



Hua Medicine 華領醫藥

(Incorporated in the Cayman Islands with Limited Liability)
Stock Code: 2552

2022 INTERIM REPORT



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CORPORATE INFORMATION

Executive directors

Li CHEN (陳力) (*Chief Executive Officer and Chief Scientific Officer*)
George Chien Cheng LIN (林潔誠)
(*Executive Vice President and Chief Financial Officer*)

Non-executive directors

Robert Taylor NELSEN (*Chairman*)
Wei ZHAO (趙璋) (appointed on March 16, 2022)
Lian Yong CHEN (陳連勇) (resigned on March 16, 2022)

Independent non-executive directors

Walter Teh-Ming KWAUK (郭德明)
William Robert KELLER
Junling LIU (劉峻嶺)
Yiu Wa Alec TSUI (徐耀華)

Audit committee

Walter Teh-Ming KWAUK (郭德明) (*Chairman*)
William Robert KELLER
Yiu Wa Alec TSUI (徐耀華)

Remuneration committee

William Robert KELLER (*Chairman*)
Walter Teh-Ming KWAUK (郭德明)
Junling LIU (劉峻嶺) (appointed on March 16, 2022)
Lian Yong CHEN (陳連勇)
(ceased to be a member on March 16, 2022)

Nomination committee

Robert Taylor NELSEN (*Chairman*)
Junling LIU (劉峻嶺)
William Robert KELLER

Strategy committee

Li CHEN (陳力) (*Chairman*)
Robert Taylor NELSEN
Junling LIU (劉峻嶺)

Company secretary

Wing Yan Winnie YUEN (袁穎欣)

Authorized representatives

George Chien Cheng LIN (林潔誠)
Wing Yan Winnie YUEN (袁穎欣)

Auditor

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Registered office

PO Box 309, Ugland House, Grand Cayman,
KY1-1104, Cayman Islands

Corporate headquarters

Hua Medicine, Building 2, Lane 36, Xuelin Road,
Pudong New Area, Shanghai 201203, PRC

Principal place of business in Hong Kong

Suite 2202, Methodist House, 36 Hennessy Road,
Wan Chai, Hong Kong

Cayman Islands share registrar

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

Hong Kong share registrar

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

Principal bankers

In Hong Kong:

The Hong Kong and Shanghai Banking Corporation Limited
HSBC Main Building, 1 Queen's Road Central, Hong Kong

In the PRC:

China Construction Bank Corporation Shanghai Zhangjiang
Branch
No. 232 Ke Yuan Road, Shanghai, China

China Merchants Bank Corporation Shanghai Lingang
Land of Wonder Sub-Branch
No. 271, Yunying Road, Lingang District, Shanghai

Company's website

www.huamedicine.com

Stock code

2552

BUSINESS AND FINANCIAL HIGHLIGHTS

Business Highlights

- As we await China approval for dorzagliatin, our team has been working earnestly on launch strategy and commercialization preparation with Bayer, our commercialization partner in China, as well as manufacturing and supply preparations with our various strategic partners.
- In February 2022, we announced a supply agreement with WuXi STA for the commercial manufacturing of dorzagliatin to further enhance our existing collaboration.
- In May 2022, we published two peer-reviewed papers on the Phase III clinical trials results of dorzagliatin in *Nature Medicine*, an international top-medical journal. These two papers described and analyzed the clinical efficacy and safety characteristics of dorzagliatin monotherapy (SEED) in drug-naïve Type 2 diabetes (T2D) patients and the combination therapy of dorzagliatin and metformin (DAWN) in patients who failed in metformin adequacy therapy for the treatment of T2D, respectively.
- In June 2022, three research findings on dorzagliatin were presented at the 2022 82nd American Diabetes Association (“2022 ADA”): i) An oral presentation at the 2022 ADA Scientific Sessions on the results of SENSITIZE, a clinical study demonstrating dorzagliatin improved insulin secretion and glucose sensitivity; ii) A post-hoc analysis of the Phase III trials of dorzagliatin to validate the potential of dorzagliatin in improving early phase insulin secretion and restoring glucose sensitivity in type 2 diabetes (T2D) patients; and iii) The results of the DREAM study from the dorzagliatin monotherapy (SEED) study to explore the potential of dorzagliatin in diabetes remission.
- In addition to our preparations for commercialization of dorzagliatin in China, we continued to advance the development of our second generation GKA, with the potential for once daily administration and a more efficient manufacturing process.

Financial Highlights

- Bank balances and cash position was approximately RMB586.3 million as of June 30, 2022.
- Total expenditures incurred by the Company for the six months ended June 30, 2022 was approximately RMB142.6 million, of which approximately RMB72.3 million was attributable to research and development expenses.
- Research and development expenses decreased by approximately RMB25.7 million or approximately 26.2% to approximately RMB72.3 million for the six months ended June 30, 2022, compared with the six months ended June 30, 2021.
- Loss before tax decreased by approximately RMB60.7 million or approximately 36.7% to approximately RMB104.6 million for the six months ended June 30, 2022, compared with the six months ended June 30, 2021.
- Total comprehensive expense for the period decreased by approximately RMB60.8 million or approximately 36.8% to approximately RMB104.5 million for the six months ended June 30, 2022, compared with the six months ended June 30, 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

We are a pre-revenue China-based drug development company currently focusing on the development of dorzagliatin, a first-in-class oral drug for the treatment of T2D. We filed an Investigational New Drug (“IND”) application with the NMPA for dorzagliatin under Category 1.1 (New Drug) in 2012 and initiated a Phase Ia clinical study of our novel glucokinase activator dorzagliatin in September 2013. We also filed an IND application with the U.S. Food and Drug Administration (“FDA”) for dorzagliatin in March 2015. We have completed eight Phase I trials in China, four Phase I trials in the United States, one Phase II trial in China, and two Phase III trials in China. Our two Phase III trials enrolled 1,230 patients across 110 sites throughout China.

Both Phase III trials (also known as the SEED and DAWN trials) met their primary endpoints, and the safety and tolerability profile of dorzagliatin was good during the trial period. The final 52-week results of both Phase III trials were announced in 2020. In March 2021, we submitted a NDA for dorzagliatin for the treatment of T2D to the NMPA, and we received notification from the NMPA that our NDA was accepted in April 2021. The NDA is currently under active review by the NMPA.

In September 2021 at the 6th China BioMed Innovation and Investment Conference, certain principal investigators from our SEED Phase III trial presented the extensive results from the clinical study called DREAM. The main objective of the DREAM study was to evaluate the ability of T2D patients who participated in our SEED study and achieved glycemic control as defined by investigators, to maintain normal to near-normal HbA1c levels¹ (i.e., remission of T2D), without any glucose-lowering medication after the completion of the SEED study for a minimum follow-up period of 52-weeks. The results showed that the subjects had a 52-week diabetes remission rate of 65.2% at week 52 (95% CI, 53.4%, 77.0%)² during the research period.

In May 2022, we published two peer-reviewed papers on the Phase III clinical trials results of dorzagliatin in *Nature Medicine*, an international top-medical journal. These two papers described and analyzed the clinical efficacy and safety characteristics of dorzagliatin monotherapy (SEED) in drug-naïve Type 2 diabetes (T2D) patients and the combination therapy of dorzagliatin and metformin (DAWN) in patients who failed in metformin adequacy therapy for the treatment of T2D, respectively.

In June 2022, three research findings on dorzagliatin were presented at the 2022 82nd American Diabetes Association (“2022 ADA”):

- 1) An oral presentation at the 2022 ADA Scientific Sessions on the results of SENSITIZE, a clinical study demonstrating dorzagliatin improved insulin secretion and glucose sensitivity. The study was initiated by Professor Juliana Chan, an internationally recognized endocrinologist from the Chinese University of Hong Kong. SENSITIZE explored the effects of dorzagliatin on patients with recent onset T2D and glucokinase-maturity-onset diabetes of the young (GCK-MODY or MODY-2). The study results, using glucose clamp technique, showed that dorzagliatin can significantly improve second phase insulin secretion and glucose sensitivity in GCK-MODY patients and can significantly improve basal insulin secretion rates in patients with recent onset T2D. As the speaker of the oral presentation and one of the researchers of the SENSITIZE study, Professor Elaine Chow from the Chinese University of Hong Kong, won the 2022 Women’s Interprofessional Network of the American Diabetes Association abstract award in the category of Clinical Diabetes, Epidemiology, and Diabetes Complications in recognition of her outstanding results and significant contributions in the SENSITIZE study and the whole field of diabetes research.

- 2) A post-hoc analysis of the Phase III trials of dorzagliatin led by the former President of the Chinese Diabetes Society and present Vice President of the Asian Association for Study of Diabetes, Professor Yang Wenying of China-Japan Friendship Hospital to validate the potential of dorzagliatin in improving early phase insulin secretion and restoring glucose sensitivity in type 2 diabetes (T2D) patients (presented via poster presentation at the 2022 ADA Scientific Sessions); and
- 3) The results of the DREAM study conducted by Professor Jianhua Ma, Director of the Department of Endocrinology, Nanjing First Hospital, Standing Member of the Chinese Diabetes Society, and other researchers in the dorzagliatin monotherapy (SEED) study to explore the potential of dorzagliatin in diabetes remission (presented via poster presentation at the 2022 ADA Scientific Sessions). The DREAM study is a non-drug intervention observational clinical study initiated by certain researchers participating in the SEED study. The main purpose of this study is to evaluate the remission of diabetes for 52 weeks after patients who completed the SEED study and whose blood glucose reached control targets, and stopped taking dorzagliatin as well as any other glucose-lowering medication. The results of the study showed that during the observation period when no anti-diabetes drugs were administered, the remission rate was 65.2% at 52 weeks. HbA1c, FPG and 2h-PPG levels were sustained during the 52 weeks after dorzagliatin discontinuation, and β -cell function was maintained during the observation period. The study indicated that dorzagliatin has the potential to be a promising treatment option for achieving remission of diabetes: for newly diagnosed patients, especially those who have a short course of disease, dorzagliatin treatment can promote diabetes remission, indicating that improvements of β -cell function by restoration of glucose stimulated early-phase insulin secretion may be a potential viable mechanism.

As we continue to progress with our development of our lead candidate, dorzagliatin, we are also moving forward with preparations for the drug's life cycle management for expansion of patient population and entering into new indications. We filed applications, and secured patents for fixed dose combinations of dorzagliatin with select approved oral anti-diabetes therapies. We have also initiated pre-clinical development and filed patent applications globally for a second generation glucokinase activator, based on our experience and insights gained in working with dorzagliatin.

We also continue to move forward with our collaboration with the leading diabetes partner in China, Bayer, in preparation of the commercial launch of dorzagliatin in China. In September 2021, we entered into a strategic agreement with Sinopharm Group Co., Ltd. (Hong Kong Stock Code: 1099), to cooperate in logistics warehousing, supply chain management and channel data analysis, and to jointly promote the commercialization of dorzagliatin for its expected market launch in China. In February 2022, we announced a supply agreement with WuXi STA for the commercial manufacturing of dorzagliatin to further enhance our existing collaboration.

In addition to our development and commercialization efforts with dorzagliatin, we also continue to develop various other compounds, currently in the pre-clinical stage. One is focused on mGLUR5 for Parkinson's disease levodopa-induced dyskinesia, and the other is a fructose kinase inhibitor for metabolic disease.

1 HbA1c levels < 7.0%.

2 Calculated using the Kaplan-Meier methodology.

Product pipeline

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

Product Name	Indication	Development phase	Pre-clinical	IND	Phase I	Phase II	Phase III	NDA
Dorzagliatin HMS5552	T2D	NDA Filed (China)						
	DKD	Phase I enabling						
	T1D	IND-enabling						
HMSFDC 6857 Dorzagliatin + Metformin	T2D	Phase I ready						
HMSFDC 6868 Dorzagliatin + Sitagliptin	T2D	Phase I ready						
	Insulin Sparing	IND-enabling						
HMSFDC 5868 Dorzagliatin + Empagliflozin	T2D CVR	Phase I ready						
HMSFDC 5688 Dorzagliatin + pioglitazone	NASH	IND-enabling						
HMS 5678 Dorzagliatin + GLP-1	Alzheimer Disease	IND-enabling						
HMS 6789 Dorzagliatin + Insulin	Late Stage T2D	IND-enabling						
	T1D	IND-enabling						
mGLUR5 NAM	PD-L1D	Pre-clinical						
Fructose Kinase Inhibitor	Metabolic Disease	Pre-clinical						
2nd Generation GKA	Metabolic Disease	Pre-clinical						

Cautionary Statement required under Rule 18A.08(3) of the Listing Rules: We may not be able to ultimately develop and market our dorzagliatin successfully.

Business outlook

At present, the NDA for dorzagliatin is under active review by the NMPA, and we are actively working to obtain approval for our NDA as soon as possible. If approved, we plan to commercialize dorzagliatin in China with our partner, Bayer, to seek entry into the National Reimbursement Drug List (the "NRDL"), and to expand its use as a cornerstone treatment for T2D as monotherapy or in combination with other approved antidiabetic drugs. We are also advancing development of our fixed dose combinations with dorzagliatin, as well as our second generation glucokinase activator for potential future international expansion.

Key events after the Reporting Period

There are no important events that have occurred since June 30, 2022 and up to the date of this report.

Financial review

Other income

Our other income consisted primarily of bank interest income and government grants. Our other income was RMB21.4 million for the six months ended June 30, 2022 as compared to RMB3.6 million for the six months ended June 30, 2021, which was mainly attributable to an increase of RMB19.2 million in government grants for the six months ended June 30, 2022, adjusted for a decrease of RMB1.1 million in bank interest income from short-term deposits.

Other gains and losses

Our other gains and losses consisted primarily of gains due to fluctuations in the exchange rates between the Renminbi and the U.S. dollar and between Renminbi and the HK dollar. Our other gains and losses increased by RMB20.4 million and were mainly attributable to foreign exchange gains in connection with bank balances and cash denominated in U.S. dollar and HK dollar and the appreciation of the U.S. dollar and HK dollar against the Renminbi for the six months ended June 30, 2022.

Our business mainly operates in the PRC, and most of our transactions are settled in Renminbi. Since inception, we have financed our business principally through equity financings, with related proceeds denominated in U.S. dollar, HK dollar and Renminbi. We converted a portion of those U.S. dollar proceeds to Renminbi and HK dollar proceeds to U.S. dollar immediately, with the remaining amounts reserved for additional conversions to Renminbi as needed. Translation for financial statement presentation purposes of our assets and liabilities exposes us to currency-related gains or losses and the actual conversion of our U.S. dollar and HK dollar denominated cash balances will also expose us to currency exchange risk. We have not engaged in any foreign exchange hedging related activity.

Administrative expenses

Our administrative expenses consisted primarily of employee compensation and related costs. Our administrative expenses increased by RMB5.0 million to RMB68.5 million for the six months ended June 30, 2022 from RMB63.5 million for the six months ended June 30, 2021, which was mainly attributable to i) an increase of RMB6.9 million in consultant fee, which was mainly due to our NDA application related consulting, pricing strategy consulting and economic evaluation consulting of dorzagliatin conducted during the six months ended June 30, 2022 and no such consulting activities conducted during the six months ended June 30, 2021, ii) an adjustment for the decrease of RMB1.2 million in recruitment expense due to our recruitment strategy, and iii) an adjustment for the decrease of RMB0.4 million in meeting fee and RMB0.5 million in travelling expense due to decreased meeting and travelling activities compared to the six months ended June 30, 2021, which was impacted by COVID-19 in the first half of 2022.

Other expenses

We have no other expenses for the six months ended June 30, 2022 as compared to RMB1.6 million (equivalent to USD250,000) for the six months ended June 30, 2021 to establish the Type 2 Diabetes research fund at the Department of Biochemistry and Biophysics at the Raymond and Ruth Perelman School of Medicine of the University of Pennsylvania.

Finance cost

Our finance cost consisted primarily of interest on lease liabilities. Our finance cost was RMB1.8 million for the six months ended June 30, 2022 as compared to RMB2.0 million for the six months ended June 30, 2021, which was mainly attributable to the surrender of old offices in the first half of 2021, after moving into our new headquarter at the end of 2020.

Research and development expenses

The following table sets forth the components of our research and development expenses for the period indicated.

	Six months ended June 30,			
	2022		2021	
	RMB'000	%	RMB'000	%
Dorzagliatin Clinical Trials	2,948	4.1%	18,564	19.0%
Dorzagliatin Non-clinical Studies	789	1.1%	3,236	3.3%
Chemical, Manufacturing and Control	9,015	12.5%	7,450	7.6%
Labor Cost	47,279	65.4%	54,271	55.3%
Dorzagliatin Licensing and Patent Fee	774	1.1%	–	0.0%
Others	11,481	15.8%	14,461	14.8%
Total	<u>72,286</u>	<u>100.0%</u>	<u>97,982</u>	<u>100.0%</u>

Research and development expenses decreased by RMB25.7 million to RMB72.3 million for the six months ended June 30, 2022 from RMB98.0 million for the six months ended June 30, 2021. The decrease in research and development expenses mainly included:

- a decrease of RMB15.6 million for dorzagliatin clinical trials, which was primarily attributable to the data analysis and TMF report preparation of SEED/HMM0301 and DAWN/HMM0302 conducted in the first half of 2021. In the first half of 2022, we primarily focused on our NDA approval and conducted several additional clinical research to support the review by the NMPA;
- an increase of RMB1.6 million in chemical, manufacturing, and control expenses, which was primarily attributable to the process validation, drug substance and production for clinical trial for the review of our NDA approval conducted in the first half of 2022;
- a decrease of RMB2.4 million for dorzagliatin non-clinical studies, which was primarily attributable to the ISS data and analysis expense for our NDA filing, FDC efficacy study of dorzagliatin with insulin/acarbose and efficacy study of dorzagliatin in animal model of T2D complicating cognitive disorder conducted in the first half of 2021 and no such studies happened in the first half of 2022;
- a decrease of RMB7.0 million in labor cost, which was primarily attributable to decreased bonus for the period and the decrease of share-based payment under the accelerated amortization method; and
- a decrease of RMB3.0 million in other expenses, which was primarily attributable to the decreased travelling cost, meeting cost and utility cost due to the impact of COVID-19 in the first half of 2022.

Income tax expense

We recognized no income tax expenses for the six months ended June 30, 2022 and the six months ended June 30, 2021.

Liquidity and capital resources

Since our inception, we have incurred net losses and negative cash flows from operations. Our primary use of cash is to fund research and development expenses. Our operating activities utilized RMB116.7 million for the six months ended June 30, 2022. As of June 30, 2022, we had cash and cash equivalents of RMB586.3 million.

As of June 30, 2022, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended June 30, 2022.

Cash operating cost

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

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
Research and development costs	70,599	90,873
Administrative Costs		
– Workforce employment	38,276	29,377
– Others	33,448	44,040
	<u>71,724</u>	<u>73,417</u>
	<u>142,323</u>	<u>164,290</u>

Cash flows

The following table provides information regarding our cash flows for the six months ended June 30, 2022 and 2021:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
Net cash used in operating activities	(116,659)	(164,290)
Net cash from (used in) investing activities	17,024	(10,124)
Net cash used in financing activities	(4,293)	(5,788)
Effect of exchange rate changes	14,997	(4,960)
Net decrease in cash and cash equivalents	<u>(88,931)</u>	<u>(185,162)</u>

Net cash used in operating activities

The primary use of our cash was to fund our research and development activities, regulatory and other clinical trial costs, and related supporting administration. Our prepayments and other current assets, accounts payable and other payables balances were affected by the timing of vendor invoicing and payments.

During the six months ended June 30, 2022, our operating activities used RMB116.7 million of cash, which resulted principally from our loss before tax of RMB104.6 million, adjusted for non-cash charges and non-operating cash gains of RMB1.6 million, and by cash used in our operating assets and liabilities of RMB10.5 million. Our net non-cash charges during the six months ended June 30, 2022 primarily consisted of share-based payment expenses, depreciation of equipment, right-of-use assets and amortization for intangible assets.

During the six months ended June 30, 2021, our operating activities used RMB164.3 million of cash, which resulted principally from our loss before tax of RMB165.3 million, adjusted for non-cash charges and non-operating cash charges of RMB38.8 million, and by cash used in our operating assets and liabilities of RMB37.8 million. Our net non-cash charges during the six months ended June 30, 2021 primarily consisted of share-based payment expenses, depreciation of equipment, right-of-use assets and amortization for intangible assets.

Net cash from (used in) investing activities

Net cash from investing activities was RMB17.0 million for the six months ended June 30, 2022, which resulted primarily from the government grant received to subsidize the Group's leasehold improvement, furniture, fixture and equipment purchased in the prior years and the interest received from bank for short-term deposit, adjusted for the purchase of plant and equipment and intangible assets. Net cash used in investing activities was RMB10.1 million for the six months ended June 30, 2021, which resulted primarily from the purchase of equipment and intangible assets, adjusted for interest received from bank for short-term deposit.

Net cash used in financing activities

Net cash used in financing activities was RMB4.3 million for the six months ended June 30, 2022, which resulted from repayments of lease liabilities, adjusted for proceeds from exercise of share options. Net cash used in financing activities was RMB5.8 million for the six months ended June 30, 2021, which resulted from repayments of lease liabilities, adjusted for proceeds from exercise of share options.

Financial position

Our net current assets decreased from RMB597.7 million as of December 31, 2021 to RMB541.8 million as of June 30, 2022. Current assets decreased from RMB704.6 million as of December 31, 2021 to RMB622.3 million as of June 30, 2022, primarily due to decrease in bank balances and cash from RMB675.2 million as of December 31, 2021 to RMB586.3 million as of June 30, 2022, which was primarily due to net cash expenditure during the six months ended June 30, 2022.

Indebtedness

As of June 30, 2022, our lease liabilities amounted to RMB73.3 million. The following table sets forth our lease liabilities as of the dates indicated:

	As of June 30, 2022 RMB'000	As of December 31, 2021 RMB'000
Current portion	20,879	13,296
Non-current portion	52,413	58,232
Total	<u>73,292</u>	<u>71,528</u>

Our lease liabilities as of June 30, 2022 were from leased properties lease contracts with lease terms of two to four years. As of June 30, 2022, we did not have any other indebtedness.

Qualitative and quantitative disclosures about market risk

We are exposed to a variety of market risks, including currency risk, interest rate risk, credit risk, and liquidity risk, details of which are set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner. We currently do not hedge or consider it necessary to hedge any of these risks.

Currency risk

Our business mainly operates in the PRC with most of our transactions settled in Renminbi, and our financial statements are presented in Renminbi. Renminbi is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of Renminbi into foreign currencies. The value of Renminbi is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trade System market. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk.

Since our inception, we have raised funds through various rounds of offshore financings and received proceeds of such financings in U.S. dollars, HK dollars and Renminbi. We converted a portion of those funds to Renminbi immediately and placed the remaining amount in time deposits. We converted additional amounts to Renminbi as needed. The value of the Renminbi against the U.S. dollars and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. To the extent that we need to convert U.S. dollars or other currencies we have received in previous financings into Renminbi for our operations, or if any of our arrangements with other parties are denominated in U.S. dollars and need to be converted into Renminbi, appreciation of the Renminbi against the U.S. dollars or other currencies would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars or other currencies for business purposes, appreciation of the U.S. or HK dollars against the Renminbi would have a negative effect on the U.S. dollars or other currencies amounts available to us. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency rate.

The following table details our sensitivity to a 5% increase and decrease in the Renminbi against the U.S. dollar and the HK dollar, the foreign currencies to which we may have material exposure. No sensitivity analysis has been disclosed for the Taiwan dollar denominated assets as the impact on profit is immaterial. 5% represents management's assessment of the reasonably possible changes in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation as of June 30, 2022 for a 5% change in foreign currency rate. A negative number below indicates an increase in loss where the Renminbi strengthens 5% against the U.S. dollar and the HK dollar. For a 5% weakening of the Renminbi against the U.S. dollar and the HK dollar there would be an equal and opposite impact on gain for the period.

	As of June 30, 2022 RMB'000	As of December 31, 2021 RMB'000
Impact on profit or loss		
US\$	(10,219)	(18,134)
HK\$	(2,077)	(2,057)

Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate short-term bank deposits. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk. Nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

Liquidity risk

As of June 30, 2022 and December 31, 2021, we recorded net current assets of RMB541.8 million and RMB597.7 million, respectively. In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

Key financial ratios

The following table sets forth our key financial ratios as of the dates indicated:

	As of June 30, 2022	As of December 31, 2021
Current ratio ⁽¹⁾	7.7	6.6
Quick ratio ⁽²⁾	7.7	6.6
Gearing ratio ⁽³⁾	20.0%	15.9%

(1) Current ratio represents current assets divided by current liabilities as of the same date.

(2) Quick ratio represents current assets less inventories divided by current liabilities as of the same date.

(3) Gearing ratio represents liability divided by equity as of the same date. Liability is defined as lease liabilities (excluding trade and other payables, deferred income and contract liability). Equity includes all capital and reserves of the Group.

The current ratio and quick ratio as of June 30, 2022 increased by 1.1 compared with that as of December 31, 2021, which was mainly due to the payment of research activities and daily operation.

Charge of the Group's assets

As of June 30, 2022, RMB7.8 million of the Group's bank deposits were charged by the bank to secure commencement and completion of the factory construction and launch of production.

Capital commitments

The following table sets forth our capital commitments as of the dates indicated:

	As of June 30, 2022 RMB'000	As of December 31, 2021 RMB'000
Capital expenditure in respect of the acquisition of construction contracted for but not provided in the consolidated financial statements	556	4,381

Future plans for material investments or capital assets

As of June 30, 2022, we plan to continually invest in the Hua Medicine drug manufacturing company which was established at Shanghai Lingang Special Area for ensuring adequate dorzagliatin commercial supply.

Contingent liabilities

Save as disclosed in this report, the Group had no material contingent liabilities as of June 30, 2022 (as of June 30, 2021: Nil).

Disclosure under Rules 13.13 to 13.19 of the Listing Rules

Our Directors have confirmed that as at June 30, 2022, there were no circumstances that gave rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

Employees and remuneration policies

As of June 30, 2022, we had 147 employees. The following table shows a breakdown of our employees by function as of June 30, 2022:

	Number of employees	Approximate percentage
Research and development	78	53%
General and administration	60	41%
Management	9	6%
	<hr/>	<hr/>
Total	<u>147</u>	<u>100%</u>

The majority of the employees are employed in mainland China. For the six months ended June 30, 2022, the staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB80.4 million as compared to RMB85.4 million for the six months ended June 30, 2021.

The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and agreements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve their working efficiency. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labor dispute during the six months ended June 30, 2022.

The Company has also adopted a Pre-IPO Share Incentive Scheme and a Post-IPO Share Option Scheme. Please refer to the section headed "Statutory and General Information – D. Share Incentive Schemes" in Appendix IV to the Prospectus for further details.

Outstanding share options granted under the Pre-IPO Share Incentive Scheme

The Company has not granted further share options under the Pre-IPO Share Incentive Scheme after the Listing Date. The table below shows the details of movements of share options granted to the Directors and other employees and consultants under the Pre-IPO Share Incentive Scheme.

Name or category of grantee	Date of grant	Exercise price	Vesting Period ⁽¹⁾	Number of	Number of	Weighted	Number of	Number of	Number of
				Shares		options			average price
				underlying	during the	of Shares	during the	during the	underlying
				options	Reporting	immediately	Reporting	Reporting	options
				outstanding	Period	before the	Period	Period	outstanding
				as at		date(s) of			as at
				1 January		exercise			30 June
				2022					2022
Category 1: Directors									
Dr. Li Chen	December 4, 2014 ~ August 26, 2018	US\$0.07 ~ 0.49	4 years	11,421,725	-	-	-	-	11,421,725
Mr. George Chien Cheng Lin	April 3, 2018	US\$0.47	4 years	25,592,405	-	-	-	-	25,592,405
Category 2: Employees									
	March 25, 2013 ~ August 26, 2018	US\$0.07 ~ 0.47	4 years	43,761,066	(1,912,698)	HK\$3.82	(236,875) ⁽²⁾	(219,944) ⁽³⁾	41,391,549
Category 3: Individual consultants									
	September 12, 2013 ~ May 11, 2018	US\$0.07 ~ 0.47	1 ~ 4 years	6,177,000	-	-	-	-	6,177,000
	Total			86,952,169	(1,912,698)	-	(236,875)	(219,944)	84,582,679

Notes:

- (1) Options granted under the Pre-IPO Share Incentive Scheme generally vest over a four year period, with 25% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 75% vesting subsequently in 36 equal monthly instalments except for the options granted to non-employees individual consultants on September 12, 2013 and March 15, 2016. The options granted to individual consultants on September 12, 2013 have a contractual term of 10 years and generally vest over a three year period, with 33% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 67% vesting in 24 substantially equal monthly instalments. The options granted to individual consultants on March 15, 2016 have a contractual term of 10 years and vest in 12 equal monthly instalments. The exercise period of the share options granted under the Pre-IPO Share Incentive Scheme shall be any time after the end of the vesting period and before the 10th anniversary of the grant date, subject to the terms of the Pre-IPO Share Incentive Scheme and the share option award agreements signed by the grantees.
- (2) The exercise price of the cancelled options is HK\$2.886.
- (3) The exercise price of the lapsed options is between HK\$0.546 and HK\$3.666.

Outstanding RSUs granted under the Pre-IPO Share Incentive Scheme

The Company has not granted further RSUs under the Pre-IPO Share Incentive Scheme after the Listing Date. The table below shows the details of movements of RSUs granted to the Director under the Pre-IPO Share Incentive Scheme.

Name	Date of grant	Vesting Period ⁽¹⁾	Number of Shares underlying RSUs outstanding as of January 1, 2022	RSUs vested during the Reporting Period	RSUs cancelled/lapsed during the Reporting Period	Number of Shares underlying RSUs outstanding as of June 30, 2022
Mr. George Chien Cheng Lin	April 3, 2018	4 years	1,391,781	(927,876)	–	463,905

Note:

- (1) Such shares were vested after a qualified IPO achieved in 48 monthly instalments, subject to the grantee's continued employment through the applicable vesting date.

Outstanding share options granted under the Post-IPO Share Option Scheme

The table below shows the details of movement of share options granted under the Post-IPO Share Option Scheme.

Name or category of grantee	Date of grant	Closing price of the Shares immediately before the date of grant	Exercise price	Vesting Period ⁽¹⁾	Number of Shares			Weighted average price of Shares immediately before the date(s) of exercise	Number of options cancelled during the Reporting Period	Number of options lapsed during the Reporting Period	Number of Shares underlying options outstanding as at 30 June 2022
					as at 1 January 2022	Number of options granted during the Reporting Period	Number of options exercised during the Reporting Period				
Category 1: Directors											
Dr. Li Chen	March 8, 2019 ~ March 17, 2022	HK\$2.784 ~ 8.89	HK\$3.400 ~ 8.866	4 years	15,079,000	5,000,000	-	-	-	-	20,079,000
Mr. George Chien Cheng Lin	March 8, 2019	HK\$8.89	HK\$8.866	4 years	300,000	-	-	-	-	-	300,000
Category 2: Employees											
	September 28, 2018 ~ June 24, 2022	HK\$2.784 ~ 8.89	HK\$3.000 ~ 8.866	4 years	21,811,301	4,700,000	(182,500)	HK\$3.87	(517,078) ⁽²⁾	(365,331) ⁽³⁾	25,446,392
Category 3: Individual consultants											
	March 8, 2019	HK\$8.89	HK\$8.866	4 years	200,000	-	-	-	-	-	200,000
Total					37,390,301	9,700,000	(182,500)		(517,078)	(365,331)	46,025,392

Notes:

- (1) Options granted under the Post-IPO Share Option Scheme generally vest over a four-year period, with 25% of the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly instalments thereafter, subject to the grantee's continued employment through the applicable vesting date. The share options shall be valid for a period of ten years from the date upon which the offer for the grant is options is made by the Company. The share options may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Post-IPO Share Option Scheme.
- (2) The exercise price of the cancelled options is between HK\$3.616 and HK\$8.866.
- (3) The exercise price of the lapsed options is between HK\$3.616 and HK\$8.866.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF HUA MEDICINE

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Hua Medicine (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 21 to 42, which comprise the condensed consolidated statement of financial position at June 30, 2022 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

August 25, 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2022

	Notes	Six months ended June 30,	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Other income	4	21,352	3,612
Other gains and losses	5	16,656	(3,788)
Administrative expenses		(68,536)	(63,518)
Finance cost	6	(1,805)	(1,999)
Research and development expenses		(72,286)	(97,982)
Other expenses		—	(1,617)
Loss before tax	7	(104,619)	(165,292)
Income tax expense	8	—	—
Loss for the period		<u>(104,619)</u>	<u>(165,292)</u>
Other comprehensive income (expense):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences on translation of foreign operations		72	(2)
Other comprehensive income (expense) for the period, net of income tax		<u>72</u>	<u>(2)</u>
Total comprehensive expense for the period		<u>(104,547)</u>	<u>(165,294)</u>
Total comprehensive expense for the period attributable to:			
– Owners of the Company		<u>(104,547)</u>	<u>(165,294)</u>
		RMB	RMB
LOSS PER SHARE	11		
Basic and diluted		<u>(0.11)</u>	<u>(0.17)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2022

	Notes	At June 30, 2022 RMB'000 (unaudited)	At December 31, 2021 RMB'000 (audited)
Non-current assets			
Plant and equipment	12	56,367	57,942
Right-of-use assets	12	94,855	98,658
Intangible assets		9,106	9,026
Pledged bank deposits	14	3,130	3,130
Prepayments and other receivables	13	6,696	30,197
		<u>170,154</u>	<u>198,953</u>
Current assets			
Prepayments and other receivables	13	31,250	24,666
Pledged bank deposits	14	4,696	4,696
Bank balances and cash	14	586,307	675,238
		<u>622,253</u>	<u>704,600</u>
Current liabilities			
Trade and other payables	15	49,042	79,738
Deferred income	16	10,559	13,850
Lease liabilities		20,879	13,296
		<u>80,480</u>	<u>106,884</u>
Net current assets		<u>541,773</u>	<u>597,716</u>
Total assets less current liabilities		<u>711,927</u>	<u>796,669</u>
Non-current liabilities			
Deferred income	16	9,268	5,087
Contract liabilities		283,019	283,019
Lease liabilities		52,413	58,232
		<u>344,700</u>	<u>346,338</u>
Net assets		<u>367,227</u>	<u>450,331</u>
Capital and reserves			
Share capital	17	7,212	7,211
Treasury shares held in trust	17	(607)	(626)
Reserves		360,622	443,746
Total equity		<u>367,227</u>	<u>450,331</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2022

	Attributable to owners of the Company							Total RMB'000
	Share capital RMB'000	Treasury	Share premium RMB'000	Other reserve RMB'000	Share	Translation reserve RMB'000	Accumulated losses RMB'000	
		share held in trust RMB'000			option reserve RMB'000			
At January 1, 2022 (audited)	7,211	(626)	5,910,257	(9,456)	239,082	1	(5,696,138)	450,331
Loss for the period (unaudited)	-	-	-	-	-	-	(104,619)	(104,619)
Other comprehensive income for the period (unaudited)	-	-	-	-	-	72	-	72
Total comprehensive expense for the period (unaudited)	-	-	-	-	-	72	(104,619)	(104,547)
Exercise of share options (Note 17 (b/c)) (unaudited)	1	13	4,632	(13)	-	-	-	4,633
Restricted stock units vested under the trust (Note 17 (d)) (unaudited)	-	6	-	(6)	-	-	-	-
Recognition of equity-settled share-based payment (unaudited)	-	-	-	-	16,810	-	-	16,810
At June 30, 2022 (unaudited)	<u>7,212</u>	<u>(607)</u>	<u>5,914,889</u>	<u>(9,475)</u>	<u>255,892</u>	<u>73</u>	<u>(5,800,757)</u>	<u>367,227</u>
At January 1, 2021 (audited)	7,209	(690)	5,899,838	(9,392)	206,387	(453)	(5,370,404)	732,495
Loss for the period (unaudited)	-	-	-	-	-	-	(165,292)	(165,292)
Other comprehensive expense for the period (unaudited)	-	-	-	-	-	(2)	-	(2)
Total comprehensive expense for the period (unaudited)	-	-	-	-	-	(2)	(165,292)	(165,294)
Exercise of share options (unaudited)	-	14	2,851	(14)	-	-	-	2,851
Restricted stock units vested – under the trust (unaudited)	-	7	-	(7)	-	-	-	-
Recognition of equity-settled share-based payment (unaudited)	-	-	-	-	19,364	-	-	19,364
At June 30, 2021 (unaudited)	<u>7,209</u>	<u>(669)</u>	<u>5,902,689</u>	<u>(9,413)</u>	<u>225,751</u>	<u>(455)</u>	<u>(5,535,696)</u>	<u>589,416</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2022

	Six months ended June 30,	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
OPERATING ACTIVITIES		
Loss before tax	(104,619)	(165,292)
Adjustments for:		
Bank interest income	(1,698)	(2,786)
Income from government grants	(19,110)	–
Rental concession	–	(345)
Depreciation of plant and equipment	5,894	6,128
Depreciation of right-of-use assets	9,468	9,055
Amortization of intangible assets	224	395
Finance cost	1,805	1,999
Share-based payment expense	16,810	19,364
Net unrealized foreign exchange (gains) losses	(14,925)	4,958
Loss on disposal of equipment	–	66
Operating cash flows before movements in working capital	(106,151)	(126,458)
Increase in prepayments and other receivables	(3,184)	(14,294)
Decrease in trade and other payables	(30,348)	(18,472)
Decrease (increase) in value added tax recoverable	23,024	(5,066)
NET CASH USED IN OPERATING ACTIVITIES	(116,659)	(164,290)
INVESTING ACTIVITIES		
Purchase of plant and equipment	(4,264)	(12,371)
Purchase of intangible assets	(304)	(983)
Payments for rental deposits	(28)	(7)
Withdrawal of rental deposits	–	9
Interest received from bank	1,620	3,228
Assets-related government grants received	20,000	–
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	17,024	(10,124)

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
Repayments of leases liabilities	(6,109)	(7,806)
Proceeds from exercise of share options	1,816	2,018
	<u> </u>	<u> </u>
NET CASH USED IN FINANCING ACTIVITIES	(4,293)	(5,788)
	<u> </u>	<u> </u>
DECREASE IN CASH AND CASH EQUIVALENTS	(103,928)	(180,202)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	675,238	1,032,090
Effects of exchange rate changes	14,997	(4,960)
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD,		
REPRESENTED BY BANK BALANCES AND CASH	<u>586,307</u>	<u>846,928</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2022

1. GENERAL INFORMATION AND BASIS OF PREPARATION

1.1 General information

Hua Medicine (the “Company”) was established in the Cayman Islands as an exempted company with limited liability on November 10, 2009, and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on September 14, 2018 (the “Listing Date”). The address of the registered office and the principal place of business of the Company are set out in the section headed “Corporate Information” to the interim report. The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as “Group”) are principally engaged in developing a global first-in-class oral drug, Dorzagliatin or HMS5552, for the treatment of Type 2 diabetes.

1.2 Basis of preparation

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

The functional currency of the Company is Renminbi (“RMB”), which is the same as the presentation currency of the condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2022 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2021.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by the International Accounting Standard Board (the "IASB"), for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020

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

3. SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, the Group's chief executive officer, being the chief operating decision maker, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment and no further analysis of this single segment is present.

The Group did not record any revenue during the reporting period and the Group's non-current assets are substantially located in the PRC, accordingly, no analysis of geographical segment is presented.

4. OTHER INCOME

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Bank interest income	1,698	2,786
Government grants (Note)	19,654	481
– R&D activities related grants	16,687	–
– Assets-related grants	2,423	–
– Others	544	481
Covid-19-related rent concessions	–	345
	21,352	3,612

Note:

The amount mainly represents 1) government grant related to income received as compensation for future research and development costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income were recorded in deferred income when received and recognized in profit or loss when related costs were subsequently incurred and the Group received government acknowledge of compliance; and 2) amortization of subsidies received from the PRC local government authorities to subsidize the purchase of the Group's leasehold improvement, furniture, fixture and equipment.

5. OTHER GAINS AND LOSSES

Other gains and losses mainly represent the foreign exchange gains and losses during six months ended June 30, 2022 and 2021, respectively.

6. FINANCE COST

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on the lease liabilities	1,805	1,999
	<u>1,805</u>	<u>1,999</u>

7. LOSS BEFORE TAX

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

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of plant and equipment	5,894	6,128
Depreciation of right-of-use assets	9,871	9,055
Amortization of intangible assets	224	395
	<u>15,989</u>	<u>15,578</u>
Total depreciation and amortization	15,989	15,578
Capitalized in construction in progress	(403)	–
	<u>15,586</u>	<u>15,578</u>
Covid-19-related rent concessions	–	345
Other expenses	–	1,617
Staff cost (including directors' emoluments):		
– Salaries and other benefits	63,561	66,009
– Retirement benefit scheme contributions	5,725	5,271
– Share-based payment	16,810	19,364
	<u>86,096</u>	<u>90,644</u>
Auditors' remuneration	647	680
Expenses relating to short-term leases and leases of low-value assets	355	263

8. INCOME TAX EXPENSE

The Company was incorporated in the Cayman Islands and is exempted from income tax.

No Hong Kong profit tax was provided for as there was no estimated assessable profit of the Group's Hong Kong subsidiary that was subject to Hong Kong profit tax during the period presented in the condensed consolidated financial statements.

Under the Law of the PRC of Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the estimated tax rate of the Group's PRC subsidiary is 25% during the period presented in the condensed consolidated financial statements. No PRC Enterprise Income tax was provided for as there was no estimated assessable profit of the Group's PRC subsidiary during the period presented in the condensed consolidated financial statements.

The subsidiary incorporated in the United States are subject to Federal and State Income taxes, the effective combined income tax rate is 21% for the current interim period.

Deferred taxation had not been recognized on the unused tax losses and deductible temporary differences due to the unpredictability of future profit streams.

9. LICENSE AGREEMENT

In December 2011, the Group entered into a research, development and commercialization agreement ("GKA Agreement") with Hoffman-La Roche Inc., and F. Hoffman-La Roche AG (collectively referenced as "Roche") under which Roche granted the Group an exclusive license of patent rights, know-how and regulatory filings with respect to a compound which is a glucokinase activator to research, develop and commercialize products ("Licensed Product") in the field of diabetes in the licensed territory ("Licensed Territory"). Pursuant to the GKA Agreement, the Group made US\$2,000,000 non-refundable upfront payment to Roche in 2012.

In 2017, the Group made US\$1,000,000 milestone payment to Roche upon the commencement of clinical trial Phase III in the PRC (excluding Hong Kong and Macau) for the Licensed Product.

In 2021, the Group made US\$1,000,000 milestone payment to Roche upon NDA filing in the PRC (excluding Hong Kong and Macau) to the National Medical Products Administration.

The Group is further obligated to make US\$3,000,000 milestone payments upon the achievement of development of the Licensed Product through new drug approval in the PRC (excluding Hong Kong and Macau) and US\$33,000,000 in the Licensed Territory other than the PRC (excluding Hong Kong and Macau). Upon commercialization, the Group is contingently obligated to make US\$15,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US\$500,000,000 and US\$40,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US\$1,000,000,000. The Group is also obligated to make royalty payments at the applicable incremental royalty rate based on sales of the Licensed Product.

10. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

11. LOSS PER SHARE

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

Loss figures are calculated as follows:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Loss for the period attributable to the owners of the Company for the purpose of basic and diluted loss per share	<u>(104,619)</u>	<u>(165,292)</u>

Number of Shares:

	Six months ended June 30,	
	2022	2021
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>958,398,351</u>	<u>955,092,759</u>

The computation of basic loss per share for the six months ended June 30, 2022 and 2021 respectively excluded the unvested restricted stock units of the Company.

The computation of diluted loss per share for the six months ended June 30, 2022 and 2021 respectively did not assume the exercise of share options and vesting of restricted stock units since their assumed exercise would result in a decrease in loss per share.

12. PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS

During the current interim period, the Group acquired RMB4,319,000 (unaudited) (six months ended June 30, 2021: RMB1,885,000 (unaudited)) of plant and equipment. In addition, during the current interim period, there is no disposal of plant and equipment (six months ended June 30, 2021: aggregate carrying amount of RMB149,500 (unaudited) for proceeds of RMB73,500 (unaudited), resulting in a loss on disposal of RMB76,000 (unaudited)). The net book value of plant and equipment at June 30, 2022 is RMB56,367,000 (unaudited) (December 31, 2021: RMB57,942,000 (audited)).

During the current interim period, the Group extended the lease terms of several existing lease agreements for one to three year. The Group is required to make fixed monthly or quarterly payments. On date of lease modification, the Group recognized right-of-use assets of RMB6,068,000 (unaudited) (six months ended June 30, 2021: RMB1,994,000 (unaudited)) and lease liabilities of RMB6,068,000 (unaudited) (six months ended June 30, 2021: RMB1,994,000 (unaudited)). The net book value of right-of-use assets and lease liabilities at June 30, 2022 is RMB94,855,000 (unaudited) (December 31, 2021: RMB98,658,000 (audited)) and RMB73,292,000 (unaudited) (December 31, 2021: RMB71,528,000 (audited)), respectively.

13. PREPAYMENTS AND OTHER RECEIVABLES

	At June 30, 2022 RMB'000 (unaudited)	At December 31, 2021 RMB'000 (audited)
Prepayments for services and materials	19,912	14,303
Utility and rental deposits	5,299	5,271
– current	988	662
– non-current	4,311	4,609
Value added tax recoverable – non-current	1,918	24,942
Interest receivables	130	52
Other receivables for considerations of options exercised	3,176	359
Others	7,511	9,936
– current	7,044	9,290
– non-current	467	646
	<u>37,946</u>	<u>54,863</u>
Analyzed as		
– current	31,250	24,666
– non-current	6,696	30,197
	<u>37,946</u>	<u>54,863</u>

14. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of six months or less. The short term bank deposits carry interests at market rates which ranged from 0.001% to 1.95% per annum as of June 30, 2022 (December 31, 2021: from 0.001% to 1.95% per annum).

Pledged bank deposits are for the performance guarantees to the Management Committee of Lingang New Area, Shanghai Pilot Free Trade Zone, China to secure commencement and completion of the factory construction and launch of production.

Deposits amounting to RMB4,696,000 (unaudited) (December 31, 2021: RMB4,696,000 (audited)) carry fixed interest rate of 1.50% and have been pledged to secure commencement of the factory construction. Deposits amounting to RMB1,565,000 (unaudited) (December 31, 2021: RMB1,565,000 (audited)) carry fixed interest rate of 2.75% and have been pledged to secure completion of the factory construction. These deposits will be released within 10 working days upon the completion of the factory construction, if such completion is before May 13, 2024. The remaining deposits amounting to RMB1,565,000 (unaudited) (December 31, 2021: RMB1,565,000 (audited)) carry fixed interest rate of 2.75% and have been pledged to secure production of the factory. These deposits will be released within 10 working days upon the launch of production, if such launch is before November 12, 2024.

15. TRADE AND OTHER PAYABLES

	At June 30, 2022 RMB'000 (unaudited)	At December 31, 2021 RMB'000 (audited)
Trade payables	12,535	23,785
Payroll and bonus payables	18,565	32,149
Other payables	1,574	4,071
Accrued leasehold improvement expenditure	1,468	1,604
Construction expenditure	10,379	10,982
Others	4,521	7,147
	<u>49,042</u>	<u>79,738</u>

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

15. TRADE AND OTHER PAYABLES (Continued)

The aging analysis of the trade payables presented based on the invoice date at the end of each reporting period is as follows:

	At June 30, 2022 RMB'000 (unaudited)	At December 31, 2021 RMB'000 (audited)
Uninvoiced or within 30 days	12,535	23,785
	<u>12,535</u>	<u>23,785</u>

16. DEFERRED INCOME

	At June 30, 2022 RMB'000 (unaudited)	At December 31, 2021 RMB'000 (audited)
Government grants received		
R&D activities related grants (Note i)	2,250	18,937
Assets-related grants (Note ii)	17,577	–
	<u>19,827</u>	<u>18,937</u>
Less: current liabilities	(10,559)	(13,850)
Non-current liabilities	<u>9,268</u>	<u>5,087</u>

Notes:

- i: The deferred income represents the government grants received from the local government to support the research and development activities of the Group. The grants will be recognized in profit or loss as other income upon the Group complying with the conditions attached to the grants and the government acknowledged acceptance.
- ii: The asset-related grants amounting to RMB20,000,000 are the subsidies received from the government during the current interim period. The amount is for the purpose of compensation for leasehold improvement, furniture, fixture and equipment purchased by the Group in prior years. Amortization of RMB2,423,000 was recognized in profit or loss during the current interim period and the remaining balance will be recognized in profit or loss over the remaining useful lives of the corresponding assets.

17. SHARE CAPITAL

The details of the changes of the Company's authorized and issued and fully paid ordinary shares during the six months ended June 30, 2022 are set out as below:

		Authorized number of shares	US\$
Ordinary shares of US\$0.001 each			
At December 31, 2021 (audited) and June 30, 2022 (unaudited)		<u>2,000,000,000</u>	<u>2,000,000</u>
			Shown in the condensed consolidated statement of financial position as RMB'000
	Issued and fully paid number of shares	US\$	
Ordinary shares of US\$0.001 each			
At December 31, 2021 (audited)	1,055,137,261	1,055,137	7,211
Exercise of share options (Note (c))	<u>182,500</u>	<u>183</u>	<u>1</u>
Ordinary shares of US\$0.001 each			
At June 30, 2022 (unaudited)	<u>1,055,319,761</u>	<u>1,055,320</u>	<u>7,212</u>

17. SHARE CAPITAL (Continued)

The details of the changes of the treasury shares held in trust during the six months ended June 30, 2022 are set out as below:

	Number of treasury shares	US\$	Shown in the condensed consolidated statement of financial position as RMB'000
Treasury shares held in trust at December 31, 2021 (audited) (Note (a))	91,587,872	91,587	626
Option exercised to purchase ordinary shares under the trust (Note (b))	(1,912,698)	(1,912)	(13)
Restricted stock units vested under the trust (Note (d))	<u>(927,876)</u>	<u>(928)</u>	<u>(6)</u>
Treasury shares held in trust at June 30, 2022 (unaudited) (Note (a))	<u>88,747,298</u>	<u>88,747</u>	<u>607</u>

Notes:

- (a) On August 26, 2018, the Company entered into a trust deed with The Core Trust Company Limited (the "Trustee") and HLYY Limited (the "Nominee"), a limited liability company incorporated in the British Virgin Islands and wholly owned by the Trustee, pursuant to which the Trustee has agreed to administer the Pre-IPO Share Incentive Scheme (as defined in Note 18). As of June 30, 2022, 88,747,298 shares of the sum of US\$88,747 (equivalent to RMB607,000) (December 31, 2021: 91,587,872 shares of the sum of US\$91,587 (equivalent to RMB626,000)) are held in trust including 88,283,393 shares (December 31, 2021: 90,196,091 shares) for outstanding options and 463,905 shares (December 31, 2021: 1,391,781 shares) for unvested restricted stock units and are disclosed separately in treasury shares since the Company has control over the Nominee.
- (b) During six months ended June 30, 2022, several employees exercised their right, evidenced by corresponding option agreements under the Company's Pre-IPO Share Incentive Scheme, to subscribe 1,912,698 ordinary shares of the Company at the average exercise price of HK\$2.51 per share for an aggregate consideration equivalent to RMB4,086,000.
- (c) During six months ended June 30, 2022, several employees exercised their right, evidenced by corresponding option agreements under the Company's Post-IPO Share Incentive Scheme, to subscribe 182,500 ordinary shares of the Company at the average exercise price of HK\$3.62 per share for an aggregate consideration equivalent to RMB547,000.
- (d) During six months ended June 30, 2022, 927,876 restricted stock units granted to Mr. George Chien Cheng Lin were vested at a par value of US\$0.001 each.

18. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

On March 5, 2013, the Company adopted a pre-IPO share incentive scheme (the "Pre-IPO Share Incentive Scheme") and established an employee trust to administer the scheme. The total number of shares may be issued under the Pre-IPO Share Incentive Scheme is 117,000,000 shares of the Company.

On August 26, 2018, the Company adopted a post-IPO share option Scheme (the "Post-IPO Share Option Scheme"). The total number of shares may be issued under the Post-IPO Share Option Scheme and any other share option scheme of the Company shall not in aggregate exceed 10% of the shares in issue on the Listing Date of the Company, representing 105,191,330 shares of the Company.

Under the Pre-IPO Share Incentive Scheme and Post-IPO Share Option Scheme, the directors of the Company may grant options to eligible employees, including the directors of the Company, to subscribe for shares of the Company. The fair value of the services provided by employees are measured at the fair value of options at the grant date. Additionally, the Company may, from time to time, grant share options to individual consultants for settlement in respect of research and development advisory services provided to the Group. The fair value of the services from individual consultants is determined by the fair value of the services received on the services receipt date.

(1) Details of specific categories of options under the Pre-IPO Share Incentive Scheme are as follows:

Categories	Date of grant	Number of options outstanding at June 30, 2022	Exercise price per share
Directors:			
Dr. Li Chen	December 4, 2014 ~ August 26, 2018	11,421,725	US\$0.07 ~ 0.49
Mr. George Chien Cheng Lin	April 3, 2018	25,592,405	US\$0.47
Employees	March 25, 2013 ~ August 26, 2018	41,391,549	US\$0.07 ~ 0.47
Individual consultants	September 12, 2013 ~ May 11, 2018	6,177,000	US\$0.07 ~ 0.47

18. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme of the Company (Continued)

(2) Details of specific categories of options under the Post-IPO Share Option Scheme are as follows:

Categories	Date of grant	Number of options outstanding at June 30, 2022	Exercise price per share
Directors:			
Dr. Li Chen	March 8, 2019 ~ March 17, 2022	20,079,000	HK\$3.400 ~ 8.866
Mr. George Chien Cheng Lin	March 8, 2019	300,000	HK\$8.866
Employees	September 28, 2018 ~ June 24, 2022	25,446,392	HK\$3.000 ~ 8.866
Individual consultants	March 8, 2019	200,000	HK\$8.866

(3) Options granted under the Pre-IPO Share Incentive Scheme and the Post-IPO Share Option Scheme shall have a contractual term of 10 years and generally vest over a four year period, with 25% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 75% vesting subsequently in 36 equal monthly instalments except for the options granted to non-employees individual consultants on September 12, 2013 and March 15, 2016. The options granted to individual consultants on September 12, 2013 have a contractual term of 10 years and generally vest over a three year period, with 33% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 67% vesting in 24 substantially equal monthly instalments. The options granted to individual consultants on March 15, 2016 have a contractual term of 10 years and vest in 12 equal monthly instalments. The vesting commencement date of 10,519,300 shares of options granted to Dr. Li CHEN on March 8, 2019 was subject to the positive HMM0301 Phase III results as determined in the directors of the Company's sole discretion (without the participation of the chief executive officer). On November 11, 2019, the directors of the Company approved the 10,519,300 shares of options granted to Dr. Li CHEN should commence the vesting period on November 11, 2019 based on the positive HMM0301 Phase III topline trial results being announced by the Company.

18. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme of the Company (Continued)

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Share Incentive Scheme and Post-IPO Share Option Scheme during the six months ended June 30, 2022:

Category	Option type	Outstanding at December 31, 2021	Granted during the period	Exercised during the period	Forfeited during the period	Lapsed during the period	Outstanding at June 30, 2022
Category 1: Directors							
Dr. Li Chen	Pre-IPO Share Incentive Scheme	11,421,725	-	-	-	-	11,421,725
	Post-IPO Share Option Scheme	15,079,000	5,000,000	-	-	-	20,079,000
	Subtotal	26,500,725	5,000,000	-	-	-	31,500,725
Mr. George Chien Cheng Lin	Pre-IPO Share Incentive Scheme	25,592,405	-	-	-	-	25,592,405
	Post-IPO Share Option Scheme	300,000	-	-	-	-	300,000
	Subtotal	25,892,405	-	-	-	-	25,892,405
	Total Directors	52,393,130	5,000,000	-	-	-	57,393,130
Category 2: Employees							
	Pre-IPO Share Incentive Scheme	43,761,066	-	(1,912,698)	(236,875)	(219,944)	41,391,549
	Post-IPO Share Option Scheme	21,811,301	4,700,000	(182,500)	(517,078)	(365,331)	25,446,392
	Total Employees	65,572,367	4,700,000	(2,095,198)	(753,953)	(585,275)	66,837,941
Category 3: Consultants							
	Pre-IPO Share Incentive Scheme	6,177,000	-	-	-	-	6,177,000
	Post-IPO Share Option Scheme	200,000	-	-	-	-	200,000
	Total Individual consultants	6,377,000	-	-	-	-	6,377,000
	Total all categories	124,342,497	9,700,000	(2,095,198)	(753,953)	(585,275)	130,608,071
	Exercisable at the end of the period	99,421,338					105,967,795
	Weighted average exercise price (HK\$)	3.81	3.46	2.61	4.56	5.15	3.79

18. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme of the Company (Continued)

These fair values of the options granted during the six months ended June 30, 2022 were calculated using the Black-Scholes pricing model. These fair values and corresponding inputs into the model were as follows:

	March 2022	June 2022
Grant date option fair value per share	HK\$2.42	HK\$2.78
Grant date share price	HK\$3.40	HK\$3.95
Exercise price	HK\$3.40	HK\$3.95
Expected volatility	83.29%	80.00%
Expected life	6.08 years	6.08 years
Risk-free rate	1.93%	2.82%
Expected dividend yield	<u>0.00%</u>	<u>0.00%</u>

Expected volatility was determined by using the historical volatility of the comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. During six months ended June 30, 2022, the Group recognized RMB16,624,000 (unaudited) of share-based payment expense in relation to the grants of the share options (six months ended June 30, 2021: RMB18,710,000 (unaudited)).

Restricted stock units

In November 2017, Mr. George Chien Cheng Lin entered into an employee agreement including equity incentives of options under the Pre-IPO Share Incentive Scheme as disclosed above and the restricted stock units. Pursuant to the agreement, an aggregate of 7,422,975 shares of the Company were granted to Mr. George Chien Cheng Lin under the Pre-IPO Share Incentive Scheme on April 3, 2018. Such shares were vested after a qualified IPO achieved in 48 monthly instalments, subject to the grantee's continued employment through the applicable vesting date. The fair value of the restricted shares of the Company was US\$0.24 per share which was determined by the fair value of ordinary shares on the grant date.

18. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Restricted stock units (Continued)

The details of the changes of the unvested restricted stock units during the six months ended June 30, 2022 are set out as below:

	Number of unvested restricted stock units
Restricted stock units held in trust at December 31, 2021 (audited)	1,391,781
Restricted stock units vested under the trust	<u>927,876</u>
Restricted stock units held in trust at June 30, 2022 (unaudited)	<u><u>463,905</u></u>

The Group recognized RMB186,000 (unaudited) of share-based payment expense in relation to the grants of the above restricted stock units for the six months ended June 30, 2022 (six months ended June 30, 2021: RMB654,000 (unaudited)).

19. COMMITMENTS

	At June 30, 2022 RMB'000 (unaudited)	At December 31, 2021 RMB'000 (audited)
Capital expenditure in respect of the acquisition of construction contracted for but not provided in the consolidated financial statements	<u>556</u>	<u>4,381</u>
	<u><u>556</u></u>	<u><u>4,381</u></u>

20. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management of the Group during the reporting period were as follows:

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries and other benefits	3,216	5,780
Retirement benefit scheme contributions	80	73
Share-based payment	6,313	8,487
	<u>9,609</u>	<u>14,340</u>

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

There is no Group's financial assets and financial liabilities are measured at fair value at the end of June 30, 2022 and December 31, 2021. The directors of the Company consider that the carrying amounts of the Group's financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements, however, approximate their fair values.

22. EVENTS AFTER THE REPORTING PERIOD

The Group had no material events for disclosure subsequent to June 30, 2022 and up to the date of issuance of the condensed consolidated financial statements.

OTHER INFORMATION

Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2022.

Interim dividend

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2022 (June 30, 2021: Nil).

Use of net proceeds from the Global Offering

The Shares were listed on the Stock Exchange on September 14, 2018. The net proceeds from the Global Offering amounted to RMB747.2 million (including the issue of additional Shares pursuant to the partial exercise of the over-allotment option on October 5, 2018), which have been, and will continue to be, applied according to the intentions set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. We expect that a portion of the net proceeds will be carried forward and utilized in the 2023 financial year due to a slight adjustment to the timeline for the development of our manufacturing capabilities.

The following table sets forth the status of the Company's use of proceeds raised in the Global Offering as of June 30, 2022:

		Net proceeds	Unutilized	Utilization	Actual	Unutilized		
	% of use	from the	net proceeds	during the	usage up to	net proceeds	Expected time	
	of proceeds	Global	as of	six months	June 30,	as of	frame for	
		Offering	January 1,	ended	June 30,	June 30,	unutilized amount	
		RMB million	2022	June 30,	2022	2022		
			RMB million	2022	RMB million	RMB million		
(a)	Dorzagliatin research and development	39%	291.4	–	–	291.4	–	N/A
(b)	Dorzagliatin lifecycle management and additional indications	9%	67.2	26.8	6.8	47.2	20.0	By the end of year 2022
(c)	Dorzagliatin launch and commercialization	27%	201.8	148.8	12.7	65.7	136.1	By the end of year 2023
(d)	New product and diabetes care technology development	11%	82.2	60.3	0.1	22.0	60.2	By the end of year 2023
(e)	Product licensing and partnership	4%	29.9	23.5	–	6.4	23.5	By the end of year 2023
(f)	General working capital	10%	74.7	–	–	74.7	–	N/A
	Total	100%	747.2	259.4	19.6	507.4	239.8	By the end of year 2023

Disclosure of interests

Directors and chief executives' interests and/or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations

As at June 30, 2022, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules, were as follows:

Long positions in the ordinary Shares:

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Li CHEN	Interest of spouse ⁽¹⁾	25,220,690 (L)	2.39%
	Beneficial owner ⁽²⁾	34,000,725 (L)	3.22%
	Interest in controlled corporation ⁽³⁾	10,000,000 (L)	0.94%
George Chien Cheng LIN	Founder and beneficiary of a trust ⁽⁴⁾	3,633,178 (L)	0.34%
	Beneficial owner ⁽⁵⁾	30,758,522 (L)	2.91%
Robert Taylor NELSEN	Interest in controlled corporation ⁽⁶⁾	125,088,960 (L)	11.85%
	Beneficial owner ⁽⁷⁾	150,000 (L)	0.01%
Yiu Wa Alec TSUI	Beneficial owner ⁽⁷⁾	24,000 (L)	0.01%

Notes:

- (1) Dr. CHEN is the spouse of Ms. Jane Xingfang HONG. Under the SFO, Dr. CHEN is deemed to be interested in the same number of Shares in which Ms. Jane Xingfang HONG holds an interest.
- (2) Options for Shares granted pursuant to the Pre-IPO Share Incentive Scheme and Post-IPO Share Option Scheme.
- (3) On 10 April 2019, 100,000 Shares beneficially held by Ms. Jane Xingfang HONG were transferred to Chen Family Investments, LLC in exchange for 1 voting share representing 100% voting right in Chen Family Investments, LLC. Therefore, Ms. Jane Xingfang HONG and her spouse, Dr. CHEN, are deemed to be interested in the 10,000,000 Shares held by Chen Family Investments, LLC.
- (4) The George and Ann Lin 2005 Trust is a family trust set up by Mr. LIN. Therefore, Mr. LIN is deemed to be interested in the Shares held by the George and Ann Lin 2005 Trust.
- (5) Options and awards pursuant to the Pre-IPO Share Incentive Scheme and Post-IPO Share Option Scheme.
- (6) ARCH Venture Partners VII, LLC is controlled as to one-third by Mr. Robert Taylor NELSEN and is the general partner of ARCH Venture Partners VII, L.P.. Mr. NELSEN is therefore deemed to be interested in the same number of Shares held by ARCH Venture Fund VII, L.P..
- (7) Shares purchased on the secondary exchange market.
- (8) The approximate percentage of shareholding is calculated based on the issued share capital of the Company as at June 30, 2022.
- (9) The letter "L" denotes the person's long position in the Shares.

Save as disclosed above, as at June 30, 2022, so far as the Directors are aware, none of the Directors or the chief executive of the Company had registered an interest or short position in any Shares, underlying Shares or debentures of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified.

Substantial shareholders' interests and short positions in the Shares, underlying Shares and debentures of the Company

As at June 30, 2022, the interests and short positions of every person (other than a Director or the chief executive of the Company) who had interests or short positions in the Shares or the underlying Shares, as recorded in the register required to be kept under Section 336 of SFO, were as follows:

Name of Shareholders	Capacity/nature of interest	Number of Shares held ⁽⁶⁾	Approximate percentage of shareholding in the Company
ARCH Venture Fund VII, L.P. ⁽¹⁾	Beneficial interest	125,088,960(L)	11.85%
ARCH Venture Partners VII, L.P. ⁽¹⁾	Interest in controlled corporation	125,088,960(L)	11.85%
ARCH Venture Partners VII, LLC ⁽¹⁾	Interest in controlled corporation	125,088,960(L)	11.85%
Keith Lawrence CRANDELL ⁽¹⁾	Interest in controlled corporation	125,088,960(L)	11.85%
Clinton Whitewood BYBEE ⁽¹⁾	Interest in controlled corporation	125,088,960(L)	11.85%
Venrock Associates V, L.P. ⁽²⁾	Beneficial interest	103,475,595(L)	9.80%
Venrock Management V, LLC ⁽²⁾	Interest in controlled corporation	103,475,595(L)	9.80%
WuXi PharmaTech Healthcare Fund I L.P. ⁽³⁾	Beneficial interest	73,829,635(L)	6.99%
WuXi PharmaTech Fund I General Partner L.P. ⁽³⁾	Interest in controlled corporation	73,829,635(L)	6.99%
WuXi PharmaTech Investments (Cayman) Inc. ⁽³⁾	Interest in controlled corporation	73,829,635(L)	6.99%
WuXi PharmaTech Investment Holdings (Cayman) Inc. ⁽³⁾	Interest in controlled corporation	73,829,635(L)	6.99%
WuXi AppTec International Holdings Limited ⁽³⁾	Interest in controlled corporation	73,829,635(L)	6.99%
WuXi AppTec Co., Ltd. ⁽³⁾	Interest in controlled corporation	73,829,635(L)	6.99%
HLYY Limited ⁽⁴⁾	Nominee of a trust	105,474,543(L)	9.99%
TCT (BVI) Limited ⁽⁴⁾	Interest in controlled corporation	105,474,543(L)	9.99%
The Core Trust Company Limited ⁽⁴⁾	Trustee	105,474,543(L)	9.99%
Jane Xingfang HONG ⁽⁵⁾	Beneficial interest	19,220,690(L)	1.82%
	Interest of spouse	34,000,725(L)	3.22%
	Interest in controlled corporation	10,000,000(L)	0.94%
	Founder of Trust	6,000,000(L)	0.57%

Notes:

- To the best of our Directors' knowledge, ARCH Venture Fund VII, L.P. is a Delaware limited partnership established in the United States. The general partner of ARCH Venture Fund VII, L.P. is ARCH Venture Partners VII, L.P., a Delaware limited partnership established in the United States. The general partner of ARCH Venture Partners VII, L.P. is ARCH Venture Partners VII, LLC, a limited liability company incorporated in the United States. ARCH Venture Partners VII, LLC is controlled as to one-third by each of Mr. Robert Taylor NELSEN, our non-executive Director, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE. As such, each of ARCH Venture Partners VII, L.P., ARCH Venture Partners VII, LLC, Mr. Robert Taylor NELSEN, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE is deemed to be interested in the equity interest held by ARCH Venture Fund VII, L.P. and the ultimate controllers of ARCH Venture Fund VII, L.P. are Mr. Robert Taylor NELSEN, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE.

2. To the best of our Directors' knowledge, Venrock Associates V, L.P. is an exempted limited partnership established in the United States. The general partner of Venrock Associates V, L.P. is Venrock Management V, LLC, an exempted limited liability company established in the United States. Venrock Management V, LLC is ultimately controlled by a group of individuals, none of whom controls, directly or indirectly, one-third or more of the voting power at the general meetings of Venrock Management V, LLC or otherwise is deemed to control Venrock Management V, LLC under the SFO.
3. To the best of our Directors' knowledge, the general partner of Wuxi Pharmatech Healthcare Fund I L.P. is Wuxi Pharmatech Fund I General Partner L.P., a limited partnership established in the Cayman Islands whose general partner is Wuxi Pharmatech Investments (Cayman) Inc., an exempted limited liability company established in the Cayman Islands. Wuxi Pharmatech Investments (Cayman) Inc. is a wholly-owned subsidiary of Wuxi Pharmatech Investment Holdings (Cayman) Inc., which is in turn wholly-owned by Wuxi AppTec International Holdings Limited, which is in turn wholly-owned by WuXi AppTec Co., Ltd.
4. HLYY Limited is 100% owned by TCT (BVI) Limited. TCT (BVI) Limited is 100% owned by The Core Trust Company Limited. HLYY Limited holds the Shares underlying the option and awards granted under the Pre-IPO Share Incentive Scheme.
5. Ms. Jane Xingfang HONG is the spouse of Dr. Li CHEN, who was granted options for 13,921,725 Shares pursuant to the Pre-IPO Share Incentive Scheme (of which 2,500,000 have been exercised) and 20,079,000 Share Options granted pursuant to the Share Option Scheme, respectively. Under the SFO, Ms. HONG is deemed to be interested in the same number of Shares in which Dr. CHEN maintains an interest. She also held approximately 2.39% of the voting rights of the Company as at June 30, 2022.

On 10 April 2019, 100,000 Shares beneficially held by Ms. Jane Xingfang HONG were transferred to Chen Family Investments, LLC in exchange for 1 voting share representing 100% voting right in Chen Family Investments, LLC. Therefore, Ms. HONG and her spouse, Dr. CHEN, are deemed to be interested in the 10,000,000 Shares of the Company held by Chen Family Investments, LLC.

On October 13, 2021, 6,000,000 shares were transferred to a discretionary trust set up by Ms. Jane Xingfang HONG; therefore, Ms. HONG is deemed to be interested in the same number of Shares held by the trust.

6. The letter "L" denotes the person's long position in the Shares.
7. The approximate percentage of shareholding is calculated based on the issued share capital of the Company as of June 30, 2022.

Saved as disclosed above, as at June 30, 2022, so far as the Directors are aware, no other persons had registered an interest or short position in any Shares or underlying shares of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified.

Securities transactions by the Directors

The Company has adopted the Model Code as the guidelines for the Directors' dealings in the securities of the Company since the Listing Date. Specific enquiry has been made of each Director and all Directors have confirmed that they have complied with the applicable standards set out in the Model Code for the six months ended June 30, 2022.

Corporate governance

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the code provisions of the CG Code as its own code of corporate governance. The CG Code has been applicable to the Company with effect from the Listing Date.

The Board is of the view that the Company has complied with all applicable code provisions of the CG Code throughout the six months ended June 30, 2022. In light of the amendments to the CG Code which came into effect on January 1, 2022 and impose additional requirements applicable to corporate governance reports for the financial year commencing on or after January 1, 2022, the Company will continue to regularly review and monitor its corporate governance structure and practices to ensure compliance with the latest version of the CG Code, and maintain a high standard of corporate governance. The Company will report on the compliance with the latest version of the CG Code in the corporate governance report of the Company for the year ending December 31, 2022.

Changes to information in respect of the Directors

Mr. Robert Taylor Nelsen had resigned as director of Denali Therapeutics, Inc., a company listed on NASDAQ (stock code: DNLI), with effect from June 4, 2022.

Mr. William Robert Keller had resigned as director of Artisan Acquisition Corp., a company listed on NASDAQ (stock code: ARTA), with effect from May 17, 2022.

Save as disclosed above, there were no other changes to the information required to be disclosed by the Directors pursuant to Rule 13.51B of the Listing Rules.

Review of interim report

The unaudited condensed consolidated financial results of the Group for the six months ended June 30, 2022 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("**HKSRE 2410**") issued by the Hong Kong Institute of Certified Public Accountants.

The audit committee of the Company has reviewed and discussed with the management of the Company, the unaudited interim results and the interim report of the Group for the six months ended June 30, 2022, and confirms that the applicable accounting principles, standard and requirements have been complied with, and that adequate disclosures have been made.

DEFINITIONS

In this interim report, the following expressions have the meanings set out below unless the context requires otherwise.

“Board”	the board of Directors
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Company”	Hua Medicine (華領醫藥), an exempt limited liability company incorporated under the laws of the Cayman Islands on November 10, 2009 and whose Shares are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“FDC”	fixed dose combination
“Global Offering”	the global offering of the Shares, comprising the Hong Kong public offering of initially 10,476,000 Shares (subject to reallocation) and the international offering of initially 94,280,000 Shares (subject to reallocation and the over-allotment option granted by the Company and exercisable by the stabilizing manager in the Global Offering to require us to allot and issue up to 15,713,000 additional Shares to cover over-allocations in the international offering)
“Group”, “our”, “we” or “us”	the Company and its subsidiaries
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRS”	International Financial Reporting Standards
“Listing”	listing of our Shares on the Stock Exchange
“Listing Date”	September 14, 2018, being the date on which the Shares were listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules

“NDA”	new drug application
“NMPA”	National Medical Products Administration (國家藥品監督管理局), and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
“Post-IPO Share Option Scheme”	the post-IPO share option scheme approved and adopted by the Company on August 26, 2018 for the benefit of any director, employee, adviser or consultant of the Company or any of its subsidiaries
“PRC”	the People’s Republic of China, excluding, for the purposes of this report, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Pre-IPO Share Incentive Scheme”	the share incentive scheme approved and adopted by the Company on March 25, 2013 as amended from time to time, for the benefit of any director, employee, adviser or consultant of the Company or any of its subsidiaries
“Prospectus”	the prospectus of the company dated August 31, 2018
“Reporting Period”	six months ended June 30, 2022
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RSUs”	restricted stock units
“Share(s)”	ordinary share(s) with nominal value of US\$0.001 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“T2D”	Type 2 Diabetes
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“U.S.”	the United States of America