94%

Notes:

- (1) All interests stated are long positions.
- (2) As of June 30, 2023, Hengqin Luzhu LP was owned as to approximately 40.67% by Beijing Luzhu Kangrui, and Ms. PENG Ling was the general partner of Beijing Luzhu Kangrui. Accordingly, under the SFO, (i) Beijing Luzhu Kangrui is deemed to be interested in the Shares held by Hengqin Luzhu LP; and (ii) Ms. PENG Ling is deemed to be interested in the Shares in which Beijing Luzhu Kangrui is interested in.
- (3) As of June 30, 2023, (i) E-town Sun was the general partner and fund manager of Beijing Yizhuang and Beijing Yizhuang II, and in turn E-town Sun was owned as to approximately 34.00% and 46.00% by Saiding Fangde and Saide Ruibo, respectively; and (ii) Mr. MA Biao and Mr. MA Jianan (the son of Mr. MA Biao) were the respective general partner of Saiding Fangde and Saide Ruibo, holding approximately 60.00% and 80.00% partnership interest thereof, respectively. Further, Saiding Fangde and Saide Ruibo have confirmed that they are acting in concert with respect to their shareholdings in E-town Sun. Accordingly, under the SFO, (i) E-town Sun is deemed to be interested in the Shares held by Beijing Yizhuang and Beijing Yizhuang II; (ii) Saiding Fangde and Saide Ruibo are deemed to be interested in the Shares in which E-town Sun is interested; (iii) Mr. MA Biao is deemed to be interested in the Shares in which Saiding Fangde is interested; and (iv) Mr. MA Jianan is deemed to be interested in the Shares in which Saide Ruibo is interested.
- (4) As of June 30, 2023, (i) CCB Capital was wholly-owned by CCB China, and in turn CCB China was wholly-owned by CCB Holdings; (ii) CCB Holdings was wholly-owned by CCB Group via CCB Financial; and (iii) CCB Group was wholly-owned by China Construction Bank. China Construction Bank is a listed company on the Shanghai Stock Exchange (stock code: 601939) and was owned as to approximately 57.11% by Central Huijin. Accordingly, each of CCB China, CCB Holdings, CCB Financial, CCB Group, China Construction Bank and Central Huijin is deemed to be interested in the Shares in which CCB Capital is interested in under the SFO.
- (5) As of June 30, 2023, (i) Herui VC was the general partner and fund manager of Jinjiang Zhenrui and Jinjiang Xuanhong No.1 Equity Investment Partnership (Limited Partnership) (晉江軒弘壹號股權投資合夥企業(有限合夥)) ("Jinjiang Xuanhong"); and (ii) Herui VC was owned as to approximately 40.00%, 40.00% and 20.00% by Mr. Chen Ruolin (陳若霖), Mr. WANG Zhixian (王智顯) and Mr. LIN Bei (林貝), respectively. Jinjiang Zhenrui and Jinjiang Xuanhong respectively held 7,776,050 Shares and 2,224,694 Shares as of June 30, 2023. Accordingly, under the SFO (i) Herui VC is deemed to be interested in the Shares held by Jinjiang Zhenrui and Jinjiang Xuanhong; and (ii) each of Mr. Chen Ruolin and Mr. WANG Zhixian is deemed to be interested in the Shares in which Herui VC is interested.
- (6) For the avoidance of doubt, both Domestic Shares and H Shares are ordinary Shares in the share capital of the Company, and are considered as one class of Shares.

Save as disclosed above, to the best of knowledge of the Directors, as of June 30, 2023, there was no other person (other than the Directors, the Supervisors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register maintained under Section 336 of the SFO.

Other Information

EMPLOYEE INCENTIVE SCHEME

The Company adopted an employee incentive scheme (“**Employee Incentive Scheme**”) on December 15, 2021 prior to the Listing. The Employee Incentive Scheme does not involve the grant of new Shares, nor options to subscribe for new Shares. Instead, eligible participants, being employees and consultants of the Group, are granted interests in Hengqin Luzhu LP, the Group’s employee incentive platform. All interests under the Employee Incentive Scheme had been granted prior to the Listing. Please refer to “B. Further Information about the business of our Company - 3. Employee Incentive Scheme” in Appendix VII to the Prospectus for a summary of the principal terms of the Employee Incentive Scheme.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, and the Directors recognize the importance of good corporate governance. The Company’s corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules and the Company has adopted the Corporate Governance Code as its own code of corporate governance. The Corporate Governance Code has been applicable to the Company with effect from the Listing Date.

Pursuant to code provision C.2.1 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive should be segregated and should not be performed by the same individual. Mr. KONG currently serves as both the chairman of the Board and the general manager of the Company. While this will constitute a deviation from Code Provision C.2.1 of the Corporate Governance Code, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that (i) the Board comprises three independent non-executive Directors, and the Directors believe there is sufficient check and balance in the Board to protect the interests of the Group and the Shareholders; (ii) Mr. KONG is a Controlling Shareholder, the Directors are of the view that vesting both roles on him helps to maintain the continuity of the policies and the stability of the operations of the Company. The Board will continue to review the effectiveness of the corporate governance structure of the Group from time to time in order to assess whether separation of the roles of chairman and general manager is necessary.

Save as disclosed above, the Company has complied with all applicable code provisions of the Corporate Governance Code since the Listing Date and up to June 30, 2023. The Board will periodically review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the Corporate Governance Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate all dealings by Directors, Supervisors and relevant employees in securities of the Company and other matters covered by the Model Code.

Specific enquiry has been made to each Director and Supervisor, and all Directors and Supervisors have confirmed that they have complied with the applicable standards set out in the Model Code since the Listing Date and up to June 30, 2023. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

MATERIAL LITIGATION AND ARBITRATION

During the six months ended June 30, 2023, the Group did not have any material litigation or arbitration.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company since the Listing Date and up to June 30, 2023.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL REPORT

The Audit Committee consists of three members, namely Ms. HOU Aijun, Mr. KONG Shuangquan and Mr. LEUNG Wai Yip, with Ms. HOU Aijun being the chairlady of the committee and Mr. LEUNG Wai Yip possessing the appropriate accounting or related financial management expertise in compliance with the requirements under Rules 3.10(2) and 3.21 of the Listing Rules.

The primary duties of the Audit Committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

The Audit Committee has reviewed the Company's unaudited consolidated interim results for the six months ended June 30, 2023, and confirmed that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The interim results for the six months ended June 30, 2023 is unaudited, but has been reviewed by the auditor, 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 Auditing and Assurance Standards Board.

CHANGES TO DIRECTORS' INFORMATION

As of June 30, 2023, there had been no change in the Directors' and the Supervisors' biographical details which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

No arrangement has been made by the Company or any of its subsidiaries for any Director or Supervisor to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate, and no rights to any share capital or debt securities of the Company or any other body corporate were granted to any Director or Supervisor or their respective spouse or children under 18 years of age, nor were any such rights exercised during or at the end of the six months ended June 30, 2023.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report, there was no important event affecting the Group which occurred after June 30, 2023 up to the date of this report.

Report on Review of Condensed Consolidated Financial Statements

To the Board of Directors of Beijing Luzhu Biotechnology Co., Ltd.

(北京綠竹生物技術股份有限公司)

(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Beijing Luzhu Biotechnology Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 42, which comprise the condensed consolidated statement of financial position as of June 30, 2023 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain 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. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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" ("HKSRE 2410") issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

OTHER MATTER

The comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended June 30, 2022 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
August 21, 2023

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2023

	Notes	For the six months ended June 30,	
		2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Other income	5	5,339	6,363
Other expenses	6	(280)	(2,895)
Other gains and losses, net	7	16,830	8,643
Fair value loss of financial liabilities at fair value through profit or loss ("FVTPL")		–	(551,546)
Administrative expenses		(41,239)	(44,603)
Research and development expenses		(33,157)	(55,186)
Finance costs		(386)	(343)
Listing expenses		(26,459)	(12,513)
Loss before tax		(79,352)	(652,080)
Income tax expense	8	–	–
Loss and total comprehensive expense for the period	9	(79,352)	(652,080)
Loss per share (RMB)	11		
Basic		(0.41)	(6.64)
Diluted		(0.41)	(6.64)

Condensed Consolidated Statement of Financial Position

At June 30, 2023

	Notes	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
NON-CURRENT ASSETS			
Right-of-use assets	12	106,679	62,462
Property, plant and equipment	13	346,810	229,627
Intangible assets		3,336	3,437
Prepayments, deposits and other receivables	14	37,395	173,640
		494,220	469,166
CURRENT ASSETS			
Materials		3,187	2,535
Prepayments, deposits and other receivables	14	4,916	16,829
Financial assets at FVTPL	20	381,982	512,664
Bank balances and cash		366,190	68,976
		756,275	601,004
CURRENT LIABILITIES			
Advance payments received and other payables	15	42,985	84,714
Bank borrowing	16	10,000	–
Deferred government grants	17	4,000	9,400
		56,985	94,114
NET CURRENT ASSETS			
		699,290	506,890
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,193,510	976,056
NON-CURRENT LIABILITIES			
Lease liabilities		11,551	11,219
Deferred government grants	17	30,186	27,371
		41,737	38,590
NET ASSETS			
		1,151,773	937,466
CAPITAL AND RESERVES			
Share capital	18	202,450	192,064
Reserves		949,323	745,402
TOTAL EQUITY			
		1,151,773	937,466

The condensed consolidated financial statements on pages 25 to 42 were approved and authorized for issue by the board of directors on August 21, 2023 and are signed on its behalf by:

Kong Jian

DIRECTOR

Zhang Yanping

DIRECTOR

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2023

	Share capital RMB'000	Share premium RMB'000	Share-based payments reserve RMB'000 (Note 19)	Accumulated losses RMB'000	Total RMB'000
At January 1, 2023 (audited)	192,064	2,199,703	66,186	(1,520,487)	937,466
Loss and total comprehensive expense for the period	–	–	–	(79,352)	(79,352)
Recognition of equity-settled share-based payments	–	–	34,731	–	34,731
Issue of shares upon initial public offering (“IPO”) (Note 18)	10,386	289,797	–	–	300,183
Share issue costs for IPO	–	(41,255)	–	–	(41,255)
At June 30, 2023 (unaudited)	202,450	2,448,245	100,917	(1,599,839)	1,151,773
At January 1, 2022 (audited)	90,888	74,214	45,680	(795,307)	(584,525)
Loss and total comprehensive expense for the period	–	–	–	(652,080)	(652,080)
Recognition of equity-settled share-based payments	–	–	70,374	–	70,374
Exercise of Directors Options (as defined and detailed in Note 19(b))	8,695	90,907	(90,907)	–	8,695
Reclassification from financial liabilities at FVTPL (Note 18)	92,481	2,034,582	–	–	2,127,063
At June 30, 2022 (unaudited)	192,064	2,199,703	25,147	(1,447,387)	969,527

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2023

For the six months
ended June 30,

	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(67,449)	(27,774)
INVESTING ACTIVITIES		
Interest received	1,651	41
Purchase of property, plant and equipment	(59,732)	(49,663)
Payments for right-of-use assets	(1,345)	(39)
Payments for rental deposits	–	(279)
Proceeds from disposal of property, plant and equipment	105	–
Purchase of financial assets at FVTPL	(594,803)	(704,530)
Proceeds from disposal of financial assets at FVTPL	735,711	721,912
Placement of term deposits with original maturity over three months	(7,000)	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	74,587	(32,558)
FINANCING ACTIVITIES		
Payments of share issue costs for IPO	(33,788)	(5,860)
Proceeds from issue of ordinary shares	300,183	8,695
New bank borrowing raised	10,000	–
Proceeds from issue of financial liabilities at FVTPL	–	338,000
Payments of issue costs for financial liabilities at FVTPL	–	(2,547)
Interest paid	(54)	(63)
Repayment of lease liabilities	–	(518)
NET CASH FROM FINANCING ACTIVITIES	276,341	337,707
NET INCREASE IN CASH AND CASH EQUIVALENTS	283,479	277,375
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	68,976	32,030
Effect of foreign exchange rate changes	6,735	716
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	359,190	310,121
Represented by		
Bank balances and cash as stated in the condensed consolidated statement of financial position	366,190	310,121
Term deposits with original maturity over three months	(7,000)	–

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

1. GENERAL INFORMATION

The shares of Beijing Luzhu Biotechnology Co., Ltd. (the “Company”) have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from May 8, 2023.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in research, development and production of vaccines and therapeutic biologics in the People’s Republic of China (the “PRC”).

The condensed consolidated financial statements for the six months ended June 30, 2023 are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

Other than the accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2023 are the same as those followed the audited financial statements for the year ended December 31, 2022.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied the following new and amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2023 for the preparation of the Group’s condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules

The application of the new and amendments to IFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

4. SEGMENT INFORMATION

For the purposes of resources allocation and performance assessment, the executive directors of the Company, being the chief operating decision makers, review the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one operating and reportable segment and no further analysis of this single segment is presented.

The Group did not record any revenue for the six months ended June 30, 2023 (six months ended June 30, 2022: nil). As at June 30, 2023, the Group's all non-current assets excluding financial instruments are located in the Mainland China and accordingly, no analysis of geographical information is presented.

5. OTHER INCOME

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Income from sales of immunoreagent testing kits	1,023	1,229
Government grants related to		
– Right-of-use assets and plant and machinery	2,585	1,473
– Research and development activities	–	3,590
– Others	71	18
Interest income on bank balances	1,651	41
Interest income from rental deposits	9	12
Total	5,339	6,363

6. OTHER EXPENSES

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Cost of immunoreagent testing kits sold	280	348
Issue costs for financial liabilities at FVTPL	–	2,547
Total	280	2,895

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

7. OTHER GAINS AND LOSSES, NET

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Fair value gains on financial assets at FVTPL	10,226	7,953
Foreign exchange gains, net	6,579	684
Others	25	6
Total	16,830	8,643

8. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Current PRC enterprise income tax	—	—

No provision for PRC income tax was made as the Company and its PRC subsidiaries incurred tax losses for both periods.

No Hong Kong profit tax was provided for as there was no estimated assessable profit of the Group's Hong Kong subsidiary that was subject to Hong Kong profit tax for both periods.

As at June 30, 2023, the Group had estimated unused tax losses of approximately RMB242,129,000 (December 31, 2022: RMB170,512,000) which are available for offset against future profits. Deferred tax asset has been recognized in respect of approximately RMB17,876,000 (December 31, 2022: RMB19,922,000) of such losses as at June 30, 2023. No deferred tax asset has been recognized in respect of the remaining approximately RMB224,253,000 (December 31, 2022: RMB150,590,000) due to the unpredictability of future profit streams as at June 30, 2023.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

9. LOSS FOR THE PERIOD

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Loss for the period has been arrived at after charging:		
Staff costs, including directors' and supervisors' remuneration		
– salaries and other allowances	11,668	8,337
– retirement benefits	1,011	718
– equity-settled share-based payments included in administrative expenses	27,695	37,077
– equity-settled share-based payments included in research and development expenses	7,036	33,297
Total staff costs	47,410	79,429
Depreciation of right-of-use assets	2,405	2,114
Depreciation of property, plant and equipment	5,244	1,739
Amortization of intangible assets	101	34
Total depreciation and amortization	7,750	3,887
Short-term lease expenses	85	64
Cost of materials included in research and development expenses	1,180	1,480
Sub-contracting costs included in research and development expenses	12,907	11,849

10. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period (six months ended June 30, 2022: nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

11. LOSS PER SHARE

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

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Loss		
Loss for the period attributable to owners of the Company	(79,352)	(652,080)

	For the six months ended June 30,	
	2023 '000 (unaudited)	2022 '000 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	195,162	98,189

For the purpose of calculation of diluted loss per share for the six months ended June 30, 2022, financial liabilities at FVTPL as detailed in Note 18 and directors options as detailed in Note 19(b) were not included as their inclusion would result in a decrease in loss per share.

12. RIGHT-OF-USE ASSETS

During the current interim period, the Group's right-of-use assets increased by RMB46,622,000 (six months ended June 30, 2022: nil) for leasehold land to construct the research and development and commercial manufacturing facility located in Beijing.

13. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group's construction in progress increased by RMB42,846,000 (six months ended June 30, 2022: RMB40,426,000) and RMB77,277,000 (six months ended June 30, 2022: nil) respectively for the commercial manufacturing facility located in Zhuhai and the research and development and commercial manufacturing facility located in Beijing.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Prepayments for purchase of property, plant and equipment	14,506	108,921
Prepayments for right-of-use assets	–	45,277
Value added tax recoverable	22,567	19,129
Prepayments to suppliers and service providers	4,346	4,901
Deferred share issue costs for IPO	–	11,350
Rental deposits	322	313
Other prepayments	35	19
Others	535	559
Total	42,311	190,469
Analyzed as:		
Non-current	37,395	173,640
Current	4,916	16,829
Total	42,311	190,469

15. ADVANCE PAYMENTS RECEIVED AND OTHER PAYABLES

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Payables for research and development activities	5,329	2,424
Payables for acquisition of property, plant and equipment	35,422	67,093
Accrued salaries and other allowances	2,119	3,885
Accrued listing expenses	–	7,521
Accrued share issue costs for IPO	–	3,638
Other tax payables	109	107
Others	6	46
	42,985	84,714
Advance payments received and other payables denominated in:		
RMB	41,825	74,819
United States dollars	1,160	9,895
	42,985	84,714

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

16. BANK BORROWING

On March 30, 2023, the Group obtained a new bank borrowing of RMB10,000,000 (six months ended June 30, 2022: nil). The loan carries interest at 2.35% per annum and will mature in one year. The borrowing was guaranteed by one of the controlling shareholders of the Company, Mr. Kong Jian.

17. DEFERRED GOVERNMENT GRANTS

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Current	4,000	9,400
Non-current	30,186	27,371
	34,186	36,771

Movements in deferred government grants

	Deferred government grants related to			
	Plant and machinery RMB'000	Right-of-use assets RMB'000	Research and development activities RMB'000	Total RMB'000
At January 1, 2023 (audited)	17,828	9,543	9,400	36,771
Release of deferred government grants to profit or loss	(1,118)	(1,467)	–	(2,585)
At June 30, 2023 (unaudited)	16,710	8,076	9,400	34,186
At January 1, 2022 (audited)	18,023	12,478	16,800	47,301
Release of deferred government grants to profit or loss	(5)	(1,468)	(3,590)	(5,063)
At June 30, 2022 (unaudited)	18,018	11,010	13,210	42,238

Government grants include subsidies from local PRC governments which are specifically for (i) compensations of the capital expenditure incurred for purchase of plant and machinery and right-of-use assets, which are recognized over the useful life of the related assets and (ii) the research and development activities, which are recognized upon compliance with the attached conditions.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

18. SHARE CAPITAL

	Number of shares '000	Share capital RMB'000
Issued and fully paid		
At January 1, 2022 (audited)	90,888	90,888
Exercise of directors options (<i>Note 19(b)</i>)	8,695	8,695
Reclassification from financial liabilities at FVTPL (<i>Note i</i>)	92,481	92,481
At June 30, 2022 (unaudited)	192,064	192,064
At January 1, 2023 (audited)	192,064	192,064
Issue of shares upon IPO (<i>Note ii</i>)	10,386	10,386
At June 30, 2023 (unaudited)	202,450	202,450

Notes:

- i. Upon signing of the series c financing agreement and the Company's submission of the listing application in June 2022, the Group's preference shares meet the definition of equity as the Group has no contractual obligation to deliver cash or a variable number of shares. Therefore, the preference shares were reclassified from financial liabilities to equity at their fair value, resulting in an increase of share capital of RMB92,481,000 and an increase of share premium of RMB2,034,582,000.
- ii. On May 8, 2023, 10,386,000 ordinary shares with par value of RMB1 each of the Company were issued at Hong Kong dollars ("HK\$") 32.80 by way of IPO, resulting in an increase of the share capital of RMB10,386,000. An amount of RMB289,797,000, being the excess of the consideration received of HK\$340,660,800 (equivalent to approximately RMB300,183,000) over the par value of the ordinary shares of RMB10,386,000, was credited to share premium and share issue cost of RMB41,255,000 was debited to the share premium.

For the six months ended June 30, 2023

19. SHARE-BASED PAYMENT TRANSACTIONS**(a) Options Cancelled or Replaced in 2022**

Before 2022, various series of share options (excluding directors options) were granted to certain members of management and eligible employees of the Group and had been cancelled or replaced by 2022 Restricted Shares (as detailed below) in April 2022 (the “Options Cancelled or Replaced in 2022”).

The following table discloses movements of the Options Cancelled or Replaced in 2022:

Category	Outstanding as at January 1, 2022	Forfeited due to resignation during the period	Exercised during the period	Cancelled during the period	Replaced by 2022	
					Restricted Shares during the period	Outstanding as at June 30, 2022
Options Cancelled or Replaced in 2022	4,450,000	-	-	(575,000)	(3,875,000)	-

(b) Directors Options

On August 30, 2021, share options were granted to three executive directors of the Company with an exercise price of RMB1.00 per share (the “Directors Options”) with the condition that phase II clinical trials for product LZ901 is kicked off or a new round of financing is completed and pre-investment valuation is not less than RMB4 billion. The number of shares to be purchased will be equal to 5% of the then issued shares of the Company.

The following table discloses movements of the Directors Options.

Category	Outstanding as at January 1, 2022	Grant during the period	Forfeited due to resignation during the period	Exercised during the period	Outstanding as at June 30, 2022

As phase II clinical trials for product LZ901 was kicked off in April 2022, the condition of the Directors Options has been fulfilled during the six months ended June 30, 2022. On May 27, 2022, all the Directors Options were exercised and 8,694,513 ordinary shares of the Company were issued at a price of RMB1.00 per share, resulting in an increase of share capital of RMB8,695,000. The amount previously recognized in share-based payments reserve of RMB90,907,000 in relation to the Directors Options were transferred to share premium.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

19. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(c) 2022 Restricted Shares

Zhuhai Hengqin Luzhu Enterprise Management Partnership (LP)* (珠海橫琴綠竹企業管理合夥企業(有限合夥)) (“Hengqin Luzhu LP”) was established in the PRC as a limited partnership in January 2021 as an employee incentive platform of the Group and is controlled by Mr. Kong Jian, the sole general partner of Hengqin Luzhu LP.

In April 2022, Zhuhai Luzhu Kangrui Enterprise Management Partnership (LP)* (珠海綠竹康瑞企業管理合夥企業(有限合夥)) (“Zhuhai Luzhu Kangrui”) and Beijing Luzhu Kangrui Enterprise Management Partnership (LP)* (北京綠竹康瑞企業管理合夥企業(有限合夥)) (“Beijing Luzhu Kangrui”) were established in the PRC as employee incentive platforms of the Group through an award of Hengqin Luzhu LP’s shares.

* *English name is for identification purpose only.*

In April 2022, an employee incentive scheme was implemented to incentive certain eligible employees of the Group to retain them for the continual operation and development of the Group or to replace certain outstanding share options. Restricted shares representing 8,110,132 ordinary shares of par value of RMB1 each in the share capital of the Company (the “RSs”) were granted to certain eligible employees (the “2022 Restricted Shares”). Including (i) an aggregate of 7,450,000 restricted shares of Zhuhai Luzhu Kangrui and Beijing Luzhu Kangrui were granted, representing 7,450,000 ordinary shares of par value of RMB1 each in the share capital of the Company with the price of RMB2.54, RMB5.09 or RMB7.19 each RS; (ii) 1,942,320 restricted shares of Hengqin Luzhu LP were granted representing 660,132 ordinary shares of par value of RMB1 each in the share capital of the Company with the price of RMB2.94 each RS. Included in 8,110,132 RSs, 3,875,000 RSs were granted to replace the Options Cancelled or Replaced in 2022 and the remaining 4,235,132 RSs were newly granted.

The consideration was fully settled in May 2022. The vesting of the RSs granted is conditional upon the fulfillment of requisite service conditions until end of the lock up period required by the securities and futures commission or the Stock Exchange after the completion of a qualified IPO. The employees have to transfer out their RSs to the person or entity designated by Mr. Kong Jian, the general partner of Hengqin Luzhu LP, at the original grant price, if their employments with the Group were terminated within the vesting period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

19. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(c) 2022 Restricted Shares (Continued)

The following table discloses movements of the 2022 Restricted Shares.

Category	Outstanding as at January 1, 2022	Grant during the period	Forfeited due to resignation during the period	Vested during the period	Outstanding as at June 30, 2022
2022 Restricted Shares	–	8,135,132	(25,000)	–	8,110,132

Category	Outstanding as at January 1, 2023	Grant during the period	Forfeited due to resignation during the period	Vested during the period	Outstanding as at June 30, 2023
2022 Restricted Shares	8,110,132	175,000	(175,000)	–	8,110,132

The fair value of 2022 Restricted Shares at the grant date was determined with reference to the issue price of the series c financing or the market price of the Company's shares at the relevant grant dates after deducting the purchase price.

(d) Controlling Shareholders Restricted Shares

On June 18, 2022, Mr. Kong Jian and Ms. Zhang Yanping were granted 350,000 and 10,000,000 restricted shares of Hengqin Luzhu LP representing 118,952 and 3,398,680 ordinary shares of par value of RMB1 each in the share capital of the Company, respectively, with the price of RMB1.00 each restricted share (the "Controlling Shareholders Restricted Shares").

The consideration was fully settled as at December 31, 2022 and the vesting of the restricted shares granted is conditional upon the fulfillment of requisite service conditions until end of the lock up period required by the securities and futures commission or the Stock Exchange after the completion of a qualified IPO. The grantees have to transfer out their restricted shares at the original grant price, if their employments with the Group were terminated within the vesting period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

19. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(d) Controlling Shareholders Restricted Shares (Continued)

The following table discloses movements of the Controlling Shareholders Restricted Shares.

Category	Outstanding as at January 1, 2022	Grant during the period	Forfeited due to resignation during the period	Vested during the period	Outstanding as at June 30, 2022
Controlling Shareholders Restricted Shares	-	3,517,632	-	-	3,517,632

Category	Outstanding as at January 1, 2023	Grant during the period	Forfeited due to resignation during the period	Vested during the period	Outstanding as at June 30, 2023
Controlling Shareholders Restricted Shares	3,517,632	-	-	-	3,517,632

The fair value of Controlling Shareholders Restricted Shares at the grant date was determined with reference to the issue price of the series c financing after deducting the purchase price.

The share-based payment expenses of the Group recognized for the six months ended June 30, 2023 are as follows:

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Options Cancelled or Replaced in 2022	-	4,725
Directors Options	-	54,126
2022 Restricted Shares	17,420	10,118
Controlling Shareholders Restricted Shares	17,311	1,405
Total	34,731	70,374

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group use market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group determine the appropriate valuation techniques and inputs for fair value measurements.

Except for financial assets at FVTPL as set out below, there is no financial instrument measured at fair value on a recurring basis.

Financial assets

	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)		
Financial assets at FVTPL (<i>Note</i>)	381,982	512,664	Level 2	Redemption value quoted by financial institutions.

Note: The Group invested in certain financial products managed by banks and financial institutions which can be redeemed at any time or at maturity within one year. There is no predetermined or guaranteed return for each product. Such financial products are accounted for as financial assets at FVTPL under IFRS 9 *Financial Instruments*.

The directors consider that the carrying amounts of financial assets and financial liabilities measured at amortized cost in the condensed consolidated financial statements approximate their respective fair values at the end of the reporting period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

21. RELATED PARTY BALANCES AND TRANSACTIONS

a. Compensation of key management personnel

The emoluments of key management for the six months ended June 30, 2023 are as follows:

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Short-term employee benefits	2,477	2,164
Retirement benefits	140	118
Equity-settled share-based payments	26,672	62,402
	29,289	64,684

b. Guarantee provided by a related party

As disclosed in Note 16, the bank borrowing of RMB10,000,000 as at June 30, 2023 was guaranteed by one of the controlling shareholders of the Company, Mr. Kong Jian.

22. CAPITAL COMMITMENTS

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Capital expenditure in respect of the acquisition of equipment and machineries and construction projects contracted for but not provided in the condensed consolidated financial statements	25,701	13,498

Definitions and Glossary of Technical Terms

“Actual Controller”	the individual or entity that can control the behavior of a company by way of investment, contract or other arrangements according to the Listing Rules of the Shenzhen Stock Exchange 《深圳證券交易所股票上市規則》 published and as amended from time to time by the Shenzhen Stock Exchange, where Beijing Science Sun is listed
“Audit Committee”	the audit committee of the Board
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Science Sun”	Beijing Science Sun Pharmaceutical Co., Ltd. (北京賽升藥業股份有限公司), a joint stock company established in the PRC on May 20, 1999 and listed on the ChiNext board of the Shenzhen Stock Exchange (stock code: 300485)
“Beijing Yizhuang”	Beijing Yizhuang Biological Medicine Investment Center (Limited Partnership) (北京亦莊生物醫藥併購投資中心(有限合夥)), one of the pre-IPO investors of the Company
“Beijing Yizhuang II”	Beijing Yizhuang II Biological Medical Industry Investment Fund (Limited Partnership) (北京亦莊二期生物醫藥產業投資基金(有限合夥)), one of the pre-IPO investors of the Company
“Board” or “Board of Directors”	the board of directors of the Company
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“China”, “Mainland China” or “the PRC”	the People’s Republic of China, excluding, for the purpose of this report, Hong Kong, Macau Special Administration Region and Taiwan
“Company”, “the Company”, or “Luzhu Biotechnology”	Beijing Luzhu Biotechnology Co., Ltd. (北京綠竹生物技術股份有限公司), a joint stock company established in the PRC with limited liability on July 19, 2013, the H Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2480)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and, in the context of this report, refers to Mr. KONG, Ms. ZHANG and Hengqin Luzhu LP
“Core Product”	has the meaning ascribed to it in Chapter 18A of the Listing Rules and in this context, the Core Product refers to LZ901
“Director(s)”	the director(s) of the Company

Definitions and Glossary of Technical Terms

“Domestic Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi and are unlisted Shares not currently listed or traded on any stock exchange
“E-town Sun”	Beijing E-town Sun Fund Management Co., Ltd. (北京屹唐賽盈基金管理有限公 司), a company established in the PRC with limited liability on May 25, 2016
“FDA”	U.S. Food and Drug Administration, the U.S. federal agency responsible for regulating food and drugs
“GMP”	good manufacturing practice, and in the context of PRC laws and regulations, refers to guidelines and regulations from time to time issued pursuant to the PRC Drug Administration Law (中華人民共和國藥品管理法) as part of quality assurance which aims to minimise the risks of contamination, cross contamination, confusion, and errors during the manufacture process of pharmaceutical products and to ensure that pharmaceutical products subject to these guidelines and regulations are consistently produced and controlled in conformity to quality and standards appropriate for their intended use
“Group”	the Company and its subsidiaries
“Hengqin Luzhu LP”	Zhuhai Hengqin Luzhu Enterprise Management Partnership (LP) (珠海橫琴綠竹企業管理合夥企業(有限合夥)), a limited partnership established in the PRC on January 14, 2021, and an employee incentive platform of the Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Luzhu”	Luzhu Biologics (Hong Kong) Co., Limited (綠竹生物製品(香港)有限公司), a company incorporated in Hong Kong with limited liability on December 20, 2021, and a direct wholly-owned subsidiary of the Company
“H Share(s)”	ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each and listed on the Main Board of the Stock Exchange
“K3”	the anti-human tumor necrosis factor (“ TNF ”)- α monoclonal antibody injection product candidate
“Listing” or “IPO”	the listing of the H Shares on the Main Board of the Stock Exchange on May 8, 2023
“Listing Date”	May 8, 2023, being the date on which the H Shares were listed on the Main Board



Definitions and Glossary of Technical Terms

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“LZ901”	the recombinant herpes zoster vaccine candidate, a herpes zoster vaccine with a tetrameric molecular structure and the Core Product
“Main Board”	the Main Board of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“Mr. KONG”	Mr. KONG Jian (孔健), the executive Director, general manager, chairman of the Board, one of the promoters and one of the Controlling Shareholders
“Ms. JIANG”	Ms. JIANG Xianmin (蔣先敏), the executive Director, the vice-chairlady of the Board and one of the promoters
“Ms. ZHANG”	Ms. ZHANG Yanping (張琰平), the executive Director, one of the promoters and one of the Controlling Shareholders
“NMPA”	the National Medical Products Administration of the People’s Republic of China
“Prospectus”	the prospectus issued by the Company dated April 25, 2023
“R&D”	research and development
“Reporting Period”	the six-month period from January 1, 2023 to June 30, 2023
“Renminbi” or “RMB”	Renminbi Yuan, the lawful currency of China
“Saide Ruibo”	Tianjin Saide Ruibo Asset Management Center (Limited Partnership) (天津賽德瑞博資產管理中心), a limited liability partnership established in the PRC on December 1, 2015, with Mr. MA Jianan (馬嘉楠) (the son of Mr. MA Biao) as its general partner holding approximately 80.00% partnership interest, and Ms. MA Li (馬麗) (the sister of Mr. MA Biao) as its limited partner holding approximately 20.00% partnership interest to the best knowledge of the Company, and is a connected person of the Company

Definitions and Glossary of Technical Terms

“Saiding Fangde”	Tianjin Saiding Fangde Asset Management Center (Limited Partnership) (天津賽鼎方德資產管理中心), a limited liability partnership established in the PRC on December 1, 2015, with (i) Mr. MA Biao (馬彪) as its general partner holding approximately 60.00% partnership interest; and (ii) Mr. WANG Xuefeng (王雪峰), Mr. MA Jianan (馬嘉楠) (the son of Mr. MA Biao) and Ms. MA Li (馬麗) (the sister of Mr. MA Biao) as its limited partners, holding approximately 10.00%, 10.00% and 20.00% partnership interest, respectively, to the best knowledge of the Company, and is a connected person of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the capital of the Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Supervisor(s)”	member(s) of the Board of Supervisors
“%”	per cent

In this report, capitalized terms used shall have the same meanings as those defined in the Prospectus, and the terms “associate”, “close associate”, “connected person”, “core connected person”, “connected transaction”, “subsidiaries” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this report have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this document in both the Chinese and English languages; in the event of any inconsistency, the Chinese versions shall prevail.