



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

2023

INTERIM REPORT

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COMPANY OVERVIEW

Luye Pharma Group Ltd. (the “Company”, together with its subsidiaries, 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 31 provinces, autonomous regions and municipalities throughout the PRC in the first half of 2023. The Group’s sales, marketing and distribution functions are conducted through around 1,000 sales and marketing personnel, a network of approximately 1,760 distributors that collectively enabled the Group to sell its products to over 21,660 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 research and development (“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 Antibody-drug Conjugates (“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 2023, the Group’s R&D team consisted of 908 employees, including 79 Ph.D. degree holders and 447 master’s degree holders in medical, pharmaceutical and other related areas.

As at 30 June 2023, the Group had been granted 272 patents and had 74 pending patent applications in the PRC, as well as 481 patents and 186 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 2023, the Group had 39 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 15 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
Ms. XIA Lian

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Professor LO Yuk Lam *(Chairman)*
Mr. YANG Rong Bing
Mr. SONG Rui Lin

REGISTERED OFFICE

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CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Bermuda

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Ernst & Young
Certified Public Accountants
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2186

COMPANY'S WEBSITE

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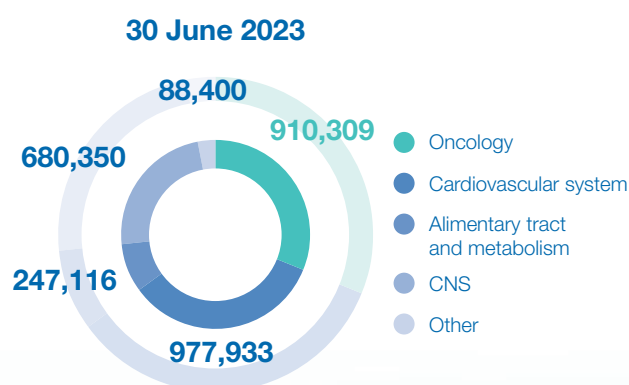
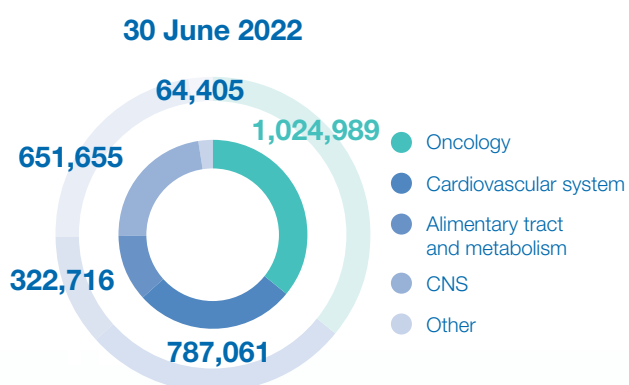
PRINCIPAL BANKERS

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

FINANCIAL HIGHLIGHTS

- Revenue increased by RMB53.3 million or 1.9% to RMB2,904.1 million, as compared to the six months ended 30 June 2022.
- Gross profit decreased by RMB106.7 million or 5.2% to RMB1,943.4 million, as compared to the six months ended 30 June 2022, and gross profit margin was 66.9%.
- Net profit decreased by RMB157.8 million or 52.0% to RMB145.4 million, as compared to the six months ended 30 June 2022.
- Profit attributable to shareholders decreased by RMB147.0 million or 49.5% to RMB150.0 million, as compared to the six months ended 30 June 2022.
- EBITDA decreased by RMB48.7 million or 5.3% to RMB867.3 million, as compared to the six months ended 30 June 2022.
- Earnings per share was RMB4.06 cents, as compared to RMB8.54 cents for the six months ended 30 June 2022.
- No interim dividend was proposed by the Board for the six months ended 30 June 2023.

	2019 RMB Million Restated	2020 RMB Million	2021 RMB Million	2022 RMB Million	30 June 2022 RMB Million	30 June 2023 RMB Million
Revenue	6,357.9	5,539.6	5,200.2	5,981.7	2,850.8	2,904.1
Gross Profit	4,879.2	3,990.6	3,396.7	4,140.5	2,050.1	1,943.4
EBITDA	2,385.1	1,877.1	906.9	1,812.8	916.0	867.3
Net Profit	1,354.1	703.3	(144.8)	583.3	303.2	145.4
Profit attributable to owners of the Parent	1,396.2	706.6	(134.4)	604.8	297.0	150.0
Total Assets	19,407.7	20,630.6	22,582.1	24,249.6	22,568.0	26,300.2
Total Liability	10,487.3	12,531.6	13,468.2	13,207.9	13,119.3	14,105.9
Equity	8,920.4	8,099.0	9,113.9	11,041.7	9,448.7	12,194.3



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is an international pharmaceutical company dedicated to the R&D, manufacturing and sale of innovative medications. The Group has established R&D centers in China, the US and Europe, with a robust pipeline of over 30 drug candidates in China and more than 10 drug candidates in other international markets. The Group maintains high-level international standards in novel drug delivery technologies including microspheres, liposomes, and transdermal drug delivery systems. The Group has achieved multiple innovations in new chemical entities and antibodies, and is also actively making strategic developments in the fields of cell therapies and gene therapies.

The Group is developing a global supply chain of 8 manufacturing sites built up around the world, with GMP quality management and control systems established in line with international standards. With more than 30 products covering the CNS, oncology, cardiovascular, metabolism and other therapeutic areas, business is conducted in over 80 countries and regions around the world, including the largest pharmaceutical markets — China, the U.S., Europe and Japan, as well as in fast growing emerging markets.

2023 INTERIM REVIEW

During the six months ended 30 June 2023 (the “Reporting Period”) and up to the date of this interim report, the Group has persisted in its “innovation-driven” and “internationalisation” development strategy and has made remarkable achievements in all aspects of R&D, sales and marketing, business collaborations and manufacturing.

During the Reporting Period, the Group recorded a significant increase in products sales revenue of 18.7% to RMB2,784.5 million and an increase in total revenue (including sale of product know-how, out-licensing agreements and etc.) of 1.9% to RMB2,904.1 million as compared to that of 2022.

MARKET POSITIONING AND KEY PRODUCTS

For China market, the Group’s key products are competitively positioned in four key therapeutic areas (oncology, CNS, cardiovascular and metabolism). According to IQVIA data, during the Reporting Period, oncology, metabolism, CNS and cardiovascular related pharmaceutical products constituted the 1st, 3th, 4th and 5th largest pharmaceutical markets in China, respectively. The Group’s key products portfolio in China includes 4 (Lipusu, CMNa, Boyounuo and Baituowei) in oncology therapeutic area, 3 (Seroquel, Rykindo and Ruoxinlin) in CNS therapeutic area, 3 (Xuezhikang, Oukai and Maitongna) in cardiovascular therapeutic area and 1 (Beixi) in metabolism therapeutic area.

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

During the Reporting Period, the Group’s revenue from oncology therapeutic area decreased by 11.2% to RMB910.3 million. Revenue from cardiovascular system therapeutic area increased by 24.2% to RMB977.9 million. Revenue from CNS therapeutic area increased by 4.4% to RMB680.4 million. Revenue from metabolism therapeutic area decreased by 23.4% to RMB247.1 million.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's 12 key products are competitively positioned globally for high prevalence medical conditions and their market positions are expected to grow or maintain at its current level.

Key products related to oncology therapeutic area

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 2023, Lipusu was the first and only paclitaxel liposome product approved for sale globally. In January 2023, Lipusu successfully renewed its inclusion in category B of China's National Reimbursement Drug List ("NRDL") with its original payment standard. All indications of Lipusu, including non-small cell lung cancer, ovarian and breast cancer, are reimbursed under the NRDL.

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 as far as the Company is aware, the only approved sensitiser for cancer radiotherapy by the National Medical Products Administration in China (the "NMPA"). According to the NMPA, CMNa was the only glycididazole product available for sale as of 30 June 2023. A 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 (bevacizumab injection) was approved to the market by the NMPA in April 2021. It is an anti-VEGF humanized monoclonal antibody injection developed by Shandong Boan Biotechnology Co., Ltd. ("Boan Biotech"), a subsidiary of the Company. As of the date of this interim report, Boyounuo has been approved by the NMPA for the treatment of mCRC, advanced metastatic or recurrent non-small cell lung cancer, recurrent glioblastoma, epithelial ovarian, fallopian tube or primary peritoneal cancer and cervical cancer. In January 2023, two new indications of Boyounuo were successfully included in the updated NRDL. As of the date of this interim report, Boyounuo has been included in the updated NRDL for all five indications.

Baituowei (百拓維)

Baituowei (Goserelin Microspheres for Injection) was approved to the market by the NMPA for the treatment of prostate cancer for patients requiring androgen deprivation therapy ("ADT") in June 2023. It was also approved by the NMPA for the treatment of breast cancer in premenopausal and perimenopausal women that can be treated with hormones in September 2023. To the best knowledge of the Company, this product is the world's first and only formulation of goserelin long-acting microspheres approved for launch. With its innovative microsphere formulation, Baituowei is able to release the active ingredients more steadily within a treatment cycle, and is able to ensure efficacy and safety while significantly improving patient experience. The improved needle for this product has a diameter of only 0.8 millimeter. This can reduce the incidence and severity of adverse reactions at the injection site, so as to improve patient tolerance and compliance, making it clearly superior over the marketed drug.

Key products related to CNS therapeutic area

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 ("MDD") and generalised anxiety disorder. In addition to China, Seroquel and Seroquel XR are also marketed by the Group in 50 other developed and emerging countries.

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 (“PD”).

Rykindo (瑞可妥)

Rykindo was approved to the market 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 2023. 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. In addition to China, Rykindo also received marketing approval from U.S. Food and Drug Administration (the “FDA”) in January 2023, as a treatment for schizophrenia in adults and as monotherapy or as adjunctive therapy to lithium or valproate for the maintenance treatment of bipolar I disorder in adults.

Ruoxinlin (若欣林)

Ruoxinlin (Toludesvenlafaxine Hydrochloride Extended-Release Tablets), as a new chemical entity, was approved to the market by the NMPA for treating MDD in November 2022. As far as the Company is aware, it is the first class 1 innovative chemical drug with independent intellectual property rights for the treatment of MDD developed by a local company in China. Ruoxinlin could comprehensively and stably improve depressive symptoms, including significantly reducing anxiety and retardation/fatigue, relieving anhedonia, improving cognition, and facilitating faster social recovery of patients. Further, the drug does not cause somnolence and has no significant impacts on sexual functioning, bodyweight, and lipid metabolism, demonstrating a favorable safety profile and good tolerability.

Key products related to cardiovascular therapeutic area

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 2023. According to IQVIA, the market for lipid-regulating drugs in China was estimated to be approximately RMB5.1 billion in the first half of 2023. 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 2023.

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 RMB1.7 billion in the first half of 2023. Maitongna was the best-selling domestically manufactured sodium aescinate product in China and ranked as the third most-used vasoprotective pharmaceutical product domestically manufactured in China in the first half of 2023.

Oukai (歐開)

As far as the Company is aware, Oukai is the only oral aescinate tablet in China to contain sodium salt and is widely used to treat soft tissue swelling and venous edema caused by various reasons. According to IQVIA, Oukai was ranked as the fifth most-used vasoprotective pharmaceutical product domestically manufactured in China in the first half of 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Key products related to metabolism therapeutic area

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 2023. According to IQVIA, the market for acarbose products in China was estimated to be approximately RMB0.6 billion in the first half of 2023 and Bei Xi ranked as the second most popular acarbose product domestically manufactured in China in the first half of 2023.

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 Antibody-drug Conjugate ("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 2023, the Group's R&D team consisted of 908 employees, including 79 Ph.D. degree holders and 447 master's degree holders in medical, pharmaceutical and other related areas. As at 30 June 2023, the Group had been granted 272 patents and had 74 pending patent applications in the PRC, as well as 481 patents and 186 pending patent applications overseas.

The Group will continue to invest the products in four strategic therapeutic areas — oncology, CNS, cardiovascular and metabolism. As at 30 June 2023, the Group had 39 PRC pipeline product candidates in various stages of development. These candidates included 18 oncology products, 15 CNS products and 6 other products. Also, the Group had 15 pipeline product candidates in the U.S., Europe and Japan in various stages of development.

During the Reporting Period and up to the date of this interim report, the Group had remarkable R&D achievements in the following product candidates.

R&D progress for non-biological product candidates

Rykindo (risperidone for extended-release injectable suspension): Rykindo is administered via intramuscular injection once every two weeks and delivers its active ingredient, risperidone, via long-acting and extended-release microsphere technology developed by the Group; approved for marketing by NMPA in January 2021; approved for marketing by FDA in January 2023; the development of Rykindo in Europe is also progressing well, with a plan to be registered and marketed in the global market.

- In January 2023, Rykindo (risperidone for extended-release injectable suspension) (also known as, LY03004) has received marketing approval from FDA as a treatment for schizophrenia in adults and as monotherapy or as adjunctive therapy to lithium or valproate for the maintenance treatment of bipolar I disorder in adults. As far as the Company is aware, Rykindo is the first FDA approved complex dosage form product developed by a pharmaceutical company in mainland China in accordance with 505(b)(2) of the Federal Food, Drug and Cosmetic Act.

MANAGEMENT DISCUSSION AND ANALYSIS

LY03010 (Paliperidone Palmitate Prolonged Release Suspension for Injection): a second-generation long-acting injectable (LAI) antipsychotic for the treatment of schizophrenia developed by the Group; marketing application accepted by the Centre for Drug Evaluation (“CDE”) in December 2022; achieved the endpoint of pivotal study in the U.S. in November 2022.

- In February 2023, LY03010 received the approval by the competent authorities to initiate the first clinical trial in Europe being developed under Article 10.3 of Directive 2001/83/EC (hybrid application).

LY03003 (Rotigotine Extended-Release Microspheres for Injection): the world’s first long-acting extended-release microsphere formulation for the treatment of PD developed by the Group; the New Drug Application (“NDA”) accepted by CDE in August 2023; being developed in parallel in the U.S. and Japan. As far as the Company is aware, LY03003 is the world’s first weekly dopamine agonist formulation that produces continuous dopaminergic stimulation (“CDS”). Unlike other short-acting dopamine agonists (“Das”) that are already commercially available, LY03003 does not produce nonphysiological, pulsatile stimulation. Injected intramuscularly, it exhibits distinct properties of an extended-release formulation. LY03003 maintains a stable release of rotigotine over seven days, to really produce CDS. It also maintains a stable concentration of the active ingredient in the blood, to produce sustained therapeutic effects over several days in a row and reduce adverse reactions arising from concentration fluctuation. Additionally, the once-a-week dosing frequency improves patient compliance and makes the long-term management of the disease easier.

- In August 2023, the NDA of LY03003 by weekly developed by the Group has been accepted and granted priority review by the CDE for the treatment of PD.

LY03014: a small molecule G protein biased at mu-opioid receptor (“MOR”) agonist; indicated for the treatment of moderate to severe acute postoperative pain and breakthrough cancer pain; the new Class 1 drug in China.

- In July 2023, the new Class 1 drug LY03014 developed by the Group has completed the patient enrollment for its phase 2 clinical trial in China.

Baituwei (Goserelin Microspheres for Injection): the world’s first and only formulation of goserelin long-acting microspheres approved for launch as far as the Company is aware; developed by the Group; approved by the NMPA for the treatment of prostate cancer for patients requiring ADT in June 2023; approved by the NMPA for the treatment of breast cancer in premenopausal and perimenopausal women that can be treated with hormones in September 2023.

With its innovative microsphere formulation, Baituwei is able to release the active ingredients more steadily within a treatment cycle, and is able to ensure efficacy and safety while significantly improving patient experience. The improved needle for this product has a diameter of only 0.8 millimeter. This can significantly improve patient experience.

- In June 2023, Baituwei (also known as “LY01005”) has been approved by the NMPA for the treatment of prostate cancer for patients requiring ADT.
- In September 2023, Baituwei has been approved by the NMPA for the treatment of breast cancer in premenopausal and perimenopausal women that can be treated with hormones.

MANAGEMENT DISCUSSION AND ANALYSIS

LY01022: the long-acting 3-month dosing form of Goserelin Acetate Extended-release Microspheres for Injection developed by the Group.

Compared with formulations administered monthly, LY01022 prolongs the dosing cycle and reduces the frequency of injections, which can further improve the patient's compliance.

- In January 2023, LY01022 obtained the approval from the CDE to initiate clinical trials.

LY01017 (Lurbinectedin for injection): a selective inhibitor of oncogenic transcription; an imported drug the Group licensed from Pharma Mar, S.A. ("PharmaMar").

Lurbinectedin is an analog of the marine compound ET-736 isolated from the sea squirt Ecteinacidia turbinata in which a hydrogen atom has been replaced by a methoxy group. It is a selective inhibitor of the oncogenic transcription programs on which many tumors are particularly dependent. Together with its effect on cancer cells, Lurbinectedin inhibits oncogenic transcription in tumor-associated macrophages, downregulating the production of cytokines that are essential for the growth of the tumor. Lurbinectedin has also been approved in eleven other countries or regions, in addition to its accelerated approval by the FDA for the treatment of metastatic SCLC. The drug is recommended by Small-cell lung cancer: ESMO Clinical Practice Guidelines for diagnosis, treatment and follow-up (published in 2021) and the NCCN Guidelines for Small Cell Lung Cancer (2022). In April 2023, Lurbinectedin has been recommended for the first time by the 2023 CSCO Guidelines for SCLC. The Group owns the rights to develop and commercialize Lurbinectedin in China.

- In June 2023, the NDA of Lurbinectedin was accepted by the CDE for the treatment of adult patients with metastatic SCLC with disease progression on or after receiving platinum-based chemotherapy. In addition, Lurbinectedin is also being reviewed for its NDA in the Hong Kong SAR and Macau SAR of China. Moreover, the drug is available to Chinese patients for urgent clinical use at designated medical institutions in the Hainan Boao Lecheng International Medical Tourism Pilot Zone and through the Named Patient Program in Hong Kong.

Xuezhikang Capsules: a pure natural lipid-regulating drug made by fermentation of red yeast rice using modern GMP production technology, and has been on the market for over 20 years.

- In June 2023, the marketing registration of Xuezhikang Capsules has been approved in Uzbekistan for the treatment of hyperlipidemia and cardiovascular and cerebrovascular diseases caused by hyperlipidemia and atherosclerosis.

R&D progress for biological products candidates developed by Boan Biotech

Boyounuo (bevacizumab injection): an anti-VEGF humanized monoclonal antibody injection and a biosimilar to Avastin developed by Boan Biotech; approved for marketing by the NMPA in April 2021.

- In April 2023, Brazil's ANVISA accepted our BLA for Boyounuo.

Boyoubei (denosumab injection): a human immunoglobulin G2 monoclonal antibody of the RANK ligand and the first biosimilar to Prolia developed by Boan Biotech; approved for marketing by the NMPA for the treatment of postmenopausal women with osteoporosis at high risk for fracture in November 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

- In May 2023, the FPI of an international multi-center phase 3 clinical study in Europe, the U.S., and Japan for our Denosumab Injection (BA6101 and BA1102) was enrolled.

BA1102 (denosumab injection): a fully human IgG2 anti-RANKL monoclonal antibody and a biosimilar to Xgeva independently developed by Boan Biotech.

Denosumab binds to RANKL and it inhibits the activation of OPG/RANKL/RANK signaling pathways, and thus inhibits tumor growth and reduces bone destruction. BA1102 is indicated for the treatment of patients with bone metastases from solid tumors and patients with multiple myeloma, to delay or reduce the risk of skeletal-related events (“SREs”) (e.g. pathologic fractures, spinal cord compression, bone radiotherapy or bone surgery). The drug is also indicated for the treatment of adults and skeletally mature adolescents (defined as having at least one mature long bone and with body weight of 45 kg or above) with giant cell tumor of bone (“GCTB”) that is unresectable or where surgical resection is likely to result in severe morbidity.

- In March 2023, the BLA of BA1102 was accepted by CDE in China.
- In May 2023, the FPI of an international multi-center phase 3 clinical study in Europe, the U.S., and Japan for our Denosumab Injection (BA6101 and BA1102) was enrolled.

BA9101 (aflibercept intravitreal injection): a recombinant human vascular endothelial growth factor receptor antibody fusion protein ophthalmic injection and a biosimilar to Eylea.

Aflibercept is a homodimeric fusion protein consisting of portions of human vascular endothelial growth factor receptor (VEGFR) extracellular domains (VEGFR 1 Ig2 and VEGFR 2 Ig3) fused to the Fc portion of human IgG1. Aflibercept acts as a soluble decoy receptor that binds VEGF-A, VEGF-B and PlGF, and thereby can inhibit the binding and activation of VEGF and PlGF, so it can be used as the treatment for pathological neovascular ophthalmopathy of retina and choroid. EYLEA was approved by the FDA in 2011 and currently it was approved for the treatment of Neovascular (Wet) Age-Related Macular Degeneration (wAMD), Macular Edema Following Retinal Vein Occlusion (RVO), Diabetic Macular Edema (DME), Diabetic Retinopathy (DR) and Retinopathy of Prematurity (ROP) worldwide. Aflibercept was approved in 2018 in China for the treatment of wAMD and DME.

- In March 2023, BA9101 completed the patient enrollment for its phase 3 clinical trial in China. Pursuant to a collaboration and exclusive promotion agreement entered in October 2020, we jointly developed BA9101 with Ocumension Therapeutics, a company listed on the Stock Exchange (stock code: 1477.HK) in the phase 3 clinical trial of BA9101. We have granted Ocumension Therapeutics an exclusive right to promote and commercialize BA9101 in mainland China. We believe that Ocumension Therapeutics, as a well-known ophthalmology company with a professional team, will accelerate the clinical trials and commercialization of BA9101 to meet the urgent clinical needs of Chinese patients and strengthen our position in the field of biological products.

MANAGEMENT DISCUSSION AND ANALYSIS

BA5101 (dulaglutide injection): a long-acting glucagon-like peptide-1 (GLP-1) receptor agonist and a biosimilar to Trulicity independently developed by Boan Biotech.

Dulaglutide is a long-acting glucagon-like peptide-1 (GLP-1) receptor agonist administered once a week. Compared with other glucose-reducing drugs, Dulaglutide can improve pancreatic islet beta cells function, stably and effectively reduce blood glucose and HbA1c levels. In addition, due to its unique mechanism of action, Dulaglutide can simultaneously improve multiple risk factors for cardiovascular diseases such as weight gain, hyperlipidemia/blood lipids and long-term cardiovascular disease risks, and is not prone to causing lower hypoglycemia rate. It also has a protective effect on the kidney. Moreover, several clinical studies have shown that patients taking Dulaglutide once a week have higher compliance because of the convenience of use. BA5101 is indicated for glycemic control in adults with type 2 diabetes mellitus.

- In May 2023, BA5101 completed patient enrollment of its phase 3 clinical trial in China.

BA1106: a non-IL-2 blocking anti-CD25 antibody independently developed by Boan Biotech.

BA1106 is the first investigational anti-CD25 antibody to start clinical trials in China for treating solid tumors. Anti-CD25 antibodies are broad-spectrum immuno-oncology drugs with the potential to treat multiple cancers where CD25 is highly expressed, including cervical cancer, renal cancer, ovarian cancer, melanoma, pancreatic cancers, hepatocellular carcinoma, gastric cancer, and breast cancer. BA1106 therefore has great potential for treating those cancers. However, developing anti-CD25 antibodies faces two major challenges: first, the function of Fc as a mediator is limited, and as a result, they only work in early-stage tumor models, not in late-stage tumor models; second, the IL-2 signaling pathway is blocked, leading to poor antitumor outcomes. BA1106 is a drug candidate that can successfully overcome these two challenges.

The main mechanism of action of BA1106 is to deplete Treg cells in the tumor microenvironment through the antibody-dependent cellular cytotoxicity (ADCC) and increase the number of effector T cells. Preclinical studies have shown that BA1106 demonstrated a good therapeutic effect on both early-stage and late-stage tumor models as well as a synergy when used in combination with an antiPD-1 antibody. Moreover, BA1106 does not block the IL-2 signaling pathway, and depletes Treg cells moderately and specifically, with the potential for monotherapy and combination therapy. The results of the study on BA1106 have been published in Scientific Reports, a journal of Nature Portfolio.

- In February 2023, BA1106 administered for the first patient in a phase 1 clinical trial in China.

BA2101: a long-acting human monoclonal antibody of the IgG4 subtype that targets interleukin-4 receptor subunit α (IL-4R α) independently developed by Boan Biotech.

Recognized as a Class 1 innovative biological product in China, BA2101 is the first long-acting antiIL-4R α monoclonal antibody that enters the clinical trial stage in the country. It is intended to be used for treating allergic diseases caused by Th2 inflammation, including atopic dermatitis, asthma, chronic rhinosinusitis with nasal polyps, prurigo nodularis, chronic spontaneous urticaria (CSU) and chronic obstructive pulmonary disease (COPD).

The drug can inhibit IL-4 and IL-13 signaling simultaneously, regulate Th2 inflammatory pathway, and reduce eosinophils and circulating IgE levels. It is designed to be administered subcutaneously with an expected dosing interval of 4 weeks.

MANAGEMENT DISCUSSION AND ANALYSIS

IL-4R α is a key target for the treatment of Th2 inflammatory diseases, and the long-acting mechanism of BA2101 makes it easier to provide a long-term and standard treatment for such diseases. Preclinical studies show that BA2101 has a longer half-life and higher drug exposure in cynomolgus monkeys than the marketed product with the same target. BA2101 may be administered once every 4 weeks in humans, while drugs with the same target usually adopt a 2-week dosing interval. BA2101 is more convenient for clinical use, providing important clinical value in the long-term management of Th2 inflammatory diseases.

- In February 2023, BA2101 administered for the first patient in a phase 1 clinical trial in China.

BA1301: an ADC candidate that targets Claudin 18.2 developed by Boan Biotech.

BA1301 for injection is our first novel ADC candidate that targets Claudin 18.2. It employs a site-specific conjugation technology to connect the cytotoxic payload with a monoclonal antibody that targets Claudin 18.2. This enables the cytotoxic payload to be directed to the tumor site through the targeting characteristics of the antibody. Such design reduces the toxic side effects of the cytotoxic payload, thus improving the therapeutic window, while retaining its tumor-killing effect.

- In January 2023, BA1301 received the IND approval in China. It administered for the first patient in a phase 1 clinical trial in China in June.

BA1202: a novel bi-specific antibody (“bispecific antibody”) candidate that targets CEA/CD3 developed by Boan Biotech.

BA1202 is a CEA/CD3 bispecific antibody that binds to both CD3 on T cells and CEA on tumor cells, enabling the linking of T cells with tumor cells to facilitate tumor killing.

BA1202 adopts a new butterfly-shaped antibody structure, with one end binding bivalently with high affinity to CEA on tumor cells, and the other end binding monovalently with relatively low affinity to CD3 on T cells, while retaining the Fc region. Such a design enables it to reduce the risk of cytokine release syndrome (“CRS”) while retaining good efficacy through activating endogenous T cells to eliminate CEA-positive tumor cells.

- In May 2023, BA1202 received the IND approval in China. It administered for the first patient in a phase 1 clinical trial in China in August.

SALES, MARKETING AND BUSINESS COLLABORATIONS

For global market

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

MANAGEMENT DISCUSSION AND ANALYSIS

For China market

The Group has established an extensive nationwide sales and distribution network and sold its products to 31 provinces, autonomous regions and municipalities throughout the PRC in the first half of 2023. The Group's sales, marketing and distribution functions are conducted through around 1,000 sales and marketing personnel, a network of approximately 1,760 distributors that collectively enabled the Group to sell its products to over 21,660 hospitals, which comprised approximately 2,300 or approximately 91.0% of all Class III hospitals, approximately 5,860 or approximately 66.0% of all Class II hospitals and approximately 13,500 or approximately 61.0% of all Class I and other hospitals and medical institutions, in the PRC in the first half of 2023. 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 January 2023, the Group launched the Named Patient Program ("NPP") in Hong Kong, China, providing eligible local patients immediate access to the innovative anti-cancer therapy Lurbinectedin. The Group has signed an agreement with Abacus Medicine Pharma Services ("AMPS"), an international healthcare and pharmaceutical services company, the terms of which grant AMPS exclusive distribution rights of the drug for the NPP in Hong Kong.

In January 2023, Boan Biotech signed an agreement with CP Pharmaceutical Qingdao Co., Ltd. ("CP Qingdao"), to grant the latter the exclusive right to commercialize Denosumab Injection (Boyoubei) in mainland China.

In July 2023, with the Group's innovative formulation, Goserelin Microspheres for Injection (Baituowei), was approved by NMPA on June 30, 2023, the Group and BeiGene (NASDAQ: BGNE; HKEX: 06160; SSE: 688235) officially kicked off a strategic partnership for Baituowei's commercialization in mainland China.

MANUFACTURING

The Group is developing a global supply chain of 8 manufacturing sites around the world, with GMP quality management and control systems established in line with international standards. For the first half of 2023, 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 site for transdermal patches in Miesbach, Germany, maintained full capacity and is increasing output to address growing customer demands. Customer audits during the Reporting Period were performed partly remotely, partly on site and underlined the compliance with GMP standards. Also, and for the first time after the Covid-19 break, the local governmental GMP inspection took place for three days on site with the expected positive outcome. Several new customers were on-boarded during the Reporting Period and their product launches were supported as per customer timelines.

POST REPORTING PERIOD OUTLOOK

After experiencing the cycle of price cut in medical insurance negotiations and volume-based procurement, the Group expects that the overall business will return to the growth cycle with the successive launch of many new products. During the Reporting Period, although mainland China was severely affected by the pandemic in January, the Group's overall products sales performed well, recording products sales revenue of RMB2,784.5 million with a growth rate of 18.7% and a total revenue of RMB2,904.1 million.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group anticipate that the following changes and strategies will lead to the Group's long-term sustainable growth at the overall operational level in the future.

Existing products are expected to have stable growth and new products approved in the past two years are expected to ramp up rapidly

For oncology therapeutic area, the Group has exclusive products Lipusu and CMN and broad-spectrum anti-tumor product Bevacizumab Injection (Boyounuo). These three products have already been included in the NRDL and their prices are expected to be relatively stable based on current policy. With the expansion of the patients, these three products will bring sustained and stable growth in the future.

In June 2023, the Group's innovative formulation, Goserelin Microspheres for Injection (Baituowei), has been approved by the NMPA for the treatment of prostate cancer for patients requiring ADT. It is the first and only formulation of goserelin long-acting microspheres approved for launch. With its innovative microsphere formulation, Baituowei is able to release the active ingredients more steadily within a treatment cycle, achieve better control over testosterone production, avoid testosterone surge caused by re-dosing, and ensure efficacy and safety. The improved needle for this product has a diameter of only 0.8 millimeter. This can significantly improve patient experience. It was also approved by the NMPA for the treatment of breast cancer in premenopausal and perimenopausal women that can be treated with hormones in September 2023. The Group and BeiGene have entered a strategic partnership for Baituowei's commercialization in China. The Group expects that Baituowei will have a impressive market prospect in China and the sales will be ramp up rapidly. The Group will also actively promote the inclusion of this product in NRDL to benefit more patients.

For cardiovascular therapeutic area, the Group has the exclusive products Xuezhikang and Oukai. Xuezhikang is a proprietary natural medicine derived from red yeast rice indicated for hypercholesterolaemia. Since 2019 the Group granted the promotion right of Xuezhikang to AstraZeneca in mainland China, Xuezhikang has continued to maintain rapid growth and became another blockbuster product of the Group with sales of more than RMB1,000 million in 2021. It is expected that Xuezhikang will maintain double-digit growth in the next few years. Oukai, as the only oral aescinate tablet in China to contain sodium salt, is widely used to treat soft tissue swelling and venous edema caused by various reasons. Oukai has maintained rapid growth in the past years. It has become another important product in the Group's cardiovascular therapeutic area. The Group will continue to explore the use scenarios and departments of this product to expand the market potential of this product.

For CNS therapeutic area, the Group has mature products Seroquel, Seroquel XR, Rivastigmine Patches. These mature products have expanded the Group's extensive customer resources and partnerships in this therapeutic area. In past two years, we have three innovative CNS products Rykindo, Rivastigmine MD and Ruoxinlin launched in different markets. The launch of new products in CNS therapeutic area will drive our sales growth in this area.

In January 2021, the marketing registration of 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 microsphere for injection administered bi-weekly for the treatment of schizophrenia. In December 2021, Rykindo has been included in the latest edition of the NRDL, which will bring new hope to about 10 million schizophrenia patients in China. The 2021 NRDL has come into effect in January 2022.

In January 2023, Rykindo has received marketing approval from FDA as a treatment for schizophrenia in adults and as monotherapy or as adjunctive therapy to lithium or valproate for the maintenance treatment of bipolar I disorder in adults. As far as the Company is aware, Rykindo is the first FDA approved complex dosage form product developed by a pharmaceutical company in mainland China in accordance with 505(b)(2) of the Federal Food, Drug and Cosmetic Act. The development of Rykindo in Europe is also progressing well, with a plan to be marketed in the global market.

MANAGEMENT DISCUSSION AND ANALYSIS

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 United Kingdom. Rivastigmine MD is a twice-weekly innovative patch formulation of Rivastigmine for the treatment of mild to moderate dementia associated with Alzheimer's disease. 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.

In November 2022, Ruoxinlin has been approved by NMPA for treating MDD. As far as the Company is aware, the product is the first class 1 innovative chemical drug with independent intellectual property rights for the treatment of MDD developed by a local company in China. The launch of this product is a breakthrough for innovative drugs developed locally in China in this field.

Ruoxinlin is a new chemical entity. The approval of Ruoxinlin is based on six clinical studies conducted in China. Such clinical studies show that Ruoxinlin is able to comprehensively and stably improve depressive symptoms, including significantly reducing anxiety and retardation/fatigue, relieving anhedonia, improving cognition, and facilitating faster social recovery of patients. Further, the drug does not cause somnolence and has no significant impacts on sexual functioning, bodyweight, and lipid metabolism, demonstrating a favorable safety profile and good tolerability.

For other therapeutic areas, the Group also has a new product Boyoubei launched in November 2022. Boyoubei was approved for the treatment of postmenopausal women with osteoporosis at high risk for fracture. This product can significantly reduce the risk of vertebral, non-vertebral and hip fractures in postmenopausal women. As far as the Company is aware, Boyoubei is the first biosimilar to Prolia approved for marketing in the world. In January 2023, Boan Biotech have granted CP Qingdao the exclusive right to commercialize Boyoubei in mainland China.

Developing pipeline products are expected to launch in the near future

In addition to the products launched in the past 3 years, the Group has 9 pipeline products under NDA stage in different markets as of the date of this interim report. There are 6 products LY01017, LY03013, LY021702, LY03010, LY03003 and BA1102 under NDA review in mainland China. LY01017 is also under NDA review in Hong Kong and Macau, China. These 10 products are expected to be approved in the near future. The Group also have 9 pipeline products (i.e. LY03005, LY03010, LY30410, LY021701, BA5101, BA9101, BA6101, BA1102 and BA1104) under phase III clinical trials, pivotal studies or NDA/BLA preparing stage in different markets.

Optimization of management efficiency is expected to bring high-quality development

For recent years, significant challenges have taken place for the macro-economic environment. Facing these challenges, the Group will strategically continue to improve the management efficiency, reduce non-essential expenses. With the launch of many new products, the Group will expand sales teams in core therapeutic areas. The Group will consolidate the market position in oncology therapeutic area and deepen the coverage in CNS therapeutic area. The Group will also pay 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 2023, the Group's revenue amounted to approximately RMB2,904.1 million, as compared to RMB2,850.8 million for the six months ended 30 June 2022, representing an increase of approximately RMB53.3 million, or 1.9%. The increase was mainly attributable to increase in sales of some of the Group's key products.

For the six months ended 30 June 2023, revenue from oncology products decreased to RMB910.3 million, as compared to RMB1,025.0 million for the six months ended 30 June 2022, representing a decrease of approximately RMB114.7 million, or 11.2%, primarily attributable to the lower in sales of R&D of the Group.

For the six months ended 30 June 2023, revenue from cardiovascular system products increased to RMB977.9 million, as compared to RMB787.1 million for the six months ended 30 June 2022, representing an increase of approximately RMB190.8 million, or 24.2%, primarily attributable to the increase in sales of a few cardiovascular system products of the Group.

For the six months ended 30 June 2023, revenue from alimentary tract and metabolism products decreased to RMB247.1 million, as compared to RMB322.7 million for the six months ended 30 June 2022, representing a decrease of approximately RMB75.6 million, or 23.4%, primarily attributable to the decrease in the sales volume and average selling price of our key alimentary tract and metabolism product of the Group.

For the six months ended 30 June 2023, revenue from CNS products increased to RMB680.4 million, as compared to RMB651.7 million for the six months ended 30 June 2022, representing an increase of approximately RMB28.7 million or 4.4%, primarily attributable to the increase in sales of CNS products.

For the six months ended 30 June 2023, revenue from other products increased to RMB88.4 million, as compared to RMB64.4 million for the six months ended 30 June 2022, representing an increase of approximately RMB24.0 million, or 37.3%, primarily attributable to the increase in sales of various other products of the Group.

Cost of Sales

The Group's cost of sales increased from RMB800.7 million for the six months ended 30 June 2022 to approximately RMB960.7 million for the six months ended 30 June 2023, which accounted for approximately 33.1% of the Group's total revenue for the same period.

Gross Profit

For the six months ended 30 June 2023, the Group's gross profit decreased to RMB1,943.4 million, as compared to RMB2,050.1 million for the six months ended 30 June 2022, representing a decrease of approximately RMB106.7 million, or 5.2%. The gross profit margin decreased slightly to 66.9% for the six months ended 30 June 2023, from 71.9% for the six months ended 30 June 2022 mainly due to the higher sales of products with slightly lower margin.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income and Gains

The Group's other income and gains mainly comprised government grants, interest income and changes in fair value of financial instruments. For the six months ended 30 June 2023, the Group's other income and gains increased to RMB328.6 million, as compared to RMB141.9 million for the six months ended 30 June 2022, representing an increase of approximately RMB186.7 million, or 131.6%. The increase was mainly attributable to an increase in foreign exchange and fair value adjustment during the period.

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 2023, the Group's selling and distribution expenses amounted to RMB1,115.2 million, as compared to RMB838.2 million for the six months ended 30 June 2022, representing an increase of RMB277.0 million, or 33.0%. The increase was mainly attributable to increase in promotion expenses and staff cost. On the other hand, as a percentage of revenue, the Group's selling and distribution expenses increased from 29.4% for the six months ended 30 June 2022 to 38.4% for the six months ended 30 June 2023, primarily as a result of more marketing, promotion and distribution activities 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 2023, the Group's administrative expenses amounted to approximately RMB297.3 million, as compared to RMB266.2 million for the six months ended 30 June 2022, representing an increase of approximately RMB31.1 million, or 11.7%. The increase was primarily attributable to staff cost during the period.

Other Expenses

The Group's other expenses primarily consisted of its R&D costs, donations, loss on disposals of property, plant and equipment and miscellaneous expenses. For the six months ended 30 June 2023, the Group's other expenses amounted to approximately RMB323.8 million, as compared to RMB498.8 million for the six months ended 30 June 2022, representing a decrease of approximately RMB175.0 million, or 35.1%. The decrease was mainly due to lower R&D costs during the period.

Finance Costs

For the six months ended 30 June 2023, the Group's finance costs amounted to RMB306.8 million, as compared to RMB214.1 million for the six months ended 30 June 2022, representing an increase of approximately RMB92.7 million, or 43.3%. The increase was mainly due to higher bank borrowings and convertible bonds interests during the six months ended 30 June 2023 as compared to the corresponding period of 2022.

Income Tax Expense

For the six months ended 30 June 2023, the Group's income tax expense amounted to RMB83.6 million, as compared to RMB72.2 million for the six months ended 30 June 2022, representing an increase of RMB11.4 million, or 15.8%. The effective tax rates for the six months ended 30 June 2023 and 2022 were 36.5% and 19.2%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Profit

The Group's net profit for the six months ended 30 June 2023 was approximately RMB145.4 million, as compared to RMB303.2 million for the six months ended 30 June 2022, representing a decrease of approximately RMB157.8 million, or 52.0%.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 30 June 2023, the Group had net current assets of approximately RMB1,701.3 million, as compared to approximately RMB1,298.6 million as at 31 December 2022. The current ratio of the Group increased slightly to approximately 1.15 as at 30 June 2023 from approximately 1.14 as at 31 December 2022. The increase in net current assets was mainly attributable to higher cash and cash equivalent under the period.

Borrowings and Pledge of Assets

As at 30 June 2023, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB8,372.6 million, as compared to approximately RMB7,642.7 million as at 31 December 2022. Amongst the loans and borrowings, approximately RMB6,265.1 million are repayable within one year, and approximately RMB2,107.5 million are repayable after one year. RMB5,097.8 million of the loans and borrowings of the Group carried interest at fixed interest rate. As at 30 June 2023, 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.

Gearing Ratio

As at 30 June 2023, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, decreased to 68.7% from 69.2% as at 31 December 2022. The decrease was primarily due to an increase in the Group's total equity during the Reporting Period.

Contingent Liabilities

As at 30 June 2023, 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 2023. The Directors expect that the fluctuation of the RMB exchange rate will not have a material adverse effect on the operation of the Group.

Hedging Activities

As at 30 June 2023, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2023. The Group does not have plans for material investments or capital assets.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

On 6 July 2023, the Company issued US\$180,000,000 6.25 per cent. convertible bonds due 2028 (the “Bonds”). For further details of the Bonds, please refer to the announcements of the Company dated 28 June 2023 and 6 July 2023.

OTHER INFORMATION

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2023 (the six months ended 30 June 2022: 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 2023, 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 Part 2 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 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On 22 February 2023, the Company issued and placed a total of 212,000,000 shares to no less than six placees at the placing price of HK\$3.78 per placing share.

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 2023.

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 2023 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 2023 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 2022.

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 2023.

OTHER INFORMATION

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

As at 30 June 2023, 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) 200,861,950(S)	33.42% 5.34%
LuYe Pharmaceutical International Co., Ltd. ⁽¹⁾	Interest in controlled corporation	1,257,196,703(L) 200,861,950(S)	33.42% 5.34%
Luye Pharma Holdings Ltd. ⁽¹⁾	Interest in controlled corporation	1,257,196,703(L) 200,861,950(S)	33.42% 5.34%
Luye Life Sciences Group Ltd. ⁽²⁾	Interest in controlled corporation	1,257,196,703(L) 200,861,950(S)	33.42% 5.34%
Nelumbo Investments Limited ⁽²⁾	Interest in controlled corporation	1,257,196,703(L) 200,861,950(S)	33.42% 5.34%
Ginkgo (PTC) Limited ⁽²⁾	Trustee	1,257,196,703(L) 200,861,950(S)	33.42% 5.34%
Shorea LBG ⁽²⁾	Interest in controlled corporation	1,257,196,703(L) 200,861,950(S)	33.42% 5.34%
Hillhouse Capital Management, Ltd. ⁽³⁾	Investment Manager	552,324,108(L)	14.68%
Hillhouse Fund V, L.P. ⁽³⁾	Interest in controlled corporation	552,324,108(L)	14.68%
Hillhouse NEV Holdings Limited ⁽³⁾	Beneficial Owner	552,324,108(L)	14.68%
UBS Group AG	Interest in controlled corporation	414,017,118 (L) 368,053,174(S)	11.01% 9.78%
易方達基金管理有限公司	Investment Manager	192,746,000(L)	5.12%

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

Notes:

- LuYe Pharmaceutical Investment Co., Ltd. ("Luye Investment") is wholly-owned by LuYe Pharmaceutical International Co., Ltd., which is in turn wholly-owned by Luye Pharma Holdings Ltd.. Luye Investment had a short position in 200,861,950 shares of the Company as a result of certain equity derivatives held, written or issued by Luye Investment, as the case may be.
- 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.

OTHER INFORMATION

Save as disclosed above, as at 30 June 2023, 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.

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

As at 30 June 2023, 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) 200,861,950(S)	33.42% 5.34%

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. Luye Investment had a short position in 200,861,950 shares of the Company as a result of certain equity derivatives held, written or issued by Luye Investment, as the case may be.
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.

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 2023, 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.

INDEPENDENT REVIEW REPORT



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Independent review report

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 28 to 70, 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 2023 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. 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 2023

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	Notes	30 June 2023 (Unaudited) RMB'000	30 June 2022 (Unaudited) RMB'000
REVENUE	4	2,904,108	2,850,826
Cost of sales		(960,745)	(800,742)
Gross profit		1,943,363	2,050,084
Other income and gains	4	328,617	141,924
Selling and distribution expenses		(1,115,245)	(838,152)
Administrative expenses		(297,344)	(266,183)
Other expenses		(323,798)	(498,757)
Finance costs	6	(306,837)	(214,111)
Share of profit of an associate		232	568
PROFIT BEFORE TAX	5	228,988	375,373
Income tax expense	7	(83,634)	(72,187)
PROFIT FOR THE PERIOD		145,354	303,186
Attributable to:			
Owners of the parent		149,977	296,997
Non-controlling interests		(4,623)	6,189
		145,354	303,186
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic (RMB)		4.06 cents	8.54 cents
Diluted (RMB)		4.06 cents	8.54 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	30 June 2023 (Unaudited) RMB'000	30 June 2022 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	145,354	303,186
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	66,270	(35,960)
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	7,674	(5,237)
Income tax effect	85	481
	7,759	(4,756)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	74,029	(40,716)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	219,383	262,470
Attributable to:		
Owners of the parent	223,880	256,281
Non-controlling interests	(4,497)	6,189
	219,383	262,470

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

	Notes	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	4,344,028	4,255,990
Advance payments for property, plant and equipment and other intangible assets		359,181	319,829
Right-of-use assets		331,762	333,307
Goodwill		1,043,512	1,003,371
Other intangible assets	11	6,209,046	5,984,684
Investment in an associate		7,809	7,781
Long-term receivables		8,616	8,600
Equity investments designated at fair value through other comprehensive income		112,511	100,952
Financial assets at fair value through profit or loss	12	478,263	1,005,351
Pledged time deposits	14	150,000	330,000
Deferred tax assets		146,423	113,947
Total non-current assets		13,191,151	13,463,812
CURRENT ASSETS			
Inventories		803,605	772,939
Trade and notes receivables	13	2,186,653	1,783,686
Prepayments, other receivables and other assets		455,477	1,033,093
Financial assets at fair value through profit or loss	12	2,107,382	1,973,824
Restricted cash		—	32,003
Pledged time deposits	14	1,756,457	1,619,828
Time deposits with original maturity of over three months	14	1,326,700	1,246,700
Cash and cash equivalents	14	4,472,767	2,323,740
Total current assets		13,109,041	10,785,813
CURRENT LIABILITIES			
Trade and notes payables	15	665,147	559,944
Other payables and accruals	16	2,762,950	1,840,118
Interest-bearing bank and other borrowings	17	6,265,147	5,377,982
Convertible bonds — debt component	17, 18	1,494,372	1,461,806
Convertible bonds — embedded derivative instrument	18	19,662	87,705
Government grants		23,362	26,449
Tax payable		177,068	133,199
Total current liabilities		11,407,708	9,487,203
NET CURRENT ASSETS		1,701,333	1,298,610
TOTAL ASSETS LESS CURRENT LIABILITIES		14,892,484	14,762,422

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

	Notes	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		14,892,484	14,762,422
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	17	2,107,501	2,264,731
Employee defined benefit obligation		2,137	2,015
Government grants		161,144	174,965
Deferred tax liabilities		47,733	56,034
Other non-current liabilities	19	379,664	1,222,955
Total non-current liabilities		2,698,179	3,720,700
Net assets		12,194,305	11,041,722
EQUITY			
Equity attributable to owners of the parent			
Issued capital		486,107	456,953
Treasury shares		—	(279,558)
Share premium		3,691,081	3,076,828
Reserves		7,157,620	6,921,731
		11,334,808	10,175,954
Non-controlling interests		859,497	865,768
Total equity		12,194,305	11,041,722

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the parent											
	Issued capital	Treasury shares	Share premium account	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
At 1 January 2023 (audited)	456,953	(279,558)	3,076,828	29,860	1,156,126	212,866	5,511,142	(1,002)	12,739	10,175,954	865,768	11,041,722
Profit for the period	–	–	–	–	–	–	149,977	–	–	149,977	(4,623)	145,354
Other comprehensive income for the period:												
Changes in fair value of investments, net of tax	–	–	–	–	–	–	–	7,759	–	7,759	–	7,759
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	66,144	66,144	126	66,270
Total comprehensive income for the period	–	–	–	–	–	–	149,977	7,759	66,144	223,880	(4,497)	219,383
Issue of shares (note a)	29,154	–	667,151	–	–	–	–	–	–	696,305	–	696,305
Appropriation to safety production reserve	–	–	–	4,906	–	–	(4,906)	–	–	–	–	–
Safety production reserve used	–	–	–	(1,438)	–	–	1,438	–	–	–	–	–
Sale of shares repurchased for share award scheme (note b)	–	279,558	(52,898)	–	–	–	–	–	–	226,660	–	226,660
Cancellation of share award scheme	–	–	–	–	–	(184,077)	188,839	–	–	4,762	(4,762)	–
Share-based payment arrangements	–	–	–	–	–	7,247	–	–	–	7,247	2,988	10,235
At 30 June 2023 (unaudited)	486,107	–	3,691,081	33,328	1,156,126	36,036	5,846,490	6,757	78,883	11,334,808	859,497	12,194,305

Notes:

(a) On 22 February 2023, a total of 212,000,000 shares were placed at the placing price of HK\$3.78 per placing share. The proceeds of HK\$33,254,000 (equivalent to RMB29,154,000), representing the par value, were credited to the Company's share capital. The remaining net proceeds of HK\$760,980,000 (equivalent to RMB667,151,000) after deducting relevant fees of HK\$7,126,000 (equivalent to RMB6,247,000) were credited to the share premium account.

(b) During the period, the Company disposed of all 65,498,500 shares held for the share award scheme. Further details are included in note 23 to the interim condensed consolidated financial information.

* These reserve accounts comprise the consolidated reserves of RMB7,157,620,000 in the consolidated statement of financial position as at 30 June 2023.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the parent											Non-controlling interests	Total equity
	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		
	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 2022 (audited)	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)	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: 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.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Notes	30 June 2023 (Unaudited) RMB'000	30 June 2022 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		228,988	375,373
Adjustments for:			
Share of profit of an associate		(232)	(568)
Depreciation and amortisation of non-current assets		331,431	326,472
Loss/(gain) on disposal of non-current assets	5	126	(201)
Share-based payment expense	23	10,235	16,047
Bank interest income	4	(51,272)	(45,445)
Investment income from financial instruments at fair value through profit or loss	4	(16)	(4,571)
Changes in fair value of investments	4	(47,974)	(41,904)
Changes in fair value of convertible bonds- embedded derivative component	4	(68,043)	—
Remeasurement of contingent considerations		—	12,336
Fair value adjustment of redemption liabilities on non-controlling interests		—	37,301
Interest expense	6	306,837	214,111
Provision for a legal claim		6,979	7,967
		717,059	896,918
Increase in inventories		(30,666)	(38,281)
Increase in trade and notes receivables		(403,048)	(169,993)
Decrease in prepayments, other receivables and other assets		647,391	622,068
Increase in pledged time deposits		(80,377)	(374,435)
Decrease/(increase) in restricted cash		32,003	(113)
Increase in long-term receivables		(16)	—
Increase/(decrease) in trade and notes payables		105,203	(128,292)
Increase in other payables and accruals		18,743	24,902
Decrease in government grants		(48,182)	(14,888)
Increase in other non-current liabilities		2,120	—
		960,230	817,886
Cash generated from operations		960,230	817,886
Interest paid		(159,007)	(159,861)
Income tax paid		(111,496)	(53,578)
		689,727	604,447
Net cash flows from operating activities		689,727	604,447

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	30 June 2023 (Unaudited) RMB'000	30 June 2022 (Unaudited) RMB'000
Net cash flows from operating activities	689,727	604,447
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of non-current assets	(481,203)	(578,689)
Purchases of investments	(113,393)	(30,000)
Proceeds from disposals of investments	555,000	930,000
Dividend income from investments	16	4,571
Proceeds from disposals of items of property, plant and equipment	97	3,862
Dividend received from an associate	—	1,387
(Increase)/decrease in time deposits with original maturity of over three months	(80,000)	21,359
Increase in pledged time deposits	—	(76,346)
Interest received	41,464	43,632
Net cash flows (used in)/from investing activities	(78,019)	319,776
CASH FLOWS FROM FINANCING ACTIVITIES		
New loans	5,531,262	3,358,826
Repayment of loans	(5,034,479)	(3,752,123)
Decrease in pledged time deposits	123,748	453,024
Issue of shares	696,305	—
Repayment to a related party	(10,099)	—
Dividend paid to a non-controlling shareholder	—	(5,500)
Sale of shares repurchased for share award scheme	226,660	—
Principal portion of lease payments	(10,445)	(8,563)
Net cash flows from financing activities	1,522,952	45,664
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,134,660	969,887
Cash and cash equivalents at beginning of period	2,323,740	2,438,252
Effect of foreign exchange rate changes, net	14,367	(35,313)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,472,767	3,372,826

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	30 June 2023 (Unaudited) RMB'000	30 June 2022 (Unaudited) RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	4,325,995	3,106,058
Time deposits	3,379,929	2,374,420
	7,705,924	5,480,478
Less:		
Current pledged time deposits for letters of credit	(140,000)	(124,104)
Current pledged time deposits for bank loans	(406,913)	(274,760)
Current pledged time deposits for notes payable	(923,544)	(826,288)
Current pledged deposits for a letter of guarantee	(286,000)	(286,000)
Non-current pledged time deposits for notes payable	(50,000)	(230,000)
Non-current pledged time deposits for letters of credit	(100,000)	—
Time deposits with original maturity of over three months when acquired	(1,326,700)	(366,500)
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	4,472,767	3,372,826

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 2023 has been prepared in accordance with IAS 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 for the year ended 31 December 2022.

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 2022, except for the adoption of the following new and revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 17	<i>Insurance Contracts</i>
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 — Comparative Information</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform — Pillar Two Model Rules</i>

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.
- (b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below: (Continued)

- (c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022, with any cumulative effect recognised as an adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases that occurred on or after 1 January 2022, if any.

Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group recognised (i) a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available), and (ii) a deferred tax liability for all taxable temporary differences associated with right-of-use assets as at 1 January 2022. The quantitative impact on the financial information is summarised below.

Impact on the interim condensed consolidated statement of financial position:

	Note	Increase/(decrease)		
		As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000	As at 1 January 2022 RMB'000
Liabilities				
Deferred tax liabilities	(i)	201	—	—
Total non-current liabilities		201	—	—
Total liabilities		201	—	—
Net assets		(201)	—	—
Equity				
Retained profits (included in reserves)		(201)	—	—
Equity attributable to owners of the parent		(140)	—	—
Non-controlling interests		(61)	—	—
Total equity		(201)	—	—

Note (i): The deferred tax asset and the deferred tax liability arising from lease contracts of the same subsidiary have been offset in the statement of financial position for presentation purposes.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below: (Continued)

(c) (continued)

Impact on the interim condensed consolidated statement of profit or loss:

	Increase/(decrease) For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Income tax expense	201	—
Profit for the period	(201)	—
Attributable to:		
Owners of the parent	(140)	—
Non-controlling interests	(61)	—
	(201)	—
Total comprehensive income for the period	(201)	—
Attributable to:		
Owners of the parent	(140)	—
Non-controlling interests	(61)	—
	(201)	—

The adoption of amendments to IAS 12 did not have any impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the interim condensed consolidated statements of cash flows for the six months ended 30 June 2023 and 2022.

- (d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments and the mandatory temporary exception retrospectively. The Group is currently assessing its exposure to Pillar Two income taxes.

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 2023 (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	809,995	977,933	247,116	670,572	78,916	2,784,532
Provision of research and development services	32,146	—	—	9,778	9,484	51,408
Out-licensing agreements	68,168	—	—	—	—	68,168
Total revenue	910,309	977,933	247,116	680,350	88,400	2,904,108
Segment results	307,256	325,520	40,481	147,918	6,943	828,118
Other income and gains						328,617
Administrative expenses						(297,344)
Other expenses						(323,798)
Finance costs						(306,837)
Share of profit of an associate						232
Profit before tax						228,988

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. OPERATING SEGMENT INFORMATION (Continued)

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

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Revenue from contracts with customers	2,904,108	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

For the six months ended 30 June 2023 (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	809,995	977,933	247,116	670,572	78,916	2,784,532
Provision of research and development services	32,146	—	—	9,778	9,484	51,408
Out-licensing agreements	68,168	—	—	—	—	68,168
Total revenue from contracts with customers	910,309	977,933	247,116	680,350	88,400	2,904,108
Geographical markets						
Mainland China	910,309	973,820	246,218	168,009	88,400	2,386,756
Other countries	—	4,113	898	512,341	—	517,352
Total revenue from contracts with customers	910,309	977,933	247,116	680,350	88,400	2,904,108
Timing of revenue recognition						
Transferred at a point in time	878,163	977,933	247,116	670,572	78,916	2,852,700
Transferred over time	32,146	—	—	9,778	9,484	51,408
Total revenue from contracts with customers	910,309	977,933	247,116	680,350	88,400	2,904,108

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 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)

	For the six months ended	
	30 June	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Other income and gains		
Bank interest income	51,272	45,445
Government grants	81,055	34,440
Changes in fair value of investments	47,974	41,904
Changes in fair value of convertible bonds — embedded derivative component	68,043	—
Investment income from financial instruments at fair value through profit or loss	16	4,571
Lease and property management service income	5,892	5,083
Foreign exchange gain, net	70,667	—
Others	3,698	10,481
	328,617	141,924

5. PROFIT BEFORE TAX

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

	For the six months ended	
	30 June	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Cost of products sold	922,980	800,742
Depreciation of items of property, plant and equipment	177,333	166,389
Amortisation of other intangible assets	139,850	145,969
Depreciation of right-of-use assets	14,248	14,114
Auditor's remuneration	2,689	4,500
Research and development costs	295,155	426,348
Foreign exchange (gain)/loss, net	(70,667)	11,680
Share-based payment expense	10,235	16,047
Surcharges for overdue tax payments	11,978	—
Donation	400	1,414
Remeasurement of contingent considerations	—	12,336
Fair value adjustment of redemption liabilities on non-controlling interests	—	37,301
Loss/(gain) on disposal of non-current assets	126	(201)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. FINANCE COSTS

	For the six months ended 30 June	
	2023	2022
	(Unaudited) RMB'000	(Unaudited) RMB'000
Interest on bank loans and other borrowings (including convertible bonds)	245,623	189,843
Interest on discounted notes receivable	23,129	19,171
Interest on discounted letters of credit	4,424	4,447
Interest on redemption liabilities	32,729	—
Interest on lease liabilities	932	650
	306,837	214,111

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 major components of income tax expense in the interim condensed consolidated statement of profit or loss are:

	For the six months ended 30 June	
	2023	2022
	(Unaudited) RMB'000	(Unaudited) RMB'000
Current tax	124,882	61,461
Deferred tax	(41,248)	10,726
	83,634	72,187

8. DIVIDENDS

No interim dividend was declared by the Company for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 3,694,503,007 (six months ended 30 June 2022: 3,477,478,391) in issue during the period.

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.

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2023 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

10. PROPERTY, PLANT AND EQUIPMENT

	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Carrying amount at beginning of period	4,255,990	3,858,491
Additions	253,432	737,960
Depreciation provided during the period	(177,333)	(340,226)
Exchange realignment	12,162	5,637
Disposals	(223)	(5,872)
Carrying amount at end of period	4,344,028	4,255,990

As at 30 June 2023, the Group was applying for the certificates of ownership for certain properties with a net book value of RMB103,281,000 (31 December 2022: RMB106,018,000). 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.

At 30 June 2023, certain of the Group's property, plant and equipment with net carrying amounts of approximately RMB490,345,000 (31 December 2022: RMB390,749,000) and RMB253,332,000 (31 December 2022: Nil) were pledged to secure bank loans and other borrowings, respectively (note 17).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. OTHER INTANGIBLE ASSETS

	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Carrying amount at beginning of period	5,984,684	5,441,833
Additions	216,609	557,836
Amortisation provided during the period	(139,850)	(304,099)
Write-off	—	(11,468)
Exchange realignment	147,603	300,582
Carrying amount at end of period	6,209,046	5,984,684

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Current		
Listed equity investment, at fair value	521	441
Other unlisted investments, at fair value	2,106,861	1,973,383
	2,107,382	1,973,824
Non-current		
Unlisted equity investments, at fair value	478,263	1,005,351
	2,585,645	2,979,175

The above equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.

The above other unlisted investments were wealth management products issued by licensed financial institutions in Mainland China and investment in private fund. The fair values of the financial assets approximate to their costs plus expected interest. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

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.

13. TRADE AND NOTES RECEIVABLES

	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Trade receivables	1,876,917	1,435,170
Notes receivable	312,334	351,843
	2,189,251	1,787,013
Less: Impairment of trade receivables	(2,598)	(3,327)
	2,186,653	1,783,686

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 has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a 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 2023, notes receivable of RMB312,334,000 (31 December 2022: RMB351,843,000) 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 2023.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13. TRADE AND NOTES RECEIVABLES (Continued)

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 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Within 3 months	1,604,410	1,373,241
3 to 6 months	62,938	35,259
6 to 12 months	208,266	25,280
1 to 2 years	558	438
Over 2 years	745	952
	1,876,917	1,435,170

As at 30 June 2023, the Group has pledged notes receivable of RMB5,419,000 (31 December 2022: RMB68,584,000) to secure bank loans (note 17).

As at 30 June 2023, the Group endorsed certain notes receivable accepted by banks in the PRC (the "Endorsed Notes") to its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB548,355,000 (31 December 2022: RMB402,301,000) (the "Endorsement"). In addition, the Group discounted certain notes receivable accepted by banks in the PRC (the "Discounted Notes") to banks to finance its operating cash flows with a carrying amount in aggregate of RMB1,783,389,000 (31 December 2022: RMB1,713,387,000) (the "Discount"). The Endorsed Notes and the Discounted Notes had a maturity from one to twelve months as at 30 June 2023. 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 certain banks default (the "Continuing Involvement").

In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to a part of Endorsed Notes with an amount of RMB469,355,000 (31 December 2022: RMB355,380,000) and a part of Discounted Notes with an amount of RMB744,319,000 (31 December 2022: RMB674,200,000) accepted by large and reputable banks (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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13. TRADE AND NOTES RECEIVABLES (Continued)

For the rest of the Endorsed Notes and the Discounted Notes, 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 2023, the aggregate carrying amount of the trade and other payables settled by the Endorsed Notes to which the suppliers have recourse was RMB79,000,000 (31 December 2022: RMB46,921,000), and the aggregate carrying amount financed by the Discounted Notes to which the banks have recourse was RMB1,039,070,000 (31 December 2022: RMB1,039,187,000).

During the period, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the period and cumulatively. The Endorsement has been made evenly throughout the period.

14. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Cash and bank balances	4,325,995	1,266,472
Time deposits	3,379,929	4,253,796
	7,705,924	5,520,268
Less:		
Current pledged time deposits for letters of credit	(140,000)	(66,000)
Current pledged time deposits for bank loans	(406,913)	(604,661)
Current pledged time deposits for notes payable	(923,544)	(663,167)
Current pledged deposits for a letter of guarantee	(286,000)	(286,000)
Non-current pledged time deposits for notes payable	(50,000)	(230,000)
Non-current pledged time deposits for letters of credit	(100,000)	(100,000)
Time deposits with original maturity of over three months when acquired	(1,326,700)	(1,246,700)
Cash and cash equivalents	4,472,767	2,323,740
Denominated in RMB	4,394,537	2,070,588
Denominated in HK\$	1,806	163,978
Denominated in US\$	36,291	61,005
Denominated in EUR	21,178	12,864
Denominated in others	18,955	15,305
Cash and cash equivalents	4,472,767	2,323,740

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and 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 2023, time deposits of RMB406,913,000 (31 December 2022: RMB604,661,000) were pledged to secure bank loans (note 17).

As at 30 June 2023, time deposits of RMB785,000,000 (31 December 2022: RMB770,880,000) and RMB188,544,000 (31 December 2022: RMB122,287,000) were pledged to secure intra-group notes payable and notes payable (note 15), respectively.

15. TRADE AND NOTES PAYABLES

	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Trade payables	439,628	417,814
Notes payable	225,519	142,130
	665,147	559,944

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15. TRADE AND NOTES PAYABLES (Continued)

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 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Within 3 months	603,863	496,382
3 to 6 months	28,794	42,465
6 to 12 months	20,868	13,903
1 to 2 years	6,171	2,860
Over 2 years	5,451	4,334
	665,147	559,944

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

As at 30 June 2023, the Group's notes payable were secured by certain of the Group's time deposits amounting to RMB188,544,000 (31 December 2022: RMB122,287,000) (note 14).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. OTHER PAYABLES AND ACCRUALS

	Notes	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Other payables	(i)	528,661	581,469
Accrued liabilities		458,433	341,757
Accrued payroll		200,065	221,301
Contract liabilities		41,743	46,376
Taxes payable other than corporate income tax		93,769	123,124
Payables for purchases of property, plant and equipment and other intangible assets		258,257	239,938
Provision for legal claims		294,041	286,153
Redemption liabilities	(ii)	887,981	—
		2,762,950	1,840,118

Included in the Group's other payables and accruals were other payables of RMB1,187,000 (31 December 2022: RMB12,597,000) due to related parties (note 22(b)).

Notes:

- (i) Other payables are non-interest-bearing.
- (ii) In July 2022, the Group and Jiaao Pharma entered into a capital increase agreement with a third party investor, pursuant to which the investor agreed to invest in Jiaao Pharma by subscription of the increased registered capital of Jiaao Pharma of an aggregate of RMB27,843,401 at a subscription price of RMB825,000,000. Pursuant to the subscription agreement, Shandong Luye or Jiaao Pharma shall have the right to redeem the equity interests at a redemption price of subscription price plus a return rate of eight percent before 31 December 2023. If Shandong Luye and Jiaao Pharma do not exercise the redemption right, the investor shall have the right to require Shandong Luye or Jiaao Pharma to redeem the equity interests at the same redemption price after 31 December 2023. The redemption right granted to the investor gives rise to financial liabilities. The balance represents the principal and accrued interests for the redemption liabilities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

As at 30 June 2023

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	2.80~5.00	2023~2024	3,388,117
Bank loan — secured US\$10,116,650	6.07	2023	73,101
Bank loans — secured EUR39,201,986	3.50~3-month EURIBOR+0.80	2023~2024	308,799
Current portion of long-term bank loans — secured	3.55~5.00	2023~2024	386,518
Current portion of long-term bank loans — secured US\$48,374,130	3-month LIBOR+2.85	2024	349,542
Current portion of long-term other borrowings — secured	5.40	2023~2024	151,305
Discounted notes receivable	1.40~5.50	2023	1,032,183
Discounted letters of credit	1.89~5.24	2023	563,069
Lease liabilities	3.67	2024	12,513
			6,265,147
Non-current			
Bank loans — secured	3.55~5.00	2024~2029	1,097,006
Bank loans — secured US\$115,152,537	3-month LIBOR+2.85	2025	832,069
Long-term other borrowings — secured	5.40	2024~2025	150,000
Lease liabilities	3.67	2029	28,426
			2,107,501
Total interest-bearing bank and other borrowings			8,372,648
Convertible bonds — debt component	6.50	2023	1,494,372
			9,867,020

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

As at 31 December 2022

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank overdrafts — secured	—	On demand	155
Bank loans — secured	2.80~4.95	2023	2,973,910
Bank loan — secured			
US\$10,234,739	4.50	2023	71,281
Bank loans — secured	0.6~3-month		
EUR39,097,003	EURIBOR+0.80	2023	290,213
Current portion of long-term bank loans — secured	3.55~4.90	2023	418,591
Current portion of long-term bank loans — secured			
US\$31,784,558	3-month LIBOR+2.85	2023	221,367
Discounted notes receivable	1.10~5.50	2023	1,025,061
Discounted letters of credit	1.89~5.24	2023	362,150
Lease liabilities	3.76	2023	15,254
			5,377,982
Non-current			
Bank loans — secured	3.55~4.90	2024~2029	984,610
Bank loans — secured			
US\$180,467,473	3-month LIBOR+2.85	2025	1,256,884
Lease liabilities	3.76	2029	23,237
			2,264,731
Total interest-bearing bank and other borrowings			7,642,713
Convertible bonds — debt component	6.50	2023	1,461,806
			9,104,519

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

Notes:

- (a) Certain of the Group's bank loans are secured by:
- (i) the pledge of certain of the Group's time deposits of RMB406,913,000 (31 December 2022: RMB604,661,000) (note 14);
 - (ii) the pledge of certain of the Group's notes receivable of RMB5,419,000 (31 December 2022: RMB68,584,000) (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 RMB490,345,000 (31 December 2022: RMB390,749,000) (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 RMB5,813,000 (31 December 2022: RMB4,313,000); and
 - (v) the pledge of certain of the Group's subsidiaries' shares.
- (b) The Group's other borrowings are from an independent third party financing institution, bear interest at 5.4% per annum and are secured by 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 RMB253,332,000 (31 December 2022: Nil) (note 10).

18. CONVERTIBLE BONDS

On 16 August 2022 and 13 September 2022, the Company issued the convertible bonds in the principal amount of Hong Kong dollars equivalent of RMB1,200 million and Hong Kong dollars equivalent of RMB300 million at the initial conversion price of HK\$3.50 per share to an independent third party subscriber, New Leaf Biotech Holding Limited, with an interest rate of 6.50 per cent. The maturity date of the convertible bonds is 360 days after the first payment date and 24 July 2023, respectively. None of the convertible bonds were repaid or redeemed during the period.

19. OTHER NON-CURRENT LIABILITIES

	Notes	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Payables for an asset purchase and license agreement	(i)	57,807	55,717
Consideration received for a collaboration arrangement	(ii)	112,382	102,511
Redemption liabilities		—	855,252
Contract liabilities	(iii)	209,475	209,475
		379,664	1,222,955

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19. OTHER NON-CURRENT LIABILITIES (Continued)

Notes:

- (i) The balance represents the remaining long-term instalments for an asset purchase and license agreement.
- (ii) Boan Biotech entered into collaboration agreements with OcuMension Therapeutics (Zhejiang) Co., Ltd. (“OcuMension”), pursuant to which Boan Biotech is responsible for conducting certain initial stages of the Phase 3 clinical trial, commercial production and registration permit of BA9101 and OcuMension is responsible for completing the rest of Phase 3 clinical trial and promoting and commercialising BA9101 in China. The balance represents the consideration received for the collaboration arrangement.
- (iii) Contract liabilities include long-term advances received to deliver drug products.

20. PROVISION

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. During the year ended 2021, Luye Hong Kong received the arbitral award from the Hong Kong International Arbitration Centre in relation to the arbitration, and 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. Thereafter, Luye Hong Kong submitted the application for revoking the arbitral award to the Hong Kong High Court, and the decision was handed down that Luye Hong Kong’s application for setting aside the award was dismissed (“Setting Aside Decision”). Subsequently, Luye Hong Kong applied for and was granted leave to appeal against the Setting Aside Decision. The hearing of the appeal will be at the end of 2023. As at 31 December 2022 and 30 June 2023, additional provisions of RMB15,884,000 and RMB7,888,000 were provided for the interest charged on the claim amount, respectively.

21. COMMITMENTS

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

	30 June 2023 (Unaudited) RMB’000	31 December 2022 (Audited) RMB’000
Contracted, but not provided for:		
Buildings	347,545	401,186
Machinery and equipment	537,468	509,947
Other intangible assets	58,694	55,753
	943,707	966,886

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22. 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 Sciences Group Ltd. ("Luye Life Sciences")	Controlled by the controlling shareholder
Yantai Painuo Biotech Co., Ltd. ("Yantai Painuo")	Controlled by the controlling shareholder
Shandong International Biotech Park Development Co., Ltd. ("Biotech Park Development")	Controlled by the controlling shareholder
Yantai Yunyue Winery Management Co., Ltd. ("Yunyue Winery")	Controlled by the controlling shareholder
Geneleap Biotech LLC ("Geneleap Biotech")*	Controlled by the controlling shareholder
Yantai Cellzone Medical Diagnostics Center Co., Ltd. ("Yantai Cellzone")	Controlled by the controlling shareholder
Qingdao Luye Shanghe Pharmaceutical Technology Co., Ltd. ("Qingdao Luye")	Controlled by the controlling shareholder
Sairun (Shanghai) Medical Technology Co., Ltd. ("Shanghai Sairun")	Controlled by the controlling shareholder

* During the period ended 30 June 2022, GeneLeap Biotech 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 periods of the transaction amounts with GeneLeap Biotech disclosed in note (a) only covered the periods when it was a related party.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22. 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	
		2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Sales of products to:			
Steward Cross	(i)	5,035	4,195
Qingdao Luye	(i)	2,709	—
Lease buildings to:			
Yantai Painuo	(ii)	5,892	5,083
Provision of manufacturing service to:			
Yantai Painuo	(ii)	1,448	986
Provision of property management service to:			
Yantai Painuo	(ii)	368	—
Accommodation services from:			
Yunyue Winery	(ii)	23	44
Research and development services from:			
Yantai Cellzone	(ii)	—	1,164
Lease and property management services from:			
Biotech Park Development	(ii)	3,184	1,808
Payment on behalf by:			
Biotech Park Development	(iii)	3,303	904
Geneleap Biotech	(iii)	—	111
Repayment to:			
Biotech Park Development	(iii)	3,864	771
Luye Life Sciences	(iii)	15,157	—
Geneleap Biotech	(iii)	—	104
Payment on behalf of:			
Shanghai Sairun	(iii)	1,608	—
Advances from:			
Luye Life Sciences	(iii)	5,058	2,013

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22. RELATED PARTY TRANSACTIONS (Continued)

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

Notes:

- (i) The transaction prices were determined on normal commercial terms, negotiated on arm's length basis, and on similar basis as the Group conducted businesses with major customers.
- (ii) The transaction prices were determined on terms mutually agreed between the parties with reference to the actual cost and fees for similar transactions in the market.
- (iii) The payments and advances were unsecured, interest-free and repayable on demand.

- (b) Outstanding balances with related parties:

	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Other receivables		
Yantai Painuo	19,411	24,307
Qingdao Luye	1,365	3,164
Biotech Park Development*	2,289	—
Shanghai Sairun*	1,608	—
	24,673	27,471
Other payables		
Biotech Park Development*	—	1,334
Yunyue Winery	23	—
Yantai Cellzone	1,164	1,164
Luye Life Sciences*	—	10,099
	1,187	12,597
Lease liabilities		
Biotech Park Development	1,190	5,196

* The balances were non-trade in nature.

Other outstanding balances with related parties were all trade in nature. 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

23. 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

23. 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.

On 20 January 2023, the Scheme was early terminated due to the trading price of the shares quoted on the Hong Kong Stock Exchange had been below HK\$4 in the last 12 months, which had been approved by the board of directors. All granted shares are lapsed and no outstanding granted shares will be vested.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

23. 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 2023 Cancelled	10,143,500 (10,143,500)	55,355,000 (55,355,000)
At 30 June 2023	—	—
Exercisable as at 30 June 2023	—	—

	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2022 Forfeited	8,960,500 1,183,000	56,538,000 (1,183,000)
At 31 December 2022	10,143,500	55,355,000
Exercisable as at 31 December 2022	—	55,355,000

The Group recognised a share-based payment expense of nil during the period (six months ended 30 June 2022: RMB6,966,000).

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

23. 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 RMB10,235,000 during the period (six months ended 30 June 2022: RMB9,081,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 30 June 2023 and 31 December 2022 are as follows:

As at 30 June 2023 (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	—	—	112,511	—	112,511
Notes receivable	—	—	312,334	—	312,334
Trade receivables	—	—	—	1,874,319	1,874,319
Financial assets included in prepayments, other receivables and other assets	—	—	—	270,442	270,442
Financial assets at fair value through profit or loss	1,263	2,584,382	—	—	2,585,645
Cash and cash equivalents	—	—	—	4,472,767	4,472,767
Time deposits with original maturity of over three months	—	—	—	1,326,700	1,326,700
Pledged time deposits	—	—	—	1,906,457	1,906,457
Long-term receivables	—	—	—	8,616	8,616
	1,263	2,584,382	424,845	9,859,301	12,869,791

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	Financial liabilities at fair value through profit or loss		
Trade and notes payables	—	—	665,147	665,147
Financial liabilities included in other payables and accruals	—	—	2,133,332	2,133,332
Convertible bonds — debt component	—	—	1,494,372	1,494,372
Convertible bonds — embedded derivative instrument	19,662	—	—	19,662
Other non-current liabilities	—	—	170,189	170,189
Interest-bearing bank and other borrowings	—	—	8,372,648	8,372,648
	19,662	—	12,835,688	12,855,350

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at 30 June 2023 and 31 December 2022 are as follows: (Continued)

As at 31 December 2022 (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 RMB'000	Total RMB'000
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity investments RMB'000		
Equity investments designated at fair value through other comprehensive income	—	—	100,952	—	100,952
Notes receivable	—	—	351,843	—	351,843
Trade receivables	—	—	—	1,431,843	1,431,843
Financial assets included in prepayments, other receivables and other assets	—	—	—	481,973	481,973
Financial assets at fair value through profit or loss	1,263	2,977,912	—	—	2,979,175
Cash and cash equivalents	—	—	—	2,323,740	2,323,740
Time deposits with original maturity of over three months	—	—	—	1,246,700	1,246,700
Pledged time deposits	—	—	—	1,949,828	1,949,828
Restricted cash	—	—	—	32,003	32,003
Long-term receivables	—	—	—	8,600	8,600
	1,263	2,977,912	452,795	7,474,687	10,906,657

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	Financial liabilities at amortised cost RMB'000		
Trade and notes payables	—	559,944	559,944	559,944
Financial liabilities included in other payables and accruals	—	1,163,164	1,163,164	1,163,164
Convertible bonds — debt component	—	1,461,806	1,461,806	1,461,806
Convertible bonds — embedded derivative instrument	87,705	—	87,705	87,705
Other non-current liabilities	—	1,013,480	1,013,480	1,013,480
Interest-bearing loans and borrowings	—	7,642,713	7,642,713	7,642,713
	87,705	11,841,107	11,928,812	11,928,812

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

25. 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, other payables 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 payables 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 loans and other borrowings 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 licensed financial institutions in Mainland China and investment in private fund. 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

25. 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 2023 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 convertible bonds — embedded derivative component was 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 2023 and 31 December 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 2022: 20%)	1% (31 December 2022: 1%) increase/decrease in discount would result in decrease/increase in fair value by RMB14,000 (31 December 2022: RMB14,000)
Convertible bonds — embedded derivative component	Discounted cash flow method	Risk-free rate	5.4% (31 December 2022: 3.9%)	1% (31 December 2022: 1%) increase/decrease in risk-free rate would result in increase/decrease in fair value by RMB11,413,000 (31 December 2022: RMB2,126,000)
		Volatility	63.2% (31 December 2022: 42.6%)	1% (31 December 2022: 1%) increase/decrease in volatility would result in increase/decrease in fair value by RMB11,413,000 (31 December 2022: RMB2,126,000)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

25. 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 2023 (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	3,509	109,002	—	112,511
Notes receivable	—	312,334	—	312,334
Financial assets at fair value through profit or loss	521	2,583,861	1,263	2,585,645
	4,030	3,005,197	1,263	3,010,490

As at 31 December 2022 (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	3,965	96,987	—	100,952
Notes receivable	—	351,843	—	351,843
Financial assets at fair value through profit or loss	441	2,977,471	1,263	2,979,175
	4,406	3,426,301	1,263	3,431,970

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

25. 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 2023 (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	
Convertible bonds — embedded derivative component	—	—	19,662	19,662

As at 31 December 2022 (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	
Convertible bonds — embedded derivative component	—	—	87,705	87,705

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 2022: Nil).

26. EVENTS AFTER THE REPORTING PERIOD

On 6 July 2023, the Company issued US\$180,000,000 6.25 per cent. convertible bonds due 2028 (the "Bonds"). For further details of the Bonds, please refer to the announcements of the Company dated 28 June 2023 and 6 July 2023.