Hua Medicine
華領醫藥

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

INTERIM REPORT
2019

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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)*
Lian Yong CHEN (陳連勇)

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
Lian Yong CHEN (陳連勇)

Remuneration committee

William Robert KELLER *(Chairman)*
Walter Teh-Ming KWAUK (郭德明)
Lian Yong CHEN (陳連勇)

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 Sze CHAN (陳潁詩) *(ACIS, ACS)*

Authorized representatives

George Chien Cheng LIN (林潔誠)
Wing Sze CHAN (陳潁詩)

Auditor

Deloitte Touche Tohmatsu

Registered office

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

Corporate headquarters

Hua Medicine, 275 Ai Di Sheng Road, 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
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Compliance advisor

Somerley Capital Limited

Company's website

www.huamedicine.com

Stock code

2552

FINANCIAL HIGHLIGHTS

	Six months ended June 30, 2019 RMB'000 (unaudited)	Six months ended June 30, 2018 RMB'000 (unaudited)
Other income	3,379	6,827
Other gains	1,995	29,554
Administrative expenses	(74,242)	(32,369)
Finance cost	(129)	(4,380)
Listing expenses	–	(34,824)
Research and development expenses	(166,503)	(95,690)
Loss on changes in fair value of financial liabilities at fair value through profit or loss ("FVTPL")	–	(1,376,057)
Loss before tax	(235,500)	(1,506,939)
Income tax expense	–	–
Loss and total comprehensive expense for the period	(235,500)	(1,506,939)
Adjusted loss*	(193,454)	(115,236)

	At June 30 2019 RMB'000 (unaudited)	At December 31 2018 RMB'000 (audited)
Non-current assets	35,031	15,739
Current assets	1,264,062	1,474,510
Current liabilities	69,262	77,633
Net current assets	1,194,800	1,396,877
Non-current liabilities	17,473	9,128
Net asset	1,212,358	1,403,488

* Adjusted loss is not a financial measure defined under IFRS. It is calculated by taking loss before tax for the period and adding back (a) share-based compensation expenses; and (b) loss on changes in fair value of financial liabilities at FVTPL.

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

We are a pre-revenue drug development company currently focused on developing dorzagliatin, a first-in-class oral drug for the treatment of Type 2 diabetes (T2D). In the first half of 2019, we defined our strategic goal to become a global diabetes care company. We intend to establish dorzagliatin as a cornerstone therapy for diabetes, either as a monotherapy or in combination with other currently approved medicines.

We filed an Investigational New Drug (IND) application with the National Medical Products Administration (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. Since then, we have completed five Phase I trials in China, two Phase I trials in the United States, and one Phase II trial in China. We are currently conducting two Phase III trials in China and two Phase I trials in the United States. Our Phase III registration trials began in July 2017, with dorzagliatin both as a monotherapy (HMM0301) and in combination with metformin (HMM0302).

To expand our market globally, we recently announced an updated pipeline to investigate the combination of dorzagliatin with several other medicines. Two Phase I trials began in the first half of 2019 in the United States, and are studying the pharmacokinetic (PK) and pharmacodynamic (PD) characteristics of dorzagliatin in combination with sitagliptin (DPP-4 inhibitor) and empagliflozin (SGLT-2 inhibitor), respectively. We plan to initiate trials with several other available medicines to expand our dorzagliatin-driven portfolio.

In preparation for our eventual new drug application (NDA) submission for dorzagliatin with the NMPA, we completed the required active pharmaceutical ingredient commercial manufacturing process validation. We established the leadership team for our China Commercialization Strategy and Marketing (CSM) team for dorzagliatin in 2018, and have continued to grow our CSM team in 2019.

We are also developing mGLUR5, a potential novel drug candidate for the treatment of neurodegenerative diseases, including Parkinson's disease levodopa-induced dyskinesia, or PD-LID.

Product pipeline

Set out below are the key stages of our products under development and expected development timetable:

Trial #	Drugs	Disease indication	Study type	Pre-clinical	Phase I	Phase II	Phase III	NDA
HMM0301	Dorzagliatin	Drug naïve T2D	Registration trial					
HMM0302	Dorzagliatin & metformin	Metformin tolerated T2D	Registration trial					
HMM0311	Dorzagliatin vs. DPP-4	T2D	Head to head					
HMM0312	Dorzagliatin vs. acarbose	T2D	Head to head					
HMM0109	Dorzagliatin	Hepatic impaired T2D	Label expansion					
HMM0110	Dorzagliatin	Renal impaired T2D	Label expansion					
HMM0111	Dorzagliatin + DPP-4	Obese T2D	PK/PD & DDI					
HMM0112	Dorzagliatin + SGLT-2	Metabolic syndrome	PK/PD & DDI					
HMM0113	Dorzagliatin + atorvastatin	Label expansion	PK/PD & DDI					
HMM0114	Dorzagliatin + valsartan	Label expansion	PK/PD & DDI					
HMM0115	Dorzagliatin + sulfonylurea	SU-tolerated T2D	PK/PD & DDI					
HMM0116	Dorzagliatin + acarbose	Acarbose tolerated T2D	PK/PD & DDI					
HMM0117	Dorzagliatin + liraglutide	GLP-1 tolerated T2D	PK/PD & DDI					
HMM0119	Dorzagliatin + pioglitazone	NASH T2D	PK/PD & DDI					
HMM1201	Dorzagliatin + insulin	Basal insulin tolerated T2D	Insulin sparing					
HMM1202	Dorzagliatin + insulin	Drug naïve severe T2D	Pre-clinical					
	mGLUR5	PD-LID	Pre-clinical					

HMM0301 is a dorzagliatin monotherapy Phase III trial in drug-naive T2D patients in China. We completed enrollment with over 450 patients as of February 28, 2019, and we expect to announce top-line 24-week results by the fourth quarter of 2019.

HMM0302 is a dorzagliatin combination with metformin Phase III trial in metformin tolerant T2D patients in China. We expect to complete patient enrollment in the third quarter of 2019, and we expect to announce top-line 24-week result by the second quarter of 2020.

As part of our strategy to establish dorzagliatin as a cornerstone therapy for the treatment of T2D globally, we are also investigating the combination of dorzagliatin with various approved classes of orally available anti-diabetic medicines as well as other popular medicines commonly taken by diabetes patients to address patients' personal needs.

HMM0111 is a dorzagliatin combination with sitagliptin (DPP-4 inhibitor) Phase I trial in T2D patients in the United States. We announced that the first patient was dosed in January 2019 and expect to complete and announce results by year end 2019.

HMM0112 is a dorzagliatin combination with empagliflozin (SGLT-2 inhibitor) Phase I trial in T2D patients in the United States. We announced the first patient was dosed in April 2019 and expect to complete and announce results by first half 2020.

We expect to initiate a head to head comparison trial (HMM0311) with a DPP-4 inhibitor (sitagliptin, aka Januvia®) in the second half of 2019. As Januvia® and Janumet® combined generated over US$5.9 billion in global sales in 2018, this trial has the potential to expand and accelerate the Company's commercialization plans for dorzagliatin. Shanghai Municipal Science & Technology Commission has provided a government grant subsidy in support of this important trial. For similar reasons, the Company is also beginning preparatory work for initiation of its head to head comparison trial (HMM0312) between dorzagliatin and α-glucosidase inhibitor, the leading China oral anti-diabetic drug class with RMB8.7 billion annual sales in 2017 in China (according to Frost & Sullivan). We are also planning to conduct additional dorzagliatin combination trials with several other T2D drugs on the market as well.

The Company believes T2D drug-naïve population in China provides a huge market opportunity due to the relatively low rate of diagnosis in China (estimated at only 47.7% in 2017 by Frost & Sullivan), and coupled with the government's explicit announcement to invest in areas outside of Tier 3 cities to increase that rate. The Company has observed, though, that many such Chinese T2D drug-naïve patients have already advanced to a rather late stage of T2D (as measured by their diagnosed HbA1c levels) when finally diagnosed. It is this specific population that the Company believes its combination with insulin could provide a very strong therapy regimen as first-line therapy.

We continue to conduct pre-clinical studies on our mGLUR5 program for neurodegenerative disorders. Based on the results of these studies, we plan to make a decision on whether or not to proceed with such drug developments later in 2020.

We continue to work closely with and supervise our contract research organizations (CROs), clinical site management organizations (SMOs) and contract manufacturing organizations (CMOs), who provide us with a range of services at a consistently high level of quality. In addition, we continue to expand our network of key opinion leaders and experts globally. In February 2019, we appointed Dr. Ralph DeFronzo as our Global Consultant – Distinguished Scientific Consultant. Dr. DeFronzo is currently a Professor and Division Chief of Diabetes Division at the University of Texas Health Science Center and the Deputy Director of the Texas Diabetes Institute. He has contributed to several significant milestones in diabetes medicine, including leading the U.S. development of metformin, and its FDA approval in 1995. Since then, he has discovered a new approach to diabetes treatment that targets glucose reabsorption in the kidneys, which led to the development and approval of the SGLT-2 class of drugs.

We continue to ensure our patent portfolio is up to date. In January 2019, the China National Intellectual Property Administration (CNIPA) issued to our Company a patent on a controlled release formulation of dorzagliatin. This new patent would extend the exclusivity of dorzagliatin to 2037 in China. In May 2019, we filed a series of patents for fixed-dose combinations with dorzagliatin, and have six programs in development.

To date, we have not yet generated any revenue from the sale of goods or from the rendering of services, recognizing only limited income in the form of government grants and investment income. As of June 30, 2019, we expect to continue to incur significant losses for the foreseeable future with no product revenues prior to obtaining marketing approval for dorzagliatin from the NMPA and commercializing dorzagliatin.

Our future success depends substantially on the success in China of our only clinical drug candidate, dorzagliatin. Our current plan is to make our initial NDA submission after completion of both Phase III trials. Our ongoing Phase III clinical trials for dorzagliatin in China may not succeed, we may fail to successfully commercialize dorzagliatin in China or experience significant delays in doing so, or we may not meet our goal of establishing dorzagliatin as a first-line standard of care in China, any of which could materially harm our business.

Business outlook

Within the next 12 months, we expect to announce top-line 24-week data for both of our Phase III trials in China, and also the results of our two Phase I combination drug-drug interaction trials in the United States. Upon receipt of positive Phase III data, we plan to partner with international pharmaceutical companies to make dorzagliatin available to patients outside of China. This will include partnerships for conducting clinical trials and navigating the drug approval process, as well as for the marketing and commercialization of dorzagliatin outside of China. We plan to expand our CSM team in anticipation of China launch of dorzagliatin by the end of 2020 or early 2021. We also plan to incur additional and significant expenses relating to establishing our manufacturing facilities in China. As part of our strategy to establish dorzagliatin as a cornerstone therapy for the treatment of diabetes globally, we would expect to expand and grow our collaborations with global experts in diabetes to further understand the potential of dorzagliatin.

Financial review

Other income

Our other income consisted primarily of bank interest income and government grants and subsidies. Our other income decreased by RMB3.4 million to RMB3.4 million for the six months ended June 30, 2019 from RMB6.8 million for the six months ended June 30, 2018, which was mainly attributable to the decrease of RMB6.4 million in government grants resulting from no government grants recognized as income since no acknowledgement reports occurred during the period when we received RMB7.1 million of government grants and the increase of bank interest income by RMB2.9 million for the six months ended June 30, 2019.

Other gains

Our other gains consisted primarily of gains due to fluctuations in the exchange rates between the Renminbi and the U.S. dollars and between Renminbi and HK dollars. Our other gains decreased by RMB27.6 million to a gain of RMB2.0 million for the six months ended June 30, 2019 from a gain of RMB29.6 million for the six months ended June 30, 2018, .In particular, the gains in both 2018 and 2019 were mainly attributable to foreign exchange gains in connection with bank balances and cash denominated in U.S. dollars and HK dollars and appreciation of the U.S. dollars and HK dollars against the Renminbi.

Our business mainly operates in the PRC, and with the exception of our listing expenses incurred in connection with our HK IPO, most of our transactions settled in Renminbi. Since inception, we have financed our business solely through equity financings, with related proceeds denominated in U.S. dollars, HK dollars and Renminbi. We converted a portion of those U.S. dollars proceeds to Renminbi and HK dollars proceeds to U.S. dollars 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. dollars and HK dollars denominated cash balances (including the HK dollars proceeds received from the HK IPO into Renminbi) will also expose us to currency exchange risk. We have not engaged in any foreign exchange hedging related activity.

Administrative expenses

Our administrative expenses consisted primarily of employee compensation and related costs. Our administrative expenses increased by RMB41.8 million to RMB74.2 million in the six months ended June 30, 2019 from RMB32.4 million in the six months ended June 30, 2018, which was mainly attributable to i) increase in labor costs which is attributable to the increase of RMB12.3 million in share-based payment including share options and restricted share units that were granted, and increase of RMB9.9 million in cash compensation due to increased headcount of 11 new employees in the six months ended June 30, 2019 for the establishment of our commercial strategy and marketing team, ii) consulting fee of RMB14.5 million mainly associated with ongoing public expense, headhunting cost and commercialization strategy expense in 2019, and iii) overhead costs associated with the headcount increases.

Finance cost

Our finance cost consisted of expenses associated with the issue of redeemable convertible preferred shares and interest on lease liabilities. Our finance cost was RMB0.1 million in the six months ended June 30, 2019 as compared to RMB4.4 million in the six months ended June 30, 2018, which was attributable to the Series D and Series E preferred shares financings completed in March 2018.

Listing expenses

Our listing expenses mainly include sponsor fee, underwriting fees and commissions, and professional fees paid to legal advisers and the reporting accountants for their services rendered in relation to the HK IPO. We incurred listing expenses of approximately RMB34.8 million for the six months ended June 30, 2018. No such expense incurred for the six months ended June 30, 2019.

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,			
	2019	**%**	**2018**	**%**
	RMB'000		**RMB'000**	
Dorzagliatin Clinical Trials	85,342	51%	55,143	57%
Dorzagliatin Non-clinical Studies	308	0%	807	1%
Chemical, Manufacturing and Control	17,966	11%	6,250	7%
Labor Cost	54,297	33%	29,777	31%
Dorzagliatin Licensing Fee	2,018	1%	238	0%
Others	6,572	4%	3,475	4%
Total	166,503	100.0%	95,690	100%

Research and development expenses increased by RMB70.8 million to RMB166.5 million in the six months ended June 30, 2019 from RMB95.7 million in the six months ended June 30, 2018. The increase in research and development expenses mainly included:

- an increase of RMB30.2 million for dorzagliatin clinical trials, which was primarily attributable to increased costs associated with the progress of our Phase III clinical trials and additional Phase I clinical trials conducted in 2019;

- an increase of RMB11.7 million in chemical, manufacturing, and control expenses, which was primarily attributable to process validation for spray dried powder (SDP) manufacturing and scaling-up development and method validation of SDP completed in 2019;

- an increase of RMB24.5 million for increased labor costs, which was primarily attributable to an increase of RMB10.4 million in cash compensation with headcount increasing from 63 as of June 30, 2018 to 92 as of June 30, 2019 and an increase of RMB14.1 million in share-based payment;

- an increase of RMB1.8 million for increased dorzagliatin licensing and patent fee, which was primarily attributable to a Patent Cooperation Treaty (PCT) application for dorzagliatin; and

- an increase of RMB3.1 million for others, which was primarily attributable to increased travelling, consulting and meeting costs, and increased rental cost.

Loss on changes in fair value of financial liabilities at FVTPL

Our loss on changes in fair value of convertible redeemable preferred shares consisted primarily of the increase in fair value per share.

In connection with the HK IPO, all our outstanding convertible redeemable preferred shares were converted into ordinary shares on September 14, 2018, after which, we would no longer recognize any loss on changes in fair value of convertible redeemable preferred shares. Thus, no loss incurred for the six months ended June 30, 2019.

Income tax expense

We recognized no income tax expenses for the six months ended June 30, 2019 and the six months ended June 30, 2018.

Adjusted net loss

Adjusted net loss was calculated by taking loss before tax for the period and adding back (a) share-based compensation expenses; and (b) loss on changes in fair value of financial liabilities at FVTPL.

We present this financial measure because it helps us to identify underlying trends in our business that could otherwise be distorted by the effect of certain expenses that we include in net loss and it provides useful information about our operating results, enhances the overall understanding of our past performance and future prospects, and allows for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

The term adjusted net loss is not a financial measure defined under IFRS. The use of adjusted net loss has material limitations as an analytical tool, as it does not include all items that impact net loss for the period. Items excluded from adjusted net loss are significant components in understanding and assessing the Group's operating and financial performance. The following table reconciles the adjusted net loss for the period presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is loss for the period:

	Six months ended June 30	
	2019	**2018**
	RMB'000	**RMB'000**
Loss before tax for the period	(235,500)	(1,506,939)
Adjust for:		
Loss on changes in fair value of financial liabilities at FVTPL	–	1,376,057
Share-based payment	42,046	15,646
Adjusted net loss	(193,454)	(115,236)

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 R&D expenses. Our operating activities utilized RMB198.2 million in the six months ended June 30, 2019. As of June 30, 2019, we had cash and cash equivalents of RMB1,246.4 million.

As of June 30, 2019, 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 reporting period.

Cash operating cost

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

	Six months ended June 30,	
	2019	**2018**
	RMB'000	**RMB'000**
Research and development costs for dorzagliatin	145,572	77,474
Administrative Costs		
– Labor cost	20,126	25,174
– Others	32,456	18,225
	52,582	43,399
	198,154	120,873

Cash flows

The following table provides information regarding our cash flows for the six months ended June 30, 2019 and 2018:

	Six months ended June 30,	
	2019	**2018**
	RMB'000	**RMB'000**
Net cash used in operating activities	(198,154)	(120,873)
Net cash (used in) from investing activities	(1,666)	16,045
Net cash from financing activities	409	722,361
Effect of exchange rate changes	2,490	29,324
Net (decrease) increases in cash and cash equivalents	(196,921)	646,857

Net cash used in operating activities

The primary use of our cash was to fund the development of 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, 2019, our operating activities used RMB198.2 million of cash, which resulted principally from our loss before tax of RMB235.5 million, adjusted for non-cash charges and non-operating cash charges of RMB40.0 million, and by cash used in our operating assets and liabilities of RMB2.7 million. Our net non-cash charges during the six months ended June 30, 2019 primarily consisted of share-based payments expenses, depreciation of plant and equipment and amortization for intangible assets.

During the six months ended June 30, 2018, our operating activities used RMB120.9 million of cash, which resulted principally from our loss before tax of RMB1,506.9 million, adjusted for non-cash charges and non-operating cash charges of RMB1,360.4 million, and by cash provided by our operating assets and liabilities of RMB25.6 million. Our net non-cash charges during the six months ended June 30, 2018 primarily consisted of loss on changes in fair value of financial liabilities at FVTPL, depreciation of plant and equipment, amortization for intangible assets, share-based payments expenses, and net foreign exchange gain.

Net cash (used in) from investing activities

Net cash used in investing activities was RMB1.7 million for the six months ended June 30, 2019, which resulted primarily from the purchase of plant and equipment, adjusted for interest received from bank for short-term deposit. Net cash provided by investing activities was RMB16.0 million for the six months ended June 30, 2018, which resulted primarily from the disposals of other financial assets.

Net cash from financing activities

Net cash from financing activities was RMB0.4 million for the six months ended June 30, 2019, which resulted from proceeds from exercise of shared options, adjusted for repayments of lease liabilities. Net cash from financing activities was RMB722.4 million for the six months ended June 30, 2018, which resulted primarily from proceeds from the issue of our Series D and E preferred shares.

Financial position

Our net current assets decreased from RMB1,396.9 million as of December 31, 2018 to RMB1,194.8 million as of June 30, 2019. Current assets decreased from RMB1,474.5 million as of December 31, 2018 to RMB1,264.1 million as of June 30, 2019, primarily due to decrease in bank balances and cash from RMB1,443.3 million as of December 31, 2018 to RMB1,246.4 million as of June 30, 2019, which was due primarily to net cash expenditure in the six months ended June 30, 2019.

Indebtedness

As of June 30, 2019, we did not have any indebtedness, including but not limited to mortgages, charges, debentures, other issued and outstanding debt capital, bank overdrafts, borrowings, liabilities under acceptance or acceptance credits, hire purchase commitments, unutilized banking facilities or other similar indebtedness, any guarantees or other material contingent liabilities. Accordingly, the gearing ratio is not applicable.

Qualitative and Quantitative Disclosures About Market Risk

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

Currency Risk

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

Since our inception, we have raised funds through various rounds of offshore financings and received proceeds of such financings in U.S. dollars, HK dollars and Renminbi. We convert a portion of those funds to Renminbi immediately and place the remaining amount in time deposits. We convert additional amounts to Renminbi as needed. The value of the Renminbi against the U.S. 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 Renminbi against U.S. dollars and HK dollars, the foreign currencies with which we may have material exposure. No sensitivity analysis has been disclosed for the Taiwan dollars denominated assets as the impact on profit is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative number below indicates an increase in loss where Renminbi strengthens 5% against U.S. dollars and HK dollars. For a 5% weakening of Renminbi against U.S. dollars and HK dollars there would be an equal and opposite impact on gains for the period.

	As of June 30, 2019 RMB'000	As of December 31, 2018 RMB'000
Impact on profit or loss		
US$	(31,051)	(50,411)
HK$	(20,421)	(20,438)

Interest Rate Risk

The Company and its subsidiaries (collectively referred to as 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 of the Company 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, 2019, and December 31, 2018, we recorded net current assets of RMB1,194.8 million and RMB1,396.9 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.

Disclosure under Rules 13.13 to 13.19 of the Listing Rules

Our Directors have confirmed that as at June 30, 2019, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

Employees and remuneration policies

As of June 30, 2019, we had 138 employees. The following table shows a breakdown of our employees by function as of June 30, 2019:

	Number of employees	Approximate percentage
Research and development	86	62%
General and administration	44	32%
Management	8	6%
Total	138	100%

The majority of the employees are employed in mainland China. For the six months ended June 30, 2019, the staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB98.2 million as compared to RMB42.5 million for the six months ended June 30, 2018.

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, 2019.

To retain our key management and technical staff, we offer competitive compensation and compensate our employees through share incentive plan. For details, please see the section headed "Other Information – Share Incentive Plan" in this report.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE 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 17 to 44, which comprise the condensed consolidated statement of financial position at June 30, 2019 and the related condensed consolidated statement of profit or loss and other comprehensive expense, 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 15, 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE EXPENSE

For the six months ended June 30, 2019

	NOTES	Six months ended June 30, 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Other income	3	3,379	6,827
Other gains	4	1,995	29,554
Administrative expenses		(74,242)	(32,369)
Finance cost	5	(129)	(4,380)
Listing expenses		–	(34,824)
Research and development expenses		(166,503)	(95,690)
Loss on changes in fair value of financial liabilities at fair value through profit and loss ("FVTPL")		–	(1,376,057)
Loss before tax	6	(235,500)	(1,506,939)
Income tax expense	7	–	–
Loss and total comprehensive expense for the period		(235,500)	(1,506,939)
Loss and total comprehensive expense for the period attributable to:			
– Owners of the Company		(235,500)	(1,505,667)
– Non-controlling interests		–	(1,272)
		(235,500)	(1,506,939)
LOSS PER SHARE	9	RMB	RMB
Basic and diluted		(0.25)	(13.58)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2019

	NOTES	At June 30, 2019 RMB'000 (unaudited)	At December 31, 2018 RMB'000 (audited)
Non-current assets			
Equipment	10	8,183	5,328
Right-of-use assets	10	4,965	–
Intangible assets		1,228	859
Prepayments and other receivables	11	20,655	9,552
		35,031	15,739
Current assets			
Prepayments and other receivables	11	14,236	24,337
Prepayment to related parties	12	3,437	6,863
Bank balances and cash	13	1,246,389	1,443,310
		1,264,062	1,474,510
Current liabilities			
Trade and other payables	14	63,962	76,033
Deferred income	15	1,600	1,600
Lease liabilities		3,700	–
		69,262	77,633
Net Current Assets		1,194,800	1,396,877
Total Assets Less Current Liabilities		1,229,831	1,412,616
Non-current liabilities			
Deferred income	15	16,178	9,128
Lease liabilities		1,295	–
		17,473	9,128
Net Assets		1,212,358	1,403,488
Capital and reserves			
Share capital	16	7,209	7,209
Treasury shares held in trust	16	(777)	(797)
Reserves		1,205,926	1,397,076
Total Equity		1,212,358	1,403,488

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2019

	Attributable to owners of the Company								
	Share capital RMB'000	Treasury share held in trust RMB'000	Share premium RMB'000	Other reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2019 (audited)	7,209	(797)	5,886,048	(10,033)	73,061	(4,552,000)	1,403,488	–	1,403,488
Loss and total comprehensive expense for the period	–	–	–	–	–	(235,500)	(235,500)	–	(235,500)
Option exercised to purchase ordinary shares under the trust (Note 16 (b))	–	13	2,311	–	–	–	2,324	–	2,324
Restricted stock units vested under the trust (Note 16 (c))	–	7	(7)	–	–	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	42,046	–	42,046	–	42,046
At June 30, 2019 (unaudited)	7,209	(777)	5,888,352	(10,033)	115,107	(4,787,500)	1,212,358	–	1,212,358

	Attributable to owners of the Company								
	Share capital RMB'000	Treasury share held in trust RMB'000	Share premium RMB'000	Other reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2018 (audited)	48	–	–	(20,218)	15,564	(949,274)	(953,880)	11,350	(942,530)
Loss and total comprehensive expense for the period	–	–	–	–	–	(1,505,667)	(1,505,667)	(1,272)	(1,506,939)
Subsidiary's ordinary share issued to non-controlling investors	–	–	–	61,532	–	–	61,532	2,580	64,112
Effect of put option granted to non-controlling investors to convert their equity interests in subsidiary to the Company's redeemable convertible preferred shares	–	–	–	(64,112)	–	–	(64,112)	–	(64,112)
Repurchase of subsidiary's ordinary shares from non-controlling investors	–	–	–	12,765	–	–	12,765	(12,765)	–
Option exercised to purchase ordinary shares	–	–	549	–	–	–	549	–	549
Recognition of equity-settled share-based payment	–	–	–	–	15,539	–	15,539	107	15,646
At June 30, 2018 (unaudited)	48	–	549	(10,033)	31,103	(2,454,941)	(2,433,274)	–	(2,433,274)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2019

	Six months ended June 30	
	2019	**2018**
	RMB'000	**RMB'000**
	(unaudited)	**(unaudited)**
OPERATING ACTIVITIES		
Loss before tax	(235,500)	(1,506,939)
Adjustments for:		
Loss on changes in fair value of financial liabilities at FVTPL	–	1,376,057
Bank interest income	(3,337)	(389)
Income from government grants	–	(6,055)
Depreciation of plant and equipment	1,504	508
Depreciation of right-of-use assets	2,135	–
Amortization of other intangible assets	85	–
Finance cost	129	4,380
Share-based payment expense	42,046	15,646
Gain from changes in fair value of other financial assets	–	(259)
Net unrealized foreign exchange gain	(2,487)	(29,383)
Loss on disposal of plant and equipment	–	7
Operating cash flows before movements in working capital	(195,425)	(146,427)
Decrease (increase) in prepayments and other receivables	8,384	(4,041)
Decrease (increase) in prepayments to related parties	3,426	(7,270)
(Decrease) increase in trade and other payables	(12,071)	39,944
Increase in value added tax recoverable	(9,518)	(4,423)
Increase in deferred income	7,050	355
Increase in amounts due to related parties	–	989
NET CASH USED IN OPERATING ACTIVITIES	(198,154)	(120,873)
INVESTING ACTIVITIES		
Interest received from bank	3,337	389
Proceeds from disposal of plant and equipment	–	2
Purchase of plant and equipment	(4,359)	(706)
Purchase of intangible assets	(454)	–
Payments for rental deposits	(190)	–
Proceeds on disposal of other financial assets	–	16,360
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(1,666)	16,045

	Six months ended June 30	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
Proceeds from exercise of share options	2,164	549
Repayments of leases liabilities	(1,755)	–
Proceeds from the issue of the Company's convertible redeemable preferred shares	–	673,909
Proceeds from the issue of subsidiary's ordinary shares and written put options over subsidiary	–	64,112
Repayments to investors	–	(12,577)
Transaction costs for the issue of the Company's convertible redeemable preferred shares	–	(2,808)
Payments relating to issue costs	–	(824)
NET CASH FROM FINANCING ACTIVITIES	409	722,361
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(199,411)	617,533
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,443,310	172,733
Effects of exchange rate changes	2,490	29,324
CASH AND CASH EQUIVALENTS AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	1,246,389	819,590

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019

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, except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2019 are the same as those presented in the Group's annual financial statements for the year ended December 31, 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board, which are mandatory effective for the annual period beginning on or after January 1, 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

2. Principal accounting policies (continued)

Application of new and amendments to IFRSs (continued)

Except as described below, the application of the new and amendments to IFRSs in the current 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.

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

2. Principal accounting policies (continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (continued)

As a lessee (continued)

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

2. Principal accounting policies (continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (continued)

As a lessee (continued)

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liabilities at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

2. Principal accounting policies (continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (continued)

As a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liabilities based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognized at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

2. Principal accounting policies (continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. Any difference at the date of initial application is recognized in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the People's Republic of China (the "PRC") was determined on a portfolio basis.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at January 1, 2019, the Group recognized additional lease liabilities and right-of-use assets equal to the related lease liabilities, adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition.

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates by the relevant group entities range from 3.96% to 5.32%.

2. Principal accounting policies (continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)

As a lessee (continued)

	At January 1, 2019 RMB'000 (unaudited)
Operating lease commitments disclosed as of December 31, 2018	6,056
Lease liabilities discounted at relevant incremental borrowing rates	5,835
Less: Recognition exemption – short-term leases	(1,603)
Lease liabilities as of January 1, 2019	4,232
Analysed as	
Current	2,715
Non-current	1,517
	4,232

The carrying amount of right-of-use assets as of January 1, 2019 comprises the following:

	Notes	**Right-of-use assets RMB'000**
Right-of-use assets relating to operating leases recognized upon application of IFRS 16		4,232
Reclassified from prepaid lease payments	(a)	479
Total		4,711
By class:		
Land and buildings		4,521
Motor vehicles		190
		4,711

2. Principal accounting policies (continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (continued)

2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (continued)

As a lessee (continued)

(a) Operating lease prepayment in the PRC/Hong Kong were classified as prepayments and other receivables as of December 31, 2018. Upon application of IFRS 16, the prepayments amounting to RMB479,000 were reclassified to right-of-use assets.

The following adjustments were made to the amounts recognized in the condensed consolidated statement of financial position as of January 1, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at December 31, 2018 RMB'000 (audited)	Adjustments RMB'000 (unaudited)	Carrying amounts under IFRS 16 at January 1, 2019 RMB'000 (unaudited)
Non-current Assets			
Right-of-use assets	–	4,711	4,711
Current Assets			
Prepayments and other receivables	24,337	(479)	23,858
Current Liabilities			
Lease liabilities	–	2,715	2,715
Non-current liabilities			
Lease liabilities	–	1,517	1,517

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended June 30, 2019, movements in working capital have been computed based on opening statement of financial position as of January 1, 2019 as disclosed above.

3. Other income

	Six months ended June 30	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Bank interest income	3,337	389
Government grants and subsidies related to income (Note)	42	6,438
	3,379	6,827

Note:

The government grants and subsidies related to income have been received to compensate for the expenses of Group's research and development. Some of the grants related to income have future related 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 in related to income were recorded in deferred income when received, and were recognized in profit or loss when related costs are subsequently incurred and the Group received government acknowledge of compliance.

Other government grants related to income that are received as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs, are recognized in profit or loss when received by the Group.

4. Other gains

	Six months ended June 30	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Loss on disposal of plant and equipment	–	(7)
Net foreign exchange gain	1,995	29,302
Gain from changes in fair value of other financial assets		
– realized	–	259
	1,995	29,554

5. Finance cost

	Six months ended June 30	
	2019	**2018**
	RMB'000	**RMB'000**
	(unaudited)	**(unaudited)**
Interest on the lease liabilities	129	–
Transaction cost for the issue of the Company's convertible redeemable preferred shares and written put option over subsidiary	–	4,380
	129	4,380

6. Loss before tax

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

	Six months ended June 30	
	2019	**2018**
	RMB'000	**RMB'000**
	(unaudited)	**(unaudited)**
Depreciation of plant and equipment	1,504	508
Depreciation of right-of-use assets	2,135	–
Amortization of intangible assets	85	–
Staff cost (including directors' emoluments):		
– Salaries and other benefits	56,124	26,887
– Retirement benefit scheme contributions	2,687	2,680
– Share-based payment	42,046	15,646
	100,857	45,213
Auditors' remuneration	680	1,000
Expenses relating to short-term leases and lease of low-value assets	1,620	–

7. 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.

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

8. License agreement

In December 2011, the Company 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 Company 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 Company made US$2,000,000 non-refundable upfront payment to Roche which was recorded as research and development expenses in 2012.

In 2017, the Company 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 which was recorded as research and development expenses as incurred.

The Company is obligated to make US$4,000,000 milestone payments upon the achievement of development of the Licensed Product through new drag 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 Company 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 Company is also obligated to make royalty payments at the applicable incremental royalty rate based on sales of the Licensed Product.

9. 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	
	2019	**2018**
	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	(235,500)	(1,505,667)

Number of Shares:

	Six months ended June 30	
	2019	**2018**
	(unaudited)	**(unaudited)**
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	939,507,659	110,876,161

The computation of basic and diluted loss per share for the six months ended June 30, 2019 and 2018 respectively excluded the unvested restricted stock units of the Company.

The computation of diluted loss per share for the six months ended June 30, 2019 and 2018 respectively did not assume the exercise of share options since their assumed exercise would result in a decrease in loss per share.

10. Equipment and right-of-use assets

During the six months ended June 30, 2019, the Group acquired RMB4,359,000 (unaudited) (six months ended June 30, 2018: RMB706,000 (unaudited)) of equipment. The net book value of equipment at June 30, 2019 is RMB8,183,000 (unaudited) (December 31, 2018: RMB5,328,000 (audited)).

During the six months ended June 30, 2019, the Group entered into several new lease or lease modifications agreements for the use of buildings and office equipment for two to three years, and recognized RMB2,389,000 (unaudited) of right-of-use asset and RMB2,389,000 (unaudited) lease liabilities. The Group is required to make fixed monthly or quarterly payments. The net book value of right-of-use asset and lease liabilities at June 30, 2019 is RMB4,965,000 (unaudited) and RMB4,995,000 (unaudited), respectively.

11. Prepayments and other receivables

	At June 30 2019 RMB'000 (unaudited)	At December 31 2018 RMB'000 (audited)
Prepayments for research and development services	11,160	21,157
Utility and rental deposits	1,955	1,530
– non- current	1,585	–
– current	370	1,530
Value add tax recoverable – non-current	19,070	9,552
Others	2,706	1,650
	34,891	33,889
Analyzed as		
– non- current	20,655	9,552
– current	14,236	24,337
	34,891	33,889

12. Prepayments to related parties

	At June 30 2019 RMB'000 (unaudited)	At December 31 2018 RMB'000 (audited)
Prepaid emolument – current (note)	3,437	6,863

Note: The Company hired a senior management in January 2018 and paid US$2,000,000 (RMB equivalent 13,016,000) as an inducement to join the Company. Pursuant to the employment agreement, the employee would be obligated to remain in the Company's employment for 24 months since the hiring date. If the employee left the Company before the end of the 24 months period, the employee would be obligated to repay the Company a portion of the inducement proportionate to the remaining unfulfilled service period. As such, the Company recognized the inducement as prepayment and amortize it over the required service period.

13. Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The short term bank deposits carry interests at market rates which ranged from 0.05% to 2.60% per annum as of June 30, 2019 (December 31, 2018: from 0.01% to 0.30% per annum).

14. Trade and other payables

	At June 30 2019 RMB'000 (unaudited)	At December 31 2018 RMB'000 (audited)
Trade payables	45,830	55,676
Payroll and bonus payables	12,906	14,867
Accrued expenses	3,989	4,652
Others	1,237	838
	63,962	76,033

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

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

	At June 30 2019 RMB'000 (unaudited)	At December 31 2018 RMB'000 (audited)
Within 30 days	45,830	35,118
31 to 60 days	–	6,411
61 to 180 days	–	14,147
	45,830	55,676

15. Deferred income

	At June 30 2019 RMB'000 (unaudited)	At December 31 2018 RMB'000 (audited)
Government grants received		
– current liabilities	1,600	1,600
– non-current liabilities	16,178	9,128
	17,778	10,728

During the six months ended June 30, 2019 and 2018, the Group received subsidies related to its research and development activities. 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.

16. 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, 2019 are set out as below:

	Authorized number of shares	US$
Ordinary shares of US$0.001 each		
At December 31, 2018 (audited) and June 30, 2019 (unaudited)	2,000,000,000	2,000,000

	Issued and fully paid number of shares	US$	Shown in the condensed consolidated statement of financial position as RMB'000
Ordinary shares of US$0.001 each			
At December 31, 2018 (audited) and June 30, 2019 (unaudited)	1,054,893,800	1,054,894	7,209

16. Share capital (continued)

The details of the changes of the treasury shares held in trust during the six months ended June 30, 2019 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, 2018 (audited) (Note (a))	116,536,062	116,536	797
Option exercised to purchase ordinary shares under the trust (Note (b))	(1,869,931)	(1,870)	(13)
Restricted stock units vested under the trust (Note (c))	(927,876)	(928)	(7)
Treasury shares held in trust at June 30, 2019 (unaudited)	113,738,255*	113,738	777

* The number of treasury shares included forfeited shares of 867,116, which were originally entitled by resigned employees.

Note:

(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 17). As of December 31, 2018, 116,536,062 shares of the sum of US$116,536 (RMB equivalent 797,000) are held in trust including 109,577,025 shares for outstanding options (included forfeited shares of 183,000, which were originally entitled by resigned employees) and 6,959,037 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, 2019, several employees exercised their right, evidenced by corresponding option agreements under the Company's Pre-IPO Share Incentive Scheme, to subscribe 1,869,931 ordinary shares of the Company at the average exercise price of HK$1.40 per share for an aggregate consideration of RMB equivalent 2,317,000.

(c) During six months ended June 30, 2019, 927,876 restricted stock units granted to Mr. George Chien Cheng Lin were vested at a nominal consideration of RMB equivalent 7,000.

17. 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, 2019**	**Exercise price per share**
Directors:			
Dr. Li Chen	December 4, 2014 ~ August 26, 2018	13,921,725	HK$0.52~3.82
Mr. George Chien Cheng Lin	April 3, 2018	25,980,405	HK$3.66
Employees	March 25, 2013 ~ August 26, 2018	59,921,848	HK$0.52~3.82
Individual consultants	September 12, 2013 ~ June 1, 2018	7,016,000	HK$0.52~3.66

17. 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, 2019	Exercise price per share
Directors:			
Dr. Li Chen	June 25, 2019	12,079,000	HK$8.866
Mr. George Chien Cheng Lin	May 17, 2019	300,000	HK$8.866
Employees	September 28, 2018 ~ May 31, 2019	8,685,300	HK$7.192~8.866
Individual consultants	May 13, 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 for the 10,519,300 options granted to Dr. Li Chen under the Post-IPO Share Option Scheme is subject to positive Phase III results of HMS5552 and the vesting commencement dates for the remaining options are determined by the share option grant letters agreed between the Company and eligible directors, employees and individual consultants.

17. 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, 2019:

Category	Option type	Outstanding at December 31, 2018 (audited)	Granted during the period (unaudited)	Exercised during the period (unaudited)	Forfeited during the period (unaudited)	Outstanding at June 30, 2019 (unaudited)
Category 1: Directors						
Dr. Li Chen	Pre-IPO Share Incentive Scheme	13,921,725	–	–	–	13,921,725
	Post-IPO Share Option Scheme	–	12,079,000	–	–	12,079,000
	Subtotal	13,921,725	12,079,000	–	–	26,000,725
Mr. George Chien Cheng Lin	Pre-IPO Share Incentive Scheme	25,980,405	–	–	–	25,980,405
	Post-IPO Share Option Scheme	–	300,000	–	–	300,000
	Subtotal	25,980,405	300,000	–	–	26,280,405
	Total Directors	39,902,130	12,379,000	–	–	52,281,130
Category 2: Employees	Pre-IPO Share Incentive Scheme	61,916,895	–	(1,310,931)	(684,116)	59,921,848
	Post-IPO Share Option Scheme	1,075,000	8,540,300	–	(930,000)	8,685,300
	Total Employees	62,991,895	8,540,300	(1,310,931)	(1,614,116)	68,607,148
Category 3: consultants	Pre-IPO Share Incentive Scheme	7,575,000	–	(559,000)	–	7,016,000
	Post-IPO Share Option Scheme	–	200,000	–	–	200,000
	Total Individual consultants	7,575,000	200,000	(559,000)	–	7,216,000
	Total all categories	110,469,025	21,119,300	(1,869,931)	(1,614,116)	128,104,278
	Exercisable at the end of the period	39,232,575				50,651,543
	Weighted average exercise price (HK$)	2.46	8.87	1.40	5.84	3.45

17. 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, 2019 were calculated using the Black-Scholes pricing model. These fair values and corresponding inputs into the model were as follows:

	May 5 to 31, 2019	June 25, 2019
Grant date option fair value per share	HK$3.57 ~ HK$4.21	HK$3.95 ~ HK$4.16
Grant date share price	HK$6.54 ~ HK$7.37	HK$6.96
Exercise price	HK$8.866	HK$8.866
Expected volatility	68.60%	70.10% ~ 71.90%
Expected life	5.8 years	5.7 years ~ 6.2 years
Risk-free rate	1.56%	1.43%
Expected dividend yield	0%	0%

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, 2019, the Group recognized RMB40,623,000 (unaudited) of share-based payment expense in relation to the grants of the share options (six months ended June 30, 2018: RMB14,870,000 (unaudited)).

Restricted ordinary shares

The Group recognized RMB65,000 (unaudited) of share-based payment in relation to the grants of the restricted ordinary shares for the six months ended June 30, 2018 and all the restricted ordinary shares were vested as of December 31, 2018.

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.

The details of the changes of the unvested restricted stock units during the six months ended June 30, 2019 are set out as below:

	Number of unvested restricted stock units
Restricted stock units held in trust at December 31, 2018 (audited)	6,959,037
Restricted stock units vested under the trust	(927,876)
Restricted stock units held in trust at June 30, 2019 (unaudited)	6,031,161

The Group recognized RMB1,423,000 (unaudited) of share-based payment expense in relation to the grants of the above restricted stock units for the six months ended June 30, 2019 (six months ended June 30, 2018: RMB711,000 (unaudited)).

18. Related party transactions

(a) Related party transactions

Purchase of research and development services from related parties:

	Six months ended June 30	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
WuXi AppTec (Shanghai) Co., Ltd.	N/A	4,412
Shanghai STA Pharmaceutical R&D Co., Ltd.	N/A	2,337
Shanghai MedKey Med-Tech Development Co., Ltd.	N/A	6,656
WuXi AppTec (Suzhou) Co., Ltd.	N/A	8
WuXi Clinical Development Services (Shanghai) Co., Ltd.	N/A	6,769
HD Biosciences Co., Ltd.	N/A	2
	N/A	20,184

All of the related parties are subsidiaries of Wuxi AppTec Co., Ltd. ("WXAT"). Wuxi Pharmatech Healthcare Fund I L.P., an investor of the Company, is a subsidiary of WXAT. In addition, WXAT is indirectly owned as to more than 20% by Dr. Ge LI and his concert parties. Dr. Ge LI served as a director of the Company from August 2010 to December 2017 and is also an investor of the Company. Wuxi Pharmatech Healthcare Fund I L.P., and Dr. Ge LI together held over 10% equity interests in the Company before the Listing date. Therefore, WXAT and its subsidiaries were considered as related parties of the Company prior to the Listing Date. After the Listing Date, WXAT's and Dr. Ge LI's interests in the Company in aggregate were diluted below 10% and the Company evaluated that WXAT and its subsidiaries were no longer related parties since then.

18. Related party transactions (continued)

(b) 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	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries and other benefits	7,145	10,971
Retirement benefit scheme contributions	31	28
Share-based payment	14,938	10,463
	22,114	21,462

19. 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, 2019 and December 31, 2018. 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.

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 for the six months ended June 30, 2019.

Interim dividend

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2019 (June 30, 2018: NIL).

Share incentive plan

The Company conditionally adopted a share option scheme (the "Share Option Scheme") on August 26, 2018, which became effective on the Listing Date. The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme cannot exceed 105,191,330 Shares. As of June 30, 2019, the Company granted 22,344,300 options to subscribe for Shares and 1,080,000 were forfeited due to resignation under the Share Option Scheme.

The Group has also adopted the Pre-IPO Share Incentive Scheme and established an employee trust to administer the scheme. A total of 117,000,000 Shares, representing all the Shares underlying the options and awards granted under the Pre-IPO Share Incentive Scheme, were issued to HLYY Limited, the nominee under the trust, to hold the Shares to satisfy the options and awards granted upon exercise/vesting. No further Shares will be allotted and issued to the HLYY Limited or the trustee for the purpose of the Pre-IPO Share Incentive Scheme (other than pursuant to capitalization issue, rights issue, sub-division or consolidation of shares in accordance with the Pre-IPO Share Incentive Scheme), and no further option or award will be granted under the Pre-IPO Share Incentive Scheme. As the Pre-IPO Share Incentive Scheme does not involve the grant of options to subscribe for any new Shares of the Company, it is not required to be subject to the provisions under Chapter 17 of the Listing Rules.

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 of June 30, 2019, the interest or short positions of the Directors or the chief executive of the Company in the Shares or 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 for Securities Transactions by Directors of Listed Issuers (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	2.39%
	Beneficial Owner(2)	26,000,725	2.46%
	Interest of Controlled Corporation(3)	10,000,000	0.95%
George Chien Cheng LIN	Founder and beneficiary of trust(4)	1,152,258	0.11%
	Beneficial Owner(5)	33,239,442	3.15%
Robert Taylor NELSEN	Interest of Controlled Corporation(6)	125,088,960	11.86%
Lian Yong CHEN	Interest of Controlled Corporation(7)	8,571,420	0.81%

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 maintains on interest.

(2) Being options for Shares granted pursuant to the Pre-IPO and Post-IPO Share Incentive Scheme.

(3) On 10 April 2019, 100,000 ordinary shares beneficially held by Ms. Jane Xingfang HONG were transferred to Chen Family Investments, LLC in exchange of 1 voting share representing 100% voting right in Chen Family Investments, LLC and therefore, Ms. Jane Xingfang HONG and her spouse, Dr. CHEN, are deemed to be interested in the 10,000,000 ordinary shares of the Company 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 same number of Shares held by the George and Ann Lin 2005 Trust.

(5) Being options and awards pursuant to the Pre-IPO Share Incentive Scheme and Post-IPO Share Incentive 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) Dr. Lian Yong CHEN is the general partner of China Life Sciences Access Fund, L.P. and is therefore deemed to be interested in the same number of Shares held by China Life Sciences Access Fund, L.P..

Save as disclosed above, as of June 30, 2019, 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 Share or 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 of June 30, 2019, the interests of relevant persons (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 [9]	Approximate percentage of shareholding in the Company
ARCH Venture Fund VII, L.P.[1]	Beneficial interest	125,088,960(L)	11.86%
ARCH Venture Partners VII, L.P.[1]	Interest in controlled corporation	125,088,960(L)	11.86%
ARCH Venture Partners VII, LLC[1]	Interest in controlled corporation	125,088,960(L)	11.86%
Keith Lawrence CRANDELL[1]	Interest in controlled corporation	125,088,960(L)	11.86%
Clinton Whitewood BYBEE[1]	Interest in controlled corporation	125,088,960(L)	11.86%
Venrock Associates V, L.P.[2]	Beneficial interest	103,475,595(L)	9.81%
Venrock Management V, LLC[2]	Interest in controlled corporation	103,475,595(L)	9.81%
FMR LLC[3][4]	Interest in controlled corporation	99,823,011(L)	9.46%
Impresa Fund III Limited Partnership[3][4]	Interest in controlled corporation	99,823,011(L)	9.46%
Impresa Management LLC[3][4]	Interest in controlled corporation	99,823,011(L)	9.46%
Abigail P. JOHNSON[3][4]	Trustee	99,823,011(L)	9.46%
Edward C. JOHNSON IV[3][4]	Trustee	99,823,011(L)	9.46%
FIL Limited[3][5]	Interest in controlled corporation	104,212,449(L)	9.88%
Pandanus Partners L.P.[3][5]	Interest in controlled corporation	104,212,449(L)	9.88%
Pandanus Associates Inc.[3][5]	Interest in controlled corporation	104,212,449(L)	9.88%
WuXi PharmaTech Healthcare Fund I L.P.[6]	Beneficial interest	74,029,635(L)	7.02%
WuXi PharmaTech Fund I General Partner L.P.[6]	Interest in controlled corporation	74,029,635(L)	7.02%
WuXi PharmaTech Investments (Cayman) Inc.[6]	Interest in controlled corporation	74,029,635(L)	7.02%
WuXi PharmaTech Investment Holdings (Cayman) Inc.[6]	Interest in controlled corporation	74,029,635(L)	7.02%
WuXi AppTec International Holdings Limited[6]	Interest in controlled corporation	74,029,635(L)	7.02%
WuXi AppTec Co., Ltd.[6]	Interest in controlled corporation	74,029,635(L)	7.02%
Harvest Yuanxiang (Cayman) Limited[7]	Beneficial interest	65,665,860(L)	6.22%
Harvest Investment Management Co., Ltd (嘉實投資管理有限公司)[7]	Interest in controlled corporation	65,665,860(L)	6.22%
HLYY Limited[8]	Nominee of a trust	116,027,398(L)	10.99%
TCT (BVI) Limited[8]	Interest in controlled corporation	116,027,398(L)	10.99%
The Core Trust Company Limited[8]	Trustee	116,027,398(L)	10.99%
Jane Xingfang HONG[9]	Beneficial interest	25,220,690(L)	2.39%
	Interest of spouse	26,000,725(L)	2.46%
	Interest in controlled corporation	10,000,000(L)	0.95%

Notes:

1. 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, Asia Ventures II L.P. is a limited partnership established in Bermuda and holds approximately 4.23% of the voting rights of the Company. Further, F-Prime Capital Partners Healthcare Fund II LP is a limited partnership established in Delaware and holds approximately 4.90% of the voting rights of the Company. Moreover, Impresa Fund III Limited Partnership is a limited partnership established in Delaware and holds approximately 0.33% of the voting rights of the Company.

4. To the best of our Directors' knowledge, Impresa Fund III Limited Partnership is deemed to be interested in the equity interests held by both Asia Ventures II L.P. and F-Prime Capital Partners Healthcare Fund II LP due to its interests in each of Asia Ventures II L.P. and F-Prime Capital Partners Healthcare Fund II LP as a limited partner. The general partner of Impresa Fund III Limited Partnership is Impresa Management LLC, which is controlled (as defined under the SFO) by each of Abigail P. JOHNSON and Edward C. JOHNSON IV and owned, directly or indirectly, by various shareholders and employees of FMR LLC. Further, the general partner of F-Prime Capital Partners Healthcare Fund II LP is F-Prime Capital Partners Healthcare Advisors Fund II LP, whose general partner is Impresa Management LLC.

   As such, under the SFO, Impresa Fund III Limited Partnership, Impresa Management LLC, Abigail P. JOHNSON, Edward C. JOHNSON IV and FMR LLC are deemed interested in the Shares held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP and Impresa Fund III Limited Partnership, which collectively hold 9.46% of the voting rights of the Company.

5. To the best of our Directors knowledge, Eight Roads Investments Limited and Eight Roads GP are companies limited by shares incorporated in Bermuda and collectively holds approximately 0.75% of the voting rights of the Company.

   To the best of our Directors' knowledge, FIL Limited is deemed to be interested in the equity interests held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP, Eight Roads Investments Limited and Eight Roads GP due to (i) its interests in Asia Ventures II L.P. as a limited partner and the fact that it is the sole shareholder of FIL Capital Management Ltd, the general partner of Asia Partners II L.P., which in turn is the general partner of Asia Ventures II L.P.; (ii) its interests in F-Prime Capital Partners Healthcare Fund II LP as a limited partner; and (iii) the fact that Eight Roads Investments Limited and Eight Roads GP are its wholly-owned subsidiaries. FIL Limited is controlled (as defined under the SFO) by Pandanus Partners L.P., whose general partner is Pandanus Associates Inc.

   As such, under the SFO, FIL Limited, Pandanus Partners L.P., and Pandanus Associates Inc. are deemed interested in our Shares held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP, Eight Roads Investments Limited and Eight Roads GP, which collectively holds 9.88% of the voting rights of the Company.

6. 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.

7. To the best of our Directors' knowledge, Harvest Yuanxiang (Cayman) Limited is an indirectly wholly-owned subsidiary of Shenzhen Jiashi Yuanxiang Venture Capital Investment Partnership (LP) (深圳嘉實元祥股權投資合夥企業(有限合夥)). The general partner of Shenzhen Jiashi Yuanxiang Venture Capital Investment Partnership (LP) is Harvest Investments Management Co., Ltd. (嘉實投資管理有限公司), a limited liability company incorporated in the PRC and the ultimate controller of Harvest Yuanxiang (Cayman) Limited.

8. 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.

9 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 and 12,079,000 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 on interest. She also holds approximately 2.39% of the voting rights of the Company.

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

10. The letter "L" denotes the person's long position in the Shares.

Saved as disclosed above, 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. Specific enquiry has been made to each Director and all Directors have confirmed that they have complied with the applicable standards set out in the Model Code throughout the period for the six months ended June 30, 2019.

Corporate governance

The Board is of the view that the Company has complied with all applicable code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in the Appendix 14 of the Listing Rules throughout the period for the six months ended June 30, 2019.

Changes to information in respect of the Directors

Mr Tsui Yiu Wa, Alec had resigned as Independent Non-Executive Director of Kangda International Environment Company Limited 康達國際環保有限公司 (Stock Code: 6136) effective on 4 April 2019.

Since the annual announcement date, there was no other changes to the information required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules where applicable.

Review of interim report

The unaudited consolidated financial results of the Group for the six months ended June 30, 2019 has been reviewed by the 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 of the Group for the six months ended June 30, 2019, 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 of the Company
"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
"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"	the Company and its subsidiaries
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"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
"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)
"PCT"	Patent Cooperation Treaty
"PRC"	the People's Republic of China, excluding, for the purposes of this report, the Hong Kong Special Administrative Region of the People's Republic of China, 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

"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) with nominal value of US$0.001 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States of America
"U.S."	The United States of America