



2018

INTERIM REPORT



Luye Pharma Group Ltd.
绿叶制药集团有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 2186



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COMPANY OVERVIEW



The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the People's Republic of China (the "PRC" or "China"), the United States (the "U.S."), Europe and other countries or districts, namely oncology, central nervous system ("CNS"), cardiovascular system, alimentary tract and metabolism. The Group's product portfolio consists of 30 products and centers around 7 key products, 5 of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases, diabetes and CNS diseases.

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in the first half of 2018. The Group's sales, marketing and distribution functions are conducted through over 68 sales support offices, over 1,350 sales and marketing personnel, a network of approximately 1,380 distributors that collectively enabled the Group to sell its products to over 12,580 hospitals. For overseas, the Group has established in-house sales teams in both Singapore and Malaysia. The Group has sales partnerships with more than 30 partners throughout the world, covering 80 countries including the U.S., Europe and other countries or districts.

The Group's research and development ("R&D") activities are organised around four platforms — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds.

As at 30 June 2018, the Group's R&D team consisted of 449 employees, including 81 Ph.D. degree holders and 215 Master's degree holders in medical, pharmaceutical and other related areas. As at 30 June 2018, the Group had been granted over 246 patents and had over 52 pending patent applications in the PRC, as well as over 420 patents and over 110 pending patent applications overseas. The Group had a pipeline of 27 product candidates in the PRC in various stages of development. These candidates included 9 oncology products, 4 cardiovascular and metabolism products, as well as 14 CNS products.

Also, the Group had a pipeline of 6 product candidates in the U.S. or Europe in various stages of development.

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-Executive Director

Mr. SONG Rui Lin

Independent Non-executive Directors

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

Company Secretary

Ms. LAI Siu Kuen

Authorized Representatives

Mr. YANG Rong Bing
Ms. ZHU Yuan Yuan

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Registered Office

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Hamilton HM 11
Bermuda

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No. 15 Chuang Ye Road
High-tech Industrial Development Zone
Yantai, Shandong
264003
People's Republic of China

Building 12
Shanghai Business Park III
No. 1036 Tianlin Road
Shanghai
People's Republic of China

Principal Place of Business in Hong Kong

Unit 3207, 32/F, Champion Tower
3 Garden Road
Central
Hong Kong

Principal Share Registrar and Transfer Office

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda



CORPORATE INFORMATION

Hong Kong Share Registrar



Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Legal Advisers

Allen & Overy
9/F, Three Exchange Square
Central
Hong Kong

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

Auditor

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Stock Code

2186

Company's Website

www.luye.cn

Principal Bankers

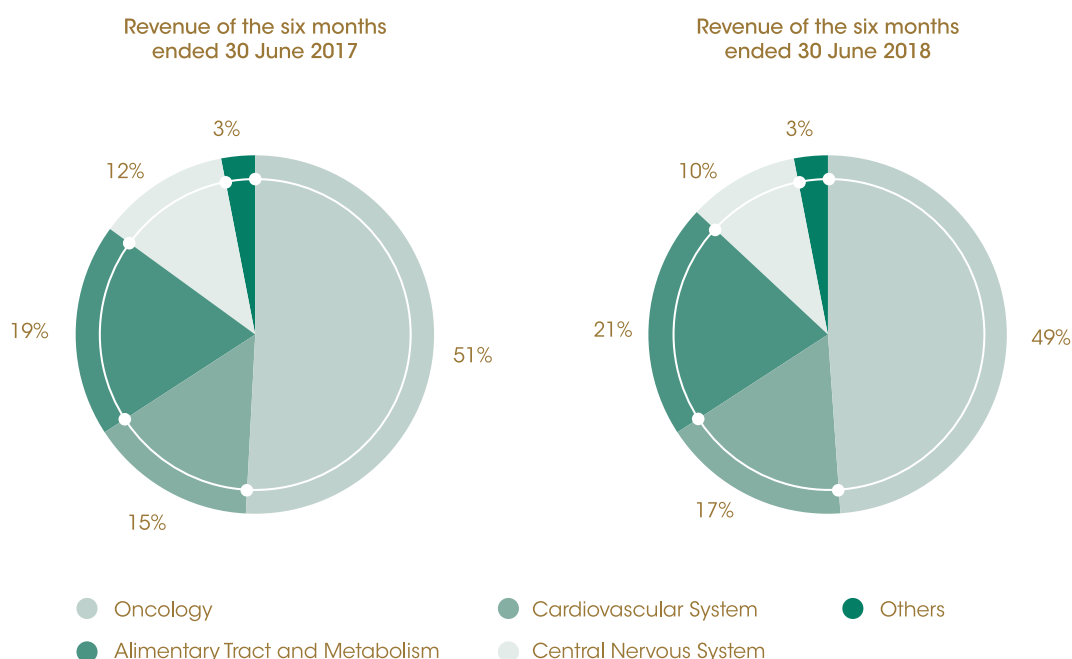
Bank of China Limited
China Everbright Bank
Industrial and Commercial Bank of China Limited
Citibank (China) Limited

FINANCIAL HIGHLIGHTS

- Revenue increased by RMB353.0 million or 19.1% to RMB2,203.8 million, as compared to the six months ended 30 June 2017.
- EBITDA increased by RMB300.2 million or 52.1% to RMB876.5 million, as compared to the six months ended 30 June 2017.
- Gross profit increased by RMB330.1 million or 23.1% to RMB1,756.5 million, as compared to the six months ended 30 June 2017, and a gross profit margin 79.7%.
- Net profit increased by RMB175.3 million or 45.2% to RMB563.2 million, as compared to the six months ended 30 June 2017.
- Profit attributable to shareholders increased by RMB177.5 million or 46.1% to RMB562.9 million, as compared to the six months ended 30 June 2017.
- Earnings per share was RMB17.54 cents compared to RMB11.74 cents for the six months ended 30 June 2017.
- The Board declared an interim dividend of RMB0.043 (equivalent to HK\$0.051) per share for the six months ended 30 June 2018, compared to RMB0.029 (equivalent to HK\$0.033) per share for the six months ended 30 June 2017.

	2015 RMB Million	2016 RMB Million	2017 RMB Million	30 Jun 2017 RMB Million	30 Jun 2018 RMB Million
Revenue	2,563.1	2,917.8	3,814.8	1,850.8	2,203.8
Gross Profit	2,087.4	2,382.7	2,963.4	1,426.4	1,756.5
EBITDA	1,028.9	1,146.0	1,416.6	576.4	876.5
Net Profit	764.7	894.0	980.6	387.9	563.2
Profit attributable to owners of the Parent	754.5	891.5	981.4	385.4	562.9
Total Assets	7,052.9	9,205.8	10,760.4	10,827.7	16,157.0
Total Liabilities	1,253.4	2,643.8	3,864.5	4,255.8	8,829.4
Equity	5,799.5	6,562.0	6,895.9	6,571.9	7,327.6

Product Revenue



MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the PRC, the U.S., Europe and other countries or districts, namely oncology, CNS, cardiovascular system, alimentary tract and metabolism. Covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets. The Group has a portfolio of over 30 products, with 30 product candidates in China and more than 10 product candidates overseas. During the six months ended 30 June 2018, the Group's sales of innovative pharmaceutical products maintained a strong growth momentum as the Group further deepened its market penetration and expanded the market share of its key products. The Group recorded a strong revenue growth of 19.1% in the first half of 2018 as compared to that of 2017.

Market Positioning

In China, the Group's key products are competitively positioned in one of its three key therapeutic areas and have gained top-ranking market shares measured by revenue. According to IQVIA, oncology-related pharmaceutical products constituted the third largest market in China for pharmaceutical products in the first half of 2018. The Group's portfolio of oncology products includes Lipusu, the best-selling pharmaceutical product for cancer treatment in China in the first half of 2018 according to IQVIA, as well as CMNa, a Class I New Chemical Drug and the only China Food and Drug Administration (the "CFDA") approved sensitiser for cancer radiotherapy in China. IQVIA data showed that cardiovascular system-related pharmaceutical products constituted the second largest market for pharmaceutical products in the PRC in the first half of 2018. According to IQVIA, the Group's key cardiovascular system products, Xuezhikang and Maitongna, were the most popular Chinese medicine for the treatment of hypercholesterolaemia and the best-selling vasoprotective pharmaceutical product in China in the first half of 2018, respectively. According to IQVIA, alimentary tract and metabolism-related pharmaceutical products constituted the largest market for pharmaceutical products in the PRC in the first half of 2018. According to IQVIA, the Group was the second largest domestic pharmaceutical manufacturer of oral diabetic medications in China in the first half of 2018 by revenue. IQVIA data showed that the Group's product Seroquel was the third largest product in schizophrenia therapeutic area in the PRC in the first half of 2018.

For the overseas markets, the Group's products are mainly positioned in central nervous system therapeutic area, including rivastigmine, fentanyl and buprenorphine patches and Seroquel.

For the six months ended 30 June 2018, the Group's revenue from sales of oncology products, alimentary tract and metabolism products, cardiovascular system products and other products increased to RMB1,088.8 million, RMB470.7 million, RMB363.9 million and RMB63.2 million, respectively, representing a growth rate of 16.3%, 33.5%, 27.8% and 32.6% while central nervous system products decreased by 5.5% to RMB217.1 million as compared to the six months ended 30 June 2017 for the respective therapeutic areas.



MANAGEMENT DISCUSSION AND ANALYSIS

Key Products

The Company believes that the Group's six key products are competitively positioned for high prevalence medical conditions that are expected to have a stable growth globally.

Lipusu[®] (力撲素[®])

Lipusu is the Group's proprietary formulation of paclitaxel using an innovative liposome injection delivery vehicle and a chemotherapy treatment of certain types of cancer. According to IQVIA, the market for oncology pharmaceutical products in the PRC was RMB39.1 billion in the first half of 2018 and by revenue, Lipusu was the most popular pharmaceutical product for cancer treatment in China in the first half of 2018, as well as the most popular paclitaxel product in China in the first half of 2018 with a market share of approximately 34.8% (including Paclitaxel and Docetaxel). As of 30 June 2018, Lipusu represented the first and only paclitaxel liposome product approved for sale globally.

CMNa[®] (希美納[®])

CMNa is sodium glycididazole, a proprietary compound that the Group prepares in injectable form and is indicated for use in connection with radiotherapy for certain solid tumours. It is a Class I New Chemical Drug and the only CFDA approved sensitiser for cancer radiotherapy in China. According to the CFDA, CMNa was the only glycididazole product available for sale in the first half of 2018. An independent third party study in 2009 concluded that the use of CMNa for the treatment of certain cancers increased the probability of complete or partial remission and reduced overall treatment costs.

Xuezhikang[®] (血脂康[®])

Xuezhikang is the Group's proprietary Chinese medicine derived from red yeast rice indicated for hypercholesterolaemia and, according to the CFDA, the Group was the only Xuezhikang manufacturer in China as of 30 June 2018. According to IQVIA, the market for pharmaceutical products indicated for hypercholesterolaemia and the lowering of blood cholesterol triglycerides and low density lipoprotein cholesterol in China was estimated to be approximately RMB7.6 billion in the first half of 2018. According to IQVIA, Xuezhikang ranked as the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in the first half of 2018.

Maitongna[®] (麥通納[®])

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral edema and edema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IQVIA, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB1.3 billion in the first half of 2018. Maitongna was the best-selling sodium aescinate product in China in the first half of 2018 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in the first half of 2018, according to IQVIA, with a market share of approximately 65.5% in the first half of 2018.

Bei Xi[®] (貝希[®])

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to the CFDA, the Group was the only manufacturer of acarbose in capsule form in the first half of 2018. According to IQVIA, the market for acarbose products in China was estimated to be approximately RMB2.0 billion in the first half of 2018 and Bei Xi ranked as the third most popular acarbose product in China with a market share of approximately 7.5% in the first half of 2018.



MANAGEMENT DISCUSSION AND ANALYSIS

Rivastigmine Transdermal Patches (the “Rivastigmine Patch”)

The Rivastigmine Patch is rivastigmine in transdermal patches form approved by the Food and Drug Administration of the United States (“U.S. FDA”) and is indicated for mild to moderate dementia of the Alzheimer’s type and dementia due to Parkinson’s disease. According to IQVIA, Rivastigmine Patch’s volume share is approximately 22.0% in the U.S and the Europe in the first quarter of 2018.

Seroquel® (思瑞康®)

Seroquel (quetiapine fumarate, immediate release, IR) and Seroquel XR (extended release formulation) are atypical anti-psychotic medicines with antidepressant properties. The main indications for Seroquel are the treatment of schizophrenia and bipolar disorder. Seroquel XR is also approved in some markets for major depressive disorder and generalised anxiety disorder. According to IQVIA, Seroquel was the third largest product in schizophrenia therapeutic area in the PRC in the first half of 2018.

Research and Development (“R&D”)

The Group’s R&D activities are organized around four platforms — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. The Group balances clinical development risk by strategically allocating its efforts between proprietary formulations of proven compounds and new chemical entities. The Group believes that its R&D capabilities will be the driving force behind the Group’s long-term competitiveness, as well as the Group’s future growth and development. As at 30 June 2018, the Group’s R&D team consisted of 449 employees, including 81 Ph.D. degree holders and 215 Master’s degree holders in medical, pharmaceutical and other related areas. As at 30 June 2018, the Group had been granted over 246 patents and had over 52 pending patent applications in the PRC, as well as over 420 patents and over 110 pending patent applications overseas.

Through the Group’s four platforms and the corresponding R&D capabilities, the Group focuses on R&D projects not only within its core strength therapeutic areas of oncology and alimentary tract and metabolism, but also expands into the CNS therapeutic area, which according to IQVIA, was one of the fastest growing therapeutic areas in China from 2015–2017 with a compound annual growth rate of 8.2%. As at 30 June 2018, the Group had a pipeline of 27 PRC product candidates in various stages of development. These candidates included 9 oncology products, 4 cardiovascular and metabolism products, as well as 14 CNS products.

Also, the Group had a pipeline of 6 candidate products in the U.S. or Europe in various stages of development. In the U.S., one product candidate has completed its clinical stage and four candidates are in different clinical stages. In Europe, one product candidate has commenced clinical trials in Germany. In Japan, several products are targeting to commence application. Furthermore, the Group is registering its products in Japan, Brazil and other countries through various cooperation patterns such as co-development with its partners or licensing out, etc.

In January 2018, the Group’s product candidate, ansifaxine hydrochloride extended release tablets (“LY03005”), a New Chemical Entity and China Class 1.1 New Chemical Drug, has completed a phase II clinical trial in China. The phase II trial for LY03005 showed positive results for the treatment of major depressive disorder. LY03005 began to commence phase III clinical trial in China in June 2018.

In February 2018, FDA has agreed to waive pediatric clinical trials at the submission of a New Drug Application in the U.S. for the Group’s innovative drug, Risperidone Extended Release Microspheres for injection (“LY03004”).



MANAGEMENT DISCUSSION AND ANALYSIS

In March 2018, the Group, entered into a collaboration and license agreement with Excel BioPharm LLC (“Excel BioPharm”), a California Biotechnology company, to collaborate on the discovery and development of therapeutic antibodies for next generation immuno-oncology treatments.

In April 2018, Rotigotine Extended Release Microspheres for injection (“LY03003”) obtained the approval from the CFDA to proceed to Phase III clinical trials in China. LY03003 began to commence phase III clinical trials in China in June 2018. LY03003 was exempted from Phase II dosage exploration clinical trials in China and the U.S. in February and March 2018 respectively.

In May 2018, the Group entered into a collaboration and license agreement with Elpis Biopharmaceuticals Corp. (“Elpis Biopharm”), a Boston-region Biotechnology company, to discover and develop dual target based Chimeric Antigen Receptor T-Cell Immunotherapy therapies and biologic drug candidates for next generation immuno-oncology treatments.

In June 2018, the clinical applications of the Group’s new compound candidate, the extended release tablets (“LY03012”), a China Class 1.1 New Chemical Drug, have received formal acceptance by the CFDA. LY03012 is a small molecule compound delivered orally. Non-clinical studies have shown that the product, as a novel brain monoamine neurotransmitter transporter inhibitor, can increase the concentration of norepinephrine, 5-hydroxytryptamine, and dopamine in the synaptic cleft, through enhancing the descending inhibitory pain pathway, exerts an analgesic effect.

In June 2018, CFDA has approved the inclusion of “depression arising from bipolar disorder” under the indication for Seroquel XR.

In July 2018, LY01013 obtained the approval from CFDA to initiate clinical trials. LY01013 is an oral strong small-molecule indoleamine 2,3-dioxygenase (“IDO”)/tryptophan 2,3-dioxygenase (“TDO”) inhibitor, which can overcome IDO/TDO enzyme-mediated immune tolerance, activate effector T-cells and modulate tumor immune microenvironment. The product can be used in conjunction with, and even enhance the tumor-killing inhibitory effect of, other drugs, such as immune check-points and chemotherapy drugs. In connection with LY01013, the Group has applied for a compound patent, a polymorph patent and a preparation technology patent. The intended indications include the treatment of lung cancer, kidney cancer, bladder cancer, head and neck cancer and melanoma.

In September 2018, the import registration of the Group’s innovative drug delivery system drug, the Rivastigmine Patch, has been accepted by China National Medical Products Administration (formerly known as the China Food and Drug Administration). In addition to the Rivastigmine Patch, the Group is also developing other new drugs through its transdermal patch research and development platform.

Sales, Marketing and Distribution

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in the first half of 2018. The Group’s sales, marketing and distribution functions are conducted through over 68 sales support offices, over 1,350 sales and marketing personnel, a network of approximately 1,380 distributors that collectively enabled the Group to sell its products to over 12,580 hospitals, which comprised approximately 1,480 or approximately 78.0% of all Class III hospitals, approximately 3,600 or approximately 52.0% of all Class II hospitals and approximately 7,500 or approximately 45.0% of all Class I and other hospitals and medical institutions, in the PRC in the first half of 2018. The Group believes that its sales and marketing model and extensive coverage of hospitals with other medical institutions represent a significant competitive advantage and a culmination of both academic promotion by the Group’s in-house personnel in different regions and partnerships with high-quality distributors across China. The Group also believes that its sales and marketing model also provides a solid foundation for the Group to continue to enhance market awareness of its brand and expand the market reach of its products.



MANAGEMENT DISCUSSION AND ANALYSIS

In the overseas, the Group has in-house sales teams in both Singapore and Malaysia. The Group has strong sales partnerships with more than 30 partners throughout the world, covering 80 countries including the U.S, Europe and other countries or districts.

Merger and Acquisition (“M&A”)

In June 2018, the Group acquired Seroquel and Seroquel XR, the atypical anti-psychotic (AAP) medicines with antidepressant properties, from AstraZeneca. AstraZeneca agreed to grant to Luye Pharma Hong Kong Limited a licence for the right, title and interest in the “Seroquel” registered trade marks, know-how, product records and regulatory information (“Licensed Assets”) in certain territories, which covers 51 countries and regions, including China, the United Kingdom, Brazil, Australia, Saudi Arabia, Mexico, South Korea, Thailand, Argentina, Malaysia and other countries and regions in Asia, Latin America, Africa, Oceania and Eastern Europe. The purchase price for the assets transferred thereunder and the Licensed Assets was US\$546 million. The acquisition completion took place on 28 June 2018. Please refer to the Company’s announcements dated 7 May 2018, 5 June 2018, 22 June 2018 and 28 June 2018, and the Company’s circular dated 5 June 2018 for details.

Positioned as one of the four key therapeutic areas of the Group, the CNS portfolio has been given long-term and strategic planning. The acquisition of Seroquel and Seroquel XR will further enrich the Group’s existing CNS product portfolio, and will help the Group further expand in the PRC and into markets outside of China. The Company believes that the acquisition will be able to capture certain synergetic effects brought along by the acquisition in terms of business development and sales channels in the relevant countries.

In July 2018, the Group entered into an agreement with Bayer AG to acquire the global rights to Apleek, a new generation combined hormonal 7 days contraceptive transdermal patch containing ethinyl estradiol and gestodene.

With the increase in awareness of contraception, the contraception rate is rising. According to GBI Research, the global contraceptives market is expected to reach US\$11.8 billion in 2018, and it is expected to grow continuously.

Outlook

Due to policy and market factors, the Chinese pharmaceutical industry remains a low growth rate in the first half of 2018. According to IQVIA, the growth rate of the Chinese pharmaceutical market was 2.84% in the first half of 2018, compared to 3.43% in that of 2017. The Group outperformed the market in both two periods with growth rate of 12.14% and 11.03%, respectively.

However, since it is a highly competitive industry, inevitably all the pharmaceutical companies are facing intense competition from other market participants. Furthermore, the industry is highly constrained by the government policy, which may cause great uncertainty during the development of pharmaceutical companies. In recent years, policies such as tendering and reimbursement has caused great impact on the industry.

For the six months ended 30 June 2018, the Group will continue to introduce measures to improve its profitability and enhance efficiency in key aspects of its operations. With respect to its sales and marketing activities, the Group will continue to undertake a series of changes and initiatives to enable it to focus its marketing and promotion resources on the regions and products where marketing and promotion expenditure yields higher returns, thereby increasing its overall sales efficiency. The Group also intends to increase its profitability through production efficiency and to continuously upgrade its production facilities. In addition, the Group intends to further strengthen its R&D capabilities and develop its product candidates.



MANAGEMENT DISCUSSION AND ANALYSIS

As described above, during the six months ended 30 June 2018, the Group has made remarkable progresses in R&D fields. In China, both LY03005 and LY03003 commenced phase III clinical trials. The clinical applications of LY03012, a China Class 1.1 New Chemical Drug, have received formal acceptance by the CFDA. LY01013 has obtained the approval from the CFDA to initiate clinical trials. The CFDA has recently approved the inclusion of “depression arising from bipolar disorder” under the indication for Seroquel XR.

In the overseas, LY03004 is agreed to waive pediatric clinical trials at the submission of a New Drug Application in the U.S.. The Group has entered into a collaboration and license agreement with Excel BioPharm and Elpis Biopharm, to collaborate on the discovery and development of therapeutic antibodies for next generation immuno-oncology treatments and dual target based Chimeric Antigen Receptor T-Cell Immunotherapy therapies and biologic drug candidates for next generation immuno-oncology treatments respectively.

For M&A, given the Group acquired Seroquel and Seroquel XR from AstraZeneca, including the rights in 51 countries and regions. The acquisition of Seroquel and Seroquel XR will further enrich the Group’s existing CNS product portfolio, and will help the Group further expand in the PRC and into markets outside of China. The Company believes that the Group will be able to capture certain synergetic effects brought along by the acquisition in terms of business development and sales channels in the relevant countries.

For sales and distribution, the penetration into lower-tier hospitals is deepening and the internal sales -force is growing fast. Backed by sales of Seroquel and Seroquel XR, the Group will gradually build up its domestic commercialization capability in CNS.

In the overseas, the acquisition of Seroquel will further expand the Group’s sales network and build up the commercialization capability in developing countries.

For manufacturing, the Group is working on establishing a global quality control and quality assurance system as well as information platform to ensure the successful integration of the Group’s global manufacturing facility system.

Management of the Group is confident that, with the Group’s strong competitive positioning of its innovative products, its strong pipeline of product candidates, its proven R&D capabilities and its sales and marketing networks, as well as its capabilities to execute strategic acquisitions, the Group is well positioned to enter a new phase of rapid growth.

Financial Review

Revenue

For the six months ended 30 June 2018, the Group’s revenue amounted to approximately RMB2,203.8 million, as compared to RMB1,850.8 million for the six months ended 30 June 2017, representing an increase of approximately RMB353.0 million, or 19.1%. The increase is mainly attributable to the sales growth of the Group’s key products.

For the six months ended 30 June 2018, the Group’s revenue from sales of oncology products increased to RMB1,088.8 million, as compared to RMB936.1 million for the six months ended 30 June 2017, representing an increase of approximately RMB152.7 million, or 16.3%, primarily attributable to the increase in sales volume of various oncology products of the Group.

For the six months ended 30 June 2018, revenue from sales of cardiovascular system products increased to RMB363.9 million, as compared to RMB284.7 million for the six months ended 30 June 2017, representing an increase of approximately RMB79.2 million, or 27.8%, primarily attributable to the increase in sales volume of various cardiovascular system products of the Group.



MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2018, revenue from sales of alimentary tract and metabolism products increased to RMB470.7 million, as compared to RMB352.7 million for the six months ended 30 June 2017, representing an increase of approximately RMB118.0 million, or 33.5%, primarily attributable to the increase in sales volume of various alimentary tract and metabolism products of the Group.

For the six months ended 30 June 2018, revenue from sales of CNS products increased by RMB217.1 million, as compared to RMB229.7 million for the six months ended 30 June 2017, representing a decrease of approximately RMB12.6 million, primarily attributable price competition in the U.S..

For the six months ended 30 June 2018, revenue from sales of other products increased to RMB63.2 million, as compared to RMB47.6 million for the six months ended 30 June 2017, representing an increase of approximately RMB15.6 million, or 32.6%, primarily attributable to the increase in sales volume of various other products of the Group.

Cost of Sales

The Group's cost of sales increased from RMB424.4 million for the six months ended 30 June 2017 to approximately RMB447.3 million for the six months ended 30 June 2018, which accounted for approximately 20.3% of the Group's total revenue for the same period. The higher percentage last year was mainly due to one-off amortisation of inventory, expenses incurred for the acquisition of new business in Europe.

Gross Profit

For the six months ended 30 June 2018, the Group's gross profit increased to RMB1,756.5 million, as compared to RMB1,426.4 million for the six months ended 30 June 2017, representing an increase of approximately RMB330.1 million, or 23.1%. The gross profit margin of 79.7% is consistent with prior year gross profit margin (after taken off the one-off amortisation of inventory cost derived from the acquisition of business in Europe).

Other Income and Gains

The Group's other income and gains mainly comprised of government grants, interest income and investment income. For the six months ended 30 June 2018, the Group's other income and gains increased to RMB114.8 million, as compared to RMB92.6 million for the six months ended 30 June 2017, representing an increase of approximately RMB22.2 million. The increase is mainly attributable to higher various investment income earned during the period. The increase is offset by lower government grant recognised during the six months ended 30 June 2018, as compared to the corresponding period of 2017.

Selling and Distribution Expenses

The Group's selling and distribution expenses consisted of expenses that were directly related to the Group's marketing, promotion and distribution activities. For the six months ended 30 June 2018, the Group's selling and distribution expenses amounted to RMB729.8 million, as compared to RMB657.9 million for the six months ended 30 June 2017, representing an increase of RMB71.9 million, or 10.9%. The increase was mainly attributable to increased promotional activities for the Group's products and a slight increase in freight charges. On the other hand, as a percentage of revenue the Group's selling and distribution expenses decreased from 35.5% for the six months ended 30 June 2017 to 33.1% for the six months ended 30 June 2018, primarily as a result of the lower selling and distribution expense margin to revenue for our acquired business in Europe.



MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

The Group's administrative expenses primarily consisted of staff cost, general operating expense, conference and entertainment expense, travel and transportation expense, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the six months ended 30 June 2018, the Group's administrative expenses amounted to approximately RMB217.3 million, as compared to RMB220.5 million for the six months ended 30 June 2017, representing a decrease of approximately RMB3.2 million, or 1.5%. The decrease mainly due to higher one-off consulting expenses, taxation expenses and auditor's remuneration incurred during the six months ended 30 June 2017 from the acquired business in Europe in 2016.

Other Expenses

The Group's other expenses primarily consisted of its R&D costs, foreign exchange losses, donations, loss on disposals of property, plant and equipment and miscellaneous expenses. For the six months ended 30 June 2018, the Group's other expenses amounted to approximately RMB200.0 million, as compared to RMB157.4 million for the six months ended 30 June 2017, representing an increase of approximately RMB42.6 million, or 27.1%. The increase was mainly due to increase in R&D costs during the period.

Finance Costs

For the six months ended 30 June 2018, the Group's finance costs amounted to RMB50.5 million, as compared to RMB22.4 million for the six months ended 30 June 2017, representing an increase of approximately RMB28.1 million, or 125.8%. The increase was mainly due to the higher level of monthly average outstanding bank borrowings during the six months ended 30 June 2018 as compared to the corresponding period of 2017.

Income Tax Expense

For the six months ended 30 June 2018, the Group's income tax expense amounted to RMB110.9 million, as compared to RMB73.3 million for the six months ended 30 June 2017, representing an increase of RMB37.6 million, or 51.2%. The effective tax rate for the six months ended 30 June 2018 of 16.4% is consistent with the corresponding period of 2017 of 15.9%.

Net Profit

The Group's net profit for the six months ended 30 June 2018 was approximately RMB563.2 million, as compared to RMB387.9 million for the six months ended 30 June 2017, representing an increase of approximately RMB175.3 million, or 45.2%.



MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, Financial and Capital Resources

Net Current Assets

As at 30 June 2018, the Group had net current assets of approximately RMB1,071.9 million, as compared to approximately RMB2,641.1 million as at 31 December 2017. The current ratio of the Group decreased slightly to approximately 1.2 as at 30 June 2018 from approximately 1.7 as at 31 December 2017. The decrease in net current assets was mainly attributable to higher level of loans and borrowings.

Borrowings and Pledge of Assets

As at 30 June 2018, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB5,941.4 million, as compared to approximately RMB2,861.4 million as at 31 December 2017. Amongst the loans and borrowings, approximately RMB5,941.3 million are repayable within one year, and approximately RMB0.1 million are repayable after one year. RMB2,701.8 million of the loans and borrowings of the Group carried interest at fixed interest rate. The increase in loans and borrowings is mainly for acquisition and working capital of the Group. The bank loans were secured by the Group's time deposits, financial assets at fair value through profit or loss and notes receivable. As at 30 June 2018, the Group's borrowings were primarily denominated in RMB, Euro and U.S. dollars, and the cash and cash equivalents were primarily denominated in RMB and U.S. dollars.

Gearing Ratio

As at 30 June 2018, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, increased to 81.1% from 41.5% as at 31 December 2017. The increase was primarily due to an increase in the Group's total borrowings resulting from additional loans taken during the reporting period.

Contingent Liabilities

As at 30 June 2018, the Group had no significant contingent liabilities.

Foreign Exchange and Exchange Rate Risk

The Group primarily operates in the PRC and is exposed to foreign currency risk arising from fluctuations in exchange rate between RMB and other currencies in which the Group conducts its business. The Group is subject to foreign currency risk attributable to the bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. The Group seeks to limit the exposure to foreign currency risk by minimising its net foreign currency position. The Group did not enter into any hedging transactions in respect of foreign currency risk during the six months ended 30 June 2018. The directors of the Company (the "Directors") expect that the fluctuation of the RMB exchange rate will not have a material adverse effect on the operation of the Group.

Employees and Remuneration Policy

As at 30 June 2018, the Group employed a total of 3,974 employees, as compared to a total of 3,921 employees as at 31 December 2017. The staff costs, (including Directors' emoluments but excluding any contributions to pension scheme), were approximately RMB320.1 million for the six months ended 30 June 2018 as compared to RMB262.8 million for the corresponding period in 2017. The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.



MANAGEMENT DISCUSSION AND ANALYSIS

Share Award Scheme

The Company adopted the Scheme on 10 January 2017. The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive Directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group. During the six months ended 30 June 2018, the Board has granted to the selected employees an aggregate of 20,098,000 shares of the Company (“Shares”) under the Scheme, and an aggregate of 37,822,000 Shares were awarded pursuant to the Scheme as at 30 June 2018. Details of the Scheme and the awards made up to 30 June 2018 are set out in note 22 to the interim condensed consolidated financial statements as set out in this report.

Hedging Activities

During the six months ended to 30 June 2018, the group did not use any financial instruments for hedging purposes and did not enter into any hedging transaction in respect of foreign currency risk or interest rate risk.

Significant Investments Held

As at 30 June 2018, the Group did not have any significant investments.

Future Plans for Material Investments or Capital Assets

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

Loan agreements with covenants relating to specific performance obligations of the controlling shareholder

During the period under review, as disclosed in the announcement of the Company dated 21 June 2018, pursuant to the term of the term loan facility agreement dated 21 June 2018 (“June Facility Agreement”) entered into between Luye Pharma Hong Kong Limited (“Luye Hong Kong”) and UBS AG, Singapore Branch (“UBS AG Singapore”), UBS AG Singapore has agreed to grant to Luye Hong Kong a term loan facility of up to US\$300 million for a term of 364 days from the date of initial utilisation under the June Facility Agreement. Under the June Facility Agreement, the occurrence of any of the following events could result in the cancellation of all or any part of the commitments under the June Facility Agreement and all amounts outstanding under the June Facility Agreement becoming immediately due and payable:

- a. Mr. Liu Dianbo (“Mr. Liu”), the chairman, chief executive officer and an executive director of the Company, together with the beneficiaries of the discretionary trust set up by Mr. Liu for the benefit of his family members, ceases to beneficially own, whether directly or indirectly, at least 70% of the entire issued share capital of LuYe Pharmaceutical Investment Co., Ltd. (“Luye Pharma Investment”);
- b. Mr. Yuan Huixian (“Mr. Yuan”), an executive director of the Company, ceases to beneficially own, whether directly or indirectly, at least 15% of the entire issued share capital of Luye Pharma Investment;



MANAGEMENT DISCUSSION AND ANALYSIS



- c. Mr. Yang Rongbing (“Mr. Yang”), an executive director of the Company, ceases to beneficially own, whether directly or indirectly, at least 15% of the entire issued share capital of Luye Pharma Investment;
- d. Luye Pharma Investment ceases to beneficially own, whether directly or indirectly, at least 38% of the entire issued share capital of the Company;
- e. a person or persons (acting in concert) directly or indirectly gain a percentage of the voting issued shares of the Company greater than that of Luye Pharma Investment; and
- f. Mr. Liu ceases to hold office as the executive chairman of the Board and chief executive officer of the Company, and ceases to be involved in the management and business of the Company and its subsidiaries.

After the period under review, as disclosed in the announcement of the Company dated 2 August 2018, pursuant to the term of the facility agreement dated 2 August 2018 (“August Facility Agreement”) entered into between Luye Pharma Switzerland AG (“Luye Switzerland”) and a bank (the “Bank”), the Bank has agreed to grant to Luye Switzerland a term loan facility of up to EUR120 million for a term of 60 months from the date of initial utilisation under the August Facility Agreement. Under the August Facility Agreement, in the event that Luye Pharmaceutical Investment ceases to be (i) the actual controller; or (ii) the first majority/single largest shareholder of the Company, all or any part of the commitments under the August Facility Agreement may be cancelled and all amounts outstanding under the August Facility Agreement may become immediately due and payable.

Subsequent Events after the Interim Period

In August 2018, as disclosed above, Luye Switzerland entered into the August Facility Agreement with the Bank. The loan under the August Facility Agreement will be applied by Luye Switzerland to repay its shareholder’s loan with a view to generally lower the finance cost of the Group given that the loan under August Facility Agreement has a relatively low interest rate.

In July 2018, the Company’s subsidiaries, namely, Luye Pharma AG and Luye Supply AG, entered into an agreement with Bayer AG to acquire the global rights to Apleek. Please refer to the Company’s announcement dated 6 August 2018 for information.

In September 2018, the Company repurchased an aggregate of 2,000,000 Shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Please refer to “Purchase, Sale or Redemption of Listed Securities” below.

Save as disclosed above, the Group did not have any significant subsequent events after the interim period ended 30 June 2018.

OTHER INFORMATION

Interim Dividend

The Board declared the payment of an interim dividend of RMB0.043 (equivalent to HK\$0.051) per share for the six months ended 30 June 2018 (the six months ended 30 June 2017: RMB0.029 (equivalent to HK\$0.033)), totaling approximately RMB140,720,000, to the shareholders of the Company whose names appear on the Company's register of shareholders on 7 September 2018. The interim dividend is expected to be paid on or around 28 September 2018.

Corporate Governance Practices

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

During the six month ended 30 June 2018, the Company has complied with all the applicable code provisions set out in the CG Code, save and except for the deviation from Code provision A.2.1 of the CG Code, which requires the roles of chairman and chief executive officer should be separate and performed by different individuals.

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

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") of Appendix 10 to the Listing Rules. Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2018.

Purchase, Sale or Redemption of Listed Securities

The Company has repurchased a total of 46,108,500 Shares during the year ended 31 December 2017, and they were cancelled on 20 March 2018. There was no purchase, sale and redemption of any listed securities of the Company or any of its subsidiaries during the six months ended 30 June 2018.

After the period under review, on 6 September 2018, the Company repurchased an aggregate of 2,000,000 Shares on the Stock Exchange, representing approximately 0.0611% of the total issued share capital of the Company, for HK\$13,113,925. The share repurchased has not been cancelled as at the date of this report.



OTHER INFORMATION

Audit Committee

The audit committee of the Company has reviewed, with the management, the accounting principles and policies adopted by the Group, and reviewed and discussed the unaudited interim condensed consolidated financial statements and interim results announcement and interim report of the Group for the six months ended 30 June 2018.

In addition, the independent auditor of the Company, Ernst & Young, has reviewed the unaudited interim results for the six months ended 30 June 2018 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

Changes in Directors’ Information

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes to the directors’ information since the date of the Company’s annual report for the year ended 31 December 2017, are set out as follows:

- Mr. Zhang Hua Qiao has resigned as an independent non-executive director from Yancoal Australia Ltd, a company listed on the Australian Securities Exchange (stock code: YAL), Sinopec Oilfield Service Corporation, a company listed on the Main Board of the Stock Exchange (stock code: 1033), Wanda Hotel Development Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 169), in January 2018, March 2018 and May 2018, respectively.
- Mr. Choy Sze Chung Jojo has resigned as an independent non-executive director of Chengdu Putian Telecommunications Cable Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1202), in January 2018.
- Mr. Song Rui Lin has been appointed as a member of the Biotech Advisory Panel of the Stock Exchange since June 2018.

Other than those disclosed above, the Company is not aware of other changes in respect of the information of the directors of the Company which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Controlling Shareholder’s Interest in Competing Business

Shandong Boan Biological Technology Co. Ltd. (“Shandong Boan”) is a biotechnology company established in 2013. It focuses on the development of biopharmaceutical products, and operates a 1,200 sq.m. GMP-compliant pilot plant. Shandong Boan is an indirect subsidiary of, and owned as to 66.7% indirectly by, LuYe Pharmaceutical Investment Co., Ltd., a controlling shareholder of the Company. Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each an executive Director, are indirectly interested in the share capital of LuYe Pharmaceutical Investment Co., Ltd.

As good corporate governance practice, Shandong Boan agreed with the Board that it will provide regular updates to the Company regarding the development status of various product candidates of Shandong Boan so that the Company may have more information to consider and evaluate any potential acquisition or co-operation opportunity with Shandong Boan. During the interim period ended 30 June 2018, the Board considered the development progress of product candidates of Shandong Boan, and did not consider there to be any suitable or co-operation candidate at the moment. Shandong Boan will continue to provide update to the Board.



OTHER INFORMATION

Directors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures

As at 30 June 2018, the interests and short positions of the Directors, including the chief executive of the Company, in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were set out below.

(i) Interest in the Company

Name of Director	Nature of interest	Number of securities	Approximate percentage of shareholding
Liu Dian Bo ⁽¹⁾⁽²⁾	Founder of a discretionary trust	1,517,113,930(L)	46.32%
Zhang Hua Qiao ⁽³⁾	Beneficial owner	250,000(L)	0.01%
Lo Yuk Lam ⁽³⁾	Beneficial owner	250,000(L)	0.01%
Leung Man Kit ⁽³⁾	Beneficial owner	250,000(L)	0.01%
Choy Sze Chung Jojo ⁽³⁾	Beneficial owner	250,000(L)	0.01%

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

Notes:

1. Mr. Liu Dian Bo through his controlled corporations, namely Shorea LBG, Ginkgo (PTC) Limited, Nelumbo Investments Limited, Luye Life Sciences Group Ltd., Luye Pharma Holdings Ltd., LuYe Pharmaceutical International Co., Ltd. and LuYe Pharmaceutical Investment Co., Ltd., is deemed to be interested in 1,517,113,930 ordinary shares in the Company held by LuYe Pharmaceutical Investment Co., Ltd. Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd.
2. The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo (PTC) Limited is wholly owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.
3. These represent the interests in underlying shares in respect of the awarded shares granted by the Company under Luye Pharma Share Award Scheme.



OTHER INFORMATION

(ii) Interest in associated corporations

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

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

Notes:

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

Save as disclosed above, as at 30 June 2018, none of the Directors and chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

At no time during the period under review was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. Save as disclosed above, during the six months ended 30 June 2018, none of the Directors (including their spouses and children under the age of 18) held any interests in or was granted any right to subscribe for the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.



OTHER INFORMATION

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2018, persons (other than the Directors and chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange, were as set out below:

Name	Capacity/Nature of interest	Number of securities	Approximate percentage of shareholding
LuYe Pharmaceutical Investment Co., Ltd. ⁽¹⁾	Beneficial owner	1,517,113,930(L)	46.32%
LuYe Pharmaceutical International Co., Ltd. ⁽¹⁾	Interest in controlled corporation	1,517,113,930(L)	46.32%
Luye Pharma Holdings Ltd. ⁽¹⁾	Interest in controlled corporation	1,517,113,930(L)	46.32%
Luye Life Sciences Group Ltd. ⁽²⁾	Interest in controlled corporation	1,517,113,930(L)	46.32%
Nelumbo Investments Limited ⁽²⁾	Interest in controlled corporation	1,517,113,930(L)	46.32%
Ginkgo (PTC) Limited ⁽²⁾	Trustee	1,517,113,930(L)	46.32%
Shorea LBG ⁽²⁾	Interest in controlled corporation	1,517,113,930(L)	46.32%
CPE Greenery Ltd. ⁽³⁾	Beneficial owner	196,561,695(L)	6.00%
CPEChina Fund, L.P. ⁽³⁾	Interest in controlled corporation	196,561,695(L)	6.00%
CITIC PE Associates, L.P. ⁽³⁾	Interest in controlled corporation	196,561,695(L)	6.00%
CITIC PE Funds Limited ⁽³⁾	Interest in controlled corporation	196,561,695(L)	6.00%
CITICPE Holdings Limited ⁽³⁾	Interest in controlled corporation	196,561,695(L)	6.00%
CLSA Global Investment Management Limited	Interest in controlled corporation	196,561,695(L)	6.00%
CITIC Securities International Company Limited ⁽³⁾	Interest in controlled corporation	196,561,695(L)	6.00%
CITIC Securities Company Limited ⁽³⁾	Interest in controlled corporation	196,561,695(L)	6.00%
中國平安保險(集團)股份有限公司 ⁽⁴⁾	Interest in controlled corporation	546,355,060(L)	16.68%
平安銀行股份有限公司 ⁽⁴⁾	Security interest in shares	546,355,060(L)	16.68%

Remark:

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

Notes:

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



OTHER INFORMATION

3. CPE Greenery Ltd. is wholly owned by CPEChina Fund, L.P. The general partner of CPEChina Fund, L.P. is CITIC PE Associates, L.P. The general partner of CITIC PE Associates, L.P. is CITIC PE Funds Limited. CITIC PE Funds Limited is wholly owned by CITICPE Holdings Limited. CLSA Global Investment Management Limited (formerly known as CITIC Securities International Asset Management Limited) holds 35% of the issued share capital of CITICPE Holdings Limited. CLSA Global Investment Management Limited is wholly owned by CITIC Securities International Company Limited, which in turn is wholly owned by CITIC Securities Company Limited.
4. 平安銀行股份有限公司 is 49.56% owned by 中國平安保險(集團)股份有限公司.

Save as disclosed above, as at 30 June 2018, the Directors have not been aware of any person who had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.



REVIEW REPORT OF INTERIM FINANCIAL INFORMATION



22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the board of directors of Luye Pharma Group Ltd.

(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 24 to 64, which comprises the condensed consolidated statement of financial position of Luye Pharma Group Ltd. (the “Company”) and its subsidiaries as at 30 June 2018 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing 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”).

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Ernst & Young

Certified Public Accountants

Hong Kong

26 August 2018



INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June

	Notes	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
REVENUE	4	2,203,775	1,850,782
Cost of sales		(447,281)	(424,408)
Gross profit		1,756,494	1,426,374
Other income and gains	4	114,804	92,593
Selling and distribution expenses		(729,790)	(657,872)
Administrative expenses		(217,265)	(220,486)
Other expenses		(200,044)	(157,431)
Finance costs	6	(50,544)	(22,387)
Share of profit of an associate		396	379
PROFIT BEFORE TAX	5	674,051	461,170
Income tax expense	7	(110,867)	(73,314)
PROFIT FOR THE PERIOD		563,184	387,856
Attributable to:			
Owners of the parent		562,879	385,377
Non-controlling interests		305	2,479
		563,184	387,856
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic (RMB)			
— For profit for the period		17.54 cents	11.74 cents
Diluted (RMB)			
— For profit for the period		17.48 cents	11.74 cents



INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June

	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	563,184	387,856
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Fair value change on investments	(102)	(1,034)
Exchange differences on translation of foreign operations	5,921	22,063
Net other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax	5,819	21,029
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Fair value change on investments	(416)	—
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax	(416)	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	5,403	21,029
TOTAL COMPREHENSIVE INCOME, NET OF TAX	568,587	408,885
Attributable to:		
Owners of the parent	568,282	406,406
Non-controlling interests	305	2,479
	568,587	408,885



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION



	Notes	As at	
		30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	2,392,027	2,009,970
Advance payments for property, plant and equipment and other intangible assets		171,009	230,603
Prepaid land lease payments		220,189	223,330
Goodwill		1,023,574	1,036,902
Other intangible assets	11	4,343,679	828,702
Investment in an associate		6,927	6,243
Financial assets at fair value through profit or loss	12	1,483	—
Financial assets at fair value through other comprehensive income	13	67,131	—
Available-for-sale investments	12, 13	—	34,565
Deferred tax assets		77,544	94,153
Total non-current assets		8,303,563	4,464,468
CURRENT ASSETS			
Inventories		529,245	420,356
Trade and notes receivables	14	1,426,751	1,411,220
Prepayments, deposits and other receivables	15	230,915	199,649
Due from related parties	21(b)	2,624	2,841
Financial assets at fair value through profit or loss	12	1,521,201	—
Financial assets at fair value through other comprehensive income	13	301,479	—
Available-for-sale investments	12, 13	—	1,628,796
Restricted cash	16	16,758	11,252
Pledged time deposits	16	1,162,934	409,243
Time deposits with original maturity of over three months	16	865,998	946,703
Cash and cash equivalents	16	1,795,535	1,265,872
Total current assets		7,853,440	6,295,932
CURRENT LIABILITIES			
Trade and notes payables	17	132,822	104,599
Contract liabilities		27,175	—
Other payables and accruals		501,525	502,511
Interest-bearing loans and borrowings	18	5,941,286	2,861,125
Government grants		57,985	57,833
Tax payable		120,715	128,729
Total current liabilities		6,781,508	3,654,797
NET CURRENT ASSETS		1,071,932	2,641,135
TOTAL ASSETS LESS CURRENT LIABILITIES		9,375,495	7,105,603

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	As at	
		30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		9,375,495	7,105,603
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	18	157	232
Retirement benefit obligations		5,277	5,381
Long-term payables	19	1,832,152	—
Government grants		75,281	73,588
Deferred revenue		36,635	34,041
Deferred tax liabilities		98,377	96,445
Total non-current liabilities		2,047,879	209,687
Net assets		7,327,616	6,895,916
EQUITY			
Equity attributable to owners of the parent			
Issued capital		421,337	427,269
Treasury shares		(279,558)	(459,284)
Share premium		2,764,669	2,936,817
Reserves		4,293,139	3,863,601
		7,199,587	6,768,403
Non-controlling interests		128,029	127,513
Total equity		7,327,616	6,895,916



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the parent											Total equity RMB'000
	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Other reserves* RMB'000	Statutory surplus reserves* RMB'000	Share award scheme reserve* RMB'000	Retained earnings* RMB'000	Fair value reserve of financial assets at FVOCI* RMB'000	Foreign currency translation reserves* RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At 1 January 2018												
Originally stated	427,269	(459,284)	2,936,817	41,387	611,073	6,107	3,196,919	12,340	(4,225)	6,768,403	127,513	6,895,916
Effect on adoption of IFRS 9	-	-	-	-	-	-	12,316	(11,333)	-	983	-	983
As restated	427,269	(459,284)	2,936,817	41,387	611,073	6,107	3,209,235	1,007	(4,225)	6,769,386	127,513	6,896,899
Profit for the period	-	-	-	-	-	-	562,879	-	-	562,879	305	563,184
Other comprehensive income for the period:												
Changes in fair value of investments, net of tax	-	-	-	-	-	-	-	(518)	-	(518)	-	(518)
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	5,921	5,921	-	5,921
Total comprehensive income for the period	-	-	-	-	-	-	562,879	(518)	5,921	568,282	305	568,587
Cancellation of treasury shares	(5,932)	178,080	(172,148)	-	-	-	-	-	-	-	-	-
Sale of shares repurchased for share award scheme	-	1,646	-	-	-	-	-	-	-	1,646	-	1,646
Equity-settled share award expense	-	-	-	-	-	9,272	-	-	-	9,272	211	9,483
Final 2017 dividends declared	-	-	-	-	-	-	(148,999)	-	-	(148,999)	-	(148,999)
At 30 June 2018 (Unaudited)	421,337	(279,558)	2,764,669	41,387	611,073	15,379	3,623,115	489	1,696	7,199,587	128,029	7,327,616

For the six months ended 30 June 2017

	Attributable to owners of the parent											Total equity RMB'000
	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Other reserves RMB'000	Statutory surplus reserves RMB'000	Share award scheme reserve RMB'000	Retained earnings RMB'000	Unrealised gains reserves RMB'000	Foreign currency translation reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At 1 January 2017	427,269	-	2,936,817	41,387	376,409	-	2,667,244	4,121	(24,704)	6,428,543	133,458	6,562,001
Profit for the period	-	-	-	-	-	-	385,377	-	-	385,377	2,479	387,856
Other comprehensive income for the period:												
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	-	(1,034)	-	(1,034)	-	(1,034)
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	22,063	22,063	-	22,063
Total comprehensive income for the period	-	-	-	-	-	-	385,377	(1,034)	22,063	406,406	2,479	408,885
Repurchase of shares for the share award scheme	-	(283,913)	-	-	-	-	-	-	-	(283,913)	-	(283,913)
Equity-settled share award scheme amortisation	-	-	-	-	-	1,175	-	-	-	1,175	-	1,175
Final 2016 dividends declared	-	-	-	-	-	-	(116,285)	-	-	(116,285)	-	(116,285)
At 30 June 2017 (Unaudited)	427,269	(283,913)	2,936,817	41,387	376,409	1,175	2,936,336	3,087	(2,641)	6,435,926	135,937	6,571,863

* These reserve accounts comprise the consolidated reserves of RMB4,293,139,000 in the consolidated statement of financial position as at 30 June 2018.



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

	Notes	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		674,051	461,170
Adjustments for:			
Share of profit of an associate		(396)	(379)
Depreciation and amortisation of non-current assets		151,951	92,796
Loss on disposal of non-current assets	5	340	712
Equity-settled share award expense	22	9,483	1,175
Interest income	4	(23,557)	(13,127)
Dividend income from investments	4	(31,734)	(15,865)
Changes in fair value of investments	4	(29,608)	—
Investment income from entrusted loans	4	(903)	(17,799)
Interest expense	6	50,544	22,387
		800,171	531,070
(Increase)/decrease in inventories		(108,889)	12,335
(Increase)/decrease in trade and notes receivables		(15,531)	45,138
Decrease/(increase) in prepayments, deposits and other receivables		2,866	(42,743)
Decrease in amounts due from related parties		217	186
Increase in pledged time deposits		(118,320)	(77,244)
Increase in restricted cash		(5,506)	—
Increase/(decrease) in trade and notes payables		28,223	(5,170)
Decrease in contract liabilities and other payables and accruals		(29,699)	(44,553)
Increase/(decrease) in government grants		345	(2,093)
(Decrease)/increase in deferred revenue		(3,274)	3,423
		550,603	420,349
Cash generated from operations		550,603	420,349
Interest paid		(49,516)	(18,099)
Income tax paid		(125,814)	(109,124)
		375,273	293,126
Net cash flows from operating activities		375,273	293,126



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June

	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Net cash flows from operating activities	375,273	293,126
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of non-current assets	(2,089,098)	(244,582)
Purchases of investments	(3,199,881)	(1,911,100)
Proceeds from disposals of investments	3,006,000	2,531,100
Dividend income from investments	31,734	15,865
Proceeds from disposals of items of property, plant and equipment	3,219	254
Increase in government grants	1,500	—
Increase in deferred revenue	6,504	—
Decrease in time deposits with original maturity of over three months	80,705	233,712
Deferred cash settlement for acquisition	—	(5,390)
(Increase)/decrease in pledged time deposits	(9,276)	17,536
Addition to entrusted loan receivables	(60,000)	(850,000)
Collection of entrusted loan receivables	60,000	—
Receipt of investment income from entrusted loans	903	—
Interest received	14,681	10,708
Net cash flows used in investing activities	(2,153,009)	(201,897)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loans	(1,995,671)	(597,045)
Proceeds from loans	5,075,757	2,158,817
Increase in pledged time deposits	(626,095)	(290,904)
Dividends paid	(148,999)	—
Purchases of shares held for the share award scheme	—	(283,913)
Proceeds from sales of shares held for the share award scheme	1,646	—
Net cash flows from financing activities	2,306,638	986,955
NET INCREASE IN CASH AND CASH EQUIVALENTS	528,902	1,078,184
Effect of foreign exchange rate changes, net	761	(42,371)
Cash and cash equivalents at 1 January	1,265,872	397,775
CASH AND CASH EQUIVALENTS At 30 JUNE	1,795,535	1,433,588



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

The interim condensed consolidated financial statements of Luye Pharma Group Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2018 were approved and authorised by the board of directors on 26 August 2018.

The Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act on 2 July 2003. It was listed on the Singapore Exchange Securities Trading Limited (the “SGX”) on 5 May 2004, and has been delisted since 29 November 2012. On 9 July 2014, the Company succeeded its listing on the Main Board of the Stock Exchange of Hong Kong Limited (“SEHK”).

The Company is an investment holding company. The Company’s subsidiaries are principally engaged in the development, production, marketing and sale of pharmaceutical products.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company in Hong Kong is Suite 3207, Champion Tower, 3 Garden Road, Central, Hong Kong.



2. Basis of preparation and changes to the Group’s accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2017.

The interim condensed consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which have been measured at fair value. The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Basis of preparation and changes to the Group's accounting policies (Continued)

2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014–2016 Cycle</i>	<i>Amendments to IFRS 1 and IAS 28</i>

The adoption of these revised standards has had no significant financial effect on these interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these interim condensed consolidated financial statements, except for the adoption of IFRS 9 and IFRS 15, as explained below.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together the accounting for financial instruments: classification and measurement and impairment.

The Group applied IFRS 9 from 1 January 2018. The Group did not restate comparative information and recognised any transition adjustments against the opening balance of equity at 1 January 2018.

(a) Classification and measurement

Except for certain trade and other receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Basis of preparation and changes to the Group's accounting policies (Continued)

2.2 Changes in accounting policies (Continued)

IFRS 9 *Financial Instruments* (Continued)

(a) Classification and measurement (Continued)

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under IAS 39, the Group's quoted debt instruments were classified as available-for-sale (AFS) financial assets.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as AFS financial assets.
- Financial assets at FVPL comprise derivative instruments and equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Group's financial assets at FVPL were classified as AFS financial assets. Upon transition the AFS reserve which had been previously recognised under accumulated OCI, was reclassified to retained earnings amounting to RMB11,333,000. The unlisted equity instruments which was previously measured at cost, was re-measured at fair value and lead to an increase of retained earnings amounting to RMB983,000.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Basis of preparation and changes to the Group's accounting policies (Continued)

2.2 Changes in accounting policies (Continued)

IFRS 9 *Financial Instruments* (Continued)

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance with a forward-looking expected credit loss (ECL) approach for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets (i.e., loans and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group's debt instruments at FVOCI comprised trust loans that are graded in the top investment category, therefore, are considered to be low credit risk investments. It is the Group's policy to measure such instruments on a 12-month ECL basis. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payment are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Given the limited exposure of the Group to credit risk, the adoption of the ECL requirements of IFRS 9 does not result in any significant impact on impairment allowances of the Group's financial assets.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Basis of preparation and changes to the Group's accounting policies (Continued)

2.2 Changes in accounting policies (Continued)

IFRS 9 *Financial Instruments* (Continued)

The changes for the Group's financial assets and financial liabilities on 1 January 2018, the Group's date of initial application of IFRS 9, are summarised as follows:

	Originally stated	Remeasurement upon application of IFRS 9 RMB'000	IFRS 9
	Available-for-sale investments RMB'000		FVPL RMB'000
Investment in bank financial products	1,327,267	—	1,327,267
Unlisted equity investment at cost	500	983	1,483
Unlisted equity investment at fair value	32,671	—	32,671
	1,360,438	983	1,361,421

	Available-for-sale investments RMB'000	Remeasurement upon application of IFRS 9 RMB'000	FVOCI RMB'000
	Investment in financial products		301,529
Listed equity investment at fair value	1,394	—	1,394
	302,923	—	302,923



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Basis of preparation and changes to the Group's accounting policies (Continued)

2.2 Changes in accounting policies (Continued)

IFRS 9 Financial Instruments (Continued)

	Loans and receivables RMB'000	Remeasurement upon application of IFRS 9 RMB'000	Amortised cost RMB'000
Trade and notes receivables	1,411,220	—	1,411,220
Financial assets included in prepayments, deposits and other receivables	78,869	—	78,869
Due from related parties	2,841	—	2,841
Cash and cash equivalents	1,265,872	—	1,265,872
Time deposits with original maturity of over three months	946,703	—	946,703
Pledged short-term deposits	409,243	—	409,243
Restricted cash	11,252	—	11,252
	4,126,000	—	4,126,000

The impact of the Group's retained earnings due to the remeasurement of financial instruments as at 1 January 2018, the Group's date of initial application of IFRS 9, is as follows:

	Retained earnings RMB'000
At 1 January 2018 (originally stated)	3,196,919
Remeasurement upon initial application of IFRS 9	12,316
At 1 January 2018 (restated)	3,209,235



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Basis of preparation and changes to the Group's accounting policies (Continued)

2.2 Changes in accounting policies (Continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption and applied the new requirements only to contracts that are not completed before 1 January 2018. The effect of adopting IFRS 15 is, as follows:

(a) Sales of goods

The Group's contracts with customers for the sale of drugs generally include one performance obligation. The Group has concluded that revenue from sale of drugs should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the drugs. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

(b) Advances received from customers

Generally, the Group receives short-term advances from its customers. Upon the adoption of IFRS 15, for short-term advances, the Group used the practical expedient. As such, the Group will not adjust the promised amount of the consideration for the effects of a financing component in contracts, where the Group expects, at contract inception, that the period between the time the customer pays for the good or service and when the Group transfers that promised good or service to the customer will be one year or less.

The changes for the Group's contract liabilities and other payables and accruals on 1 January 2018, the Group's date of initial application of IFRS 15, are: an increase in contract liabilities amounting to RMB42,399,000 and a decrease in advances from customers, which is included in "other payables and accruals", amounting to RMB42,399,000.

(c) Presentation and disclosure requirements

As required for the condensed interim consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note 4 for the disclosure on disaggregated revenue.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Operating segment information

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

For the six months ended 30 June 2018 (Unaudited)

	Oncology drugs RMB'000	Cardio- vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Segment revenue						
Sales to external customers	1,088,810	363,942	470,732	217,133	63,158	2,203,775
Total revenue	1,088,810	363,942	470,732	217,133	63,158	2,203,775
Segment results	588,238	156,458	183,873	75,586	22,549	1,026,704
Other income and gains						114,804
Administrative expenses						(217,265)
Other expenses						(200,044)
Finance costs						(50,544)
Share of profit of an associate						396
Profit before tax						674,051



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Operating segment information (Continued)

For the six months ended 30 June 2017 (Unaudited)

	Oncology drugs RMB'000	Cardio- vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Segment revenue						
Sales to external customers	936,110	284,714	352,680	229,662	47,616	1,850,782
Total revenue	936,110	284,714	352,680	229,662	47,616	1,850,782
Segment results	464,263	109,125	116,139	71,414	7,561	768,502
Other income and gains						92,593
Administrative expenses						(220,486)
Other expenses						(157,431)
Finance costs						(22,387)
Share of profit of an associate						379
Profit before tax						461,170



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Revenue, other income and gains

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the reporting period.

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Revenue		
Sale of products	2,203,775	1,850,782
Other income and gains		
Bank interest income	23,557	13,127
Government grants	23,010	42,191
Dividend income from investments	31,734	15,865
Changes in fair value of investments	29,608	—
Investment income from entrusted loans	903	17,799
Foreign exchange gain, net	771	—
Others	5,221	3,611
	114,804	92,593

Note:

Disaggregation of revenue from contracts with customers

Geographic information

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Mainland China	1,975,921	1,610,794
Other countries	227,854	239,988
Total	2,203,775	1,850,782



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Revenue, other income and gains (Continued)

Note: (Continued)

Timing of revenue-recognition

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
At a point in time		
— Sale of products	2,203,775	1,850,782
Total	2,203,775	1,850,782

5. Profit before tax

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

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Depreciation of items of property, plant and equipment	79,221	71,146
Amortisation of other intangible assets	69,589	18,526
Amortisation of prepaid land lease payments	3,141	3,124
Operating lease expenses	11,271	10,444
Auditor's remuneration	1,730	1,680
Research and development costs	198,165	125,660
Cost of inventories sold	447,281	424,408
Foreign exchange (gain)/loss, net	(771)	28,383
Equity-settled share award expense	9,483	1,175
Loss on disposal of non-current assets	340	712



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Finance costs

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Interest on bank loans	50,528	22,371
Finance charges payable under a hire purchase contract	16	16
	50,544	22,387

7. Income tax expense

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

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

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Current tax:		
Income tax charge	95,364	89,351
(Over)/underprovision in prior years	(2,820)	1,049
Deferred tax	18,323	(17,086)
	110,867	73,314

8. Dividends

On 26 August 2018, the Company declared an interim dividend of RMB0.043 (equivalent to HK\$0.051) per share (equivalent to approximately RMB140,720,000) for the six months ended 30 June 2018 (the six months ended 30 June 2017: RMB0.029 (equivalent to HK\$0.033) per share).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,209,434,467 (the six months ended 30 June 2017: 3,282,113,358) in issue during the period. The number of shares for the current period has been arrived at after eliminating the shares of the Company held under the share award scheme and shares repurchased.

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

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

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	562,879	385,377

	For the six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period	3,209,434,467	3,282,113,358
Effect of dilution — weighted average number of ordinary shares under the share award scheme	11,454,124	551,354
	3,220,888,591	3,282,664,712



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. Property, plant and equipment

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Carrying amount at beginning of period	2,009,970	1,701,739
Additions	465,878	436,478
Depreciation provided during the period	(79,221)	(146,892)
Exchange realignment	(1,041)	20,827
Disposals	(3,559)	(2,182)
Carrying amount at end of period	2,392,027	2,009,970

As at 30 June 2018, the Group was applying for certificates of ownership for certain properties with a net book value of RMB1,652,000 (31 December 2017: RMB1,692,000). The directors of the Company are of the opinion that the use of the properties and the conduct of operating activities at these properties referred to above are not affected by the fact the Group had not yet obtained the relevant property title certificates. The Group is not able to assign, transfer or mortgage these assets until such certificates are obtained.

11. Other intangible assets

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Carrying amount at beginning of period	828,702	855,676
Additions	3,569,826	21,646
Amortisation provided during the period	(69,589)	(96,630)
Exchange realignment	14,740	48,010
Carrying amount at end of period	4,343,679	828,702



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. Financial assets at fair value through profit or loss/Available-for-sale investments

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Current		
Investments in bank financial products	1,459,448	1,327,267
Listed equity investment	61,753	—
	1,521,201	1,327,267
Non-current		
Unlisted equity investments	1,483	33,171
	1,522,684	1,360,438

The investments in bank financial products represent investments in certain wealth management products issued by commercial banks with expected interest rates ranging from 3.18% to 5.60% per annum with a maturity period within one year in the People's Republic of China (the "PRC"). The fair values of the financial products approximate to their costs plus expected interest.

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

The fair value of certain of the unlisted equity investment which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves, and unobservable inputs such as valuation techniques with reference to the net asset value.

As at 30 June 2018, investment in bank financial products of RMB1,166,000,000 (31 December 2017: RMB915,000,000) was pledged to secure intra-group notes payable.

As at 30 June 2018, investment in bank financial products of RMB111,200,000 (31 December 2017: RMB197,200,000) was pledged to secure a short-term loan of EUR11,000,000 (31 December 2017: EUR21,000,000) (note 18).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. Financial assets at fair value through other comprehensive income/Available-for-sale investments

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Current		
Investment in financial products	301,479	301,529
Non-current		
Listed equity investment	1,381	1,394
Unlisted equity investment	65,750	—
	67,131	1,394
	368,610	302,923

The investment in financial products is issued by licensed financial institutions in the PRC with expected interest rate of 6.00% with a maturity period of one year. The fair value of the investment in financial products approximate to their costs plus expected interest.

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

The fair value of certain of the unlisted equity investment which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves, and unobservable inputs such as valuation techniques with reference to the net asset value.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. Trade and notes receivables

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade receivables	909,121	912,976
Notes receivable	518,719	499,204
	1,427,840	1,412,180
Less: Impairment of trade receivables	(1,089)	(960)
	1,426,751	1,411,220

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

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Less than 3 months	809,419	752,445
Between 3 and 6 months	78,841	133,676
Between 6 and 12 months	18,447	25,206
Between 1 and 2 years	1,610	338
Over 2 years	804	1,311
	909,121	912,976



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. Trade and notes receivables (Continued)

As at 30 June 2018, the Group has pledged notes receivable of RMB7,547,000 to secure intra-group notes receivable (31 December 2017: RMB140,000,000).

As at 30 June 2018, the Group has pledged notes receivable of RMB7,980,000 (31 December 2017: RMB14,566,000) to secure notes payable of RMB7,980,000 (31 December 2017: RMB14,566,000) (note 17).

As at 30 June 2018, the Group has pledged notes receivable of RMB77,985,000 (31 December 2017: RMB50,735,000) and intra-group notes receivable of RMB726,000,000 (31 December 2017: RMB726,500,000) to secure short-term loans of EUR95,000,000 (31 December 2017: EUR90,000,000 and USD23,000,000) (note 18).

The notes receivable are due within six months.

As at 30 June 2018, the Group endorsed certain notes receivable accepted by the certain banks in the PRC (the “Endorsed Notes”) to certain of its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB151,247,000 (31 December 2017: RMB115,190,000) (the “Endorsement”). The Endorsed Notes have a maturity from one to six months as at 30 June 2018. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”).

In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to certain Endorsed Notes accepted by large and reputable banks with amount of RMB93,906,000 (31 December 2017: RMB77,506,000) (the “Derecognised Notes”). Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade and other payables settled by the Endorsed Notes. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Notes are not significant.

The Group continued to recognise the full carrying amount of the remaining Endorsed Notes and the associated trade and other payables settled with an amount of RMB57,341,000 as at 30 June 2018 (31 December 2017: RMB37,684,000) because the directors of the Company believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

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



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. Prepayments, deposits and other receivables

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Other receivables	91,283	78,869
Prepaid income tax	58,979	33,723
Prepaid other tax	30,695	41,369
Prepayments	51,699	48,688
Prepaid expense	1,259	—
	233,915	202,649
Less: Impairment of other receivables	(3,000)	(3,000)
	230,915	199,649

The ageing analysis of the prepayments, deposits and other receivables that are not considered to be impaired is as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Neither past due nor impaired	230,915	199,649

The financial assets included in the above balances that were neither past due nor impaired relate to other receivables for which there was no recent history of default.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. Cash and cash equivalents and pledged time deposits

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Cash and bank balances	1,484,685	1,053,730
Time deposits	2,339,782	1,568,088
	3,824,467	2,621,818
Less:		
Pledged time deposits for letters of credit	(17,337)	(8,061)
Pledged time deposits for bank loans	(909,908)	(283,813)
Pledged time deposits for notes payable	(235,689)	(117,369)
Non-pledged time deposits with original maturity over three months when acquired	(865,998)	(946,703)
	1,795,535	1,265,872
Denominated in RMB	1,338,887	957,398
Denominated in US\$	209,238	221,729
Denominated in HK\$	130,554	4,923
Denominated in EUR	83,854	48,237
Denominated in others	33,002	33,585
	1,795,535	1,265,872

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

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

As at 30 June 2018, restricted cash of RMB16,758,000 (31 December 2017: RMB11,252,000) represented an account balance held at Bank of Communications Trustee Limited. The account was opened for the share award scheme of the Company, of which balance cannot be withdrawn during the valid and effective term of the share award scheme. The balance is not available to finance the Group's day-to-day operations and therefore has been excluded from cash and cash equivalents for the purposes of the statement of cash flows.

As at 30 June 2018, time deposits of RMB909,908,000 (31 December 2017: RMB283,813,000) were pledged to secure bank loans (note 18).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. Cash and cash equivalents and pledged time deposits (Continued)

As at 30 June 2018, time deposits of RMB216,690,000 (31 December 2017: RMB114,577,000) were pledged to secure intra-group notes payable.

As at 30 June 2018, time deposit of RMB18,999,000 was pledged to secure notes payable (31 December 2017: RMB2,792,000) (note 17).

17. Trade and notes payables

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade payables	105,843	87,242
Notes payable	26,979	17,357
	132,822	104,599

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Less than 3 months	87,629	92,299
Between 3 and 6 months	41,763	8,233
Between 6 and 12 months	1,666	2,123
Between 1 and 2 years	827	1,039
Over 2 years	937	905
	132,822	104,599

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

As at 30 June 2018, notes payable of RMB7,980,000 (31 December 2017: RMB14,566,000) were secured by the Group's notes receivable with a carrying amount of RMB7,980,000 (31 December 2017: RMB14,566,000) (note 14).

As at 30 June 2018, notes payable of RMB18,999,000 (31 December 2017: RMB2,792,000) were secured by the Group's time deposit with a carrying amount of RMB18,999,000 (31 December 2017: RMB2,792,000) (note 16).

The maturity date of the notes payable is within six months.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. Interest-bearing loans and borrowings

As at 30 June 2018

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB400,000,000 bank loan	4.35	25 April 2019	400,000
RMB200,000,000 bank loan	5.00	14 March 2019	200,000
RMB150,000,000 bank loan	4.60	20 July 2018	150,000
RMB130,000,000 bank loan	4.60	20 July 2018	130,000
RMB100,000,000 bank loan	4.35	10 August 2018	100,000
RMB100,000,000 bank loan	5.22	14 September 2018	100,000
RMB100,000,000 bank loan	5.00	2 January 2019	100,000
RMB100,000,000 bank loan	4.57	5 January 2019	100,000
RMB100,000,000 bank loan	5.66	16 March 2019	100,000
RMB70,000,000 bank loan	4.60	13 July 2018	70,000
RMB42,000,000 bank loan	5.66	13 September 2018	42,000
RMB30,000,000 bank loan	5.01	12 June 2019	30,000
RMB12,680,400 bank loan	4.79	17 December 2018	12,680
EUR30,000,000 bank loan	0.25	6 August 2018	229,545
EUR26,000,000 bank loan	3-Month EURIBOR+0.70	15 May 2019	198,939
EUR24,000,000 bank loan	EURIBOR+1.50	14 May 2019	183,636
EUR23,200,000 bank loan	0.60	1 February 2019	177,515
EUR23,200,000 bank loan	1-Year EURIBOR+1.50	23 April 2019	177,438
EUR22,000,000 bank loan	1.50	18 September 2018	168,333
EUR22,000,000 bank loan	3-Month EURIBOR+0.70	5 March 2019	168,333
EUR20,000,000 bank loan	0.25	5 September 2018	153,030
EUR20,000,000 bank loan	1.65	19 October 2018	153,030
EUR20,000,000 bank loan	3-Month EURIBOR+0.90	22 October 2018	153,030
EUR15,000,000 bank loan	6-Month EURIBOR+1.45	14 May 2019	114,773
EUR14,000,000 bank loan	EURIBOR+1.50	14 May 2019	107,121
EUR11,000,000 bank loan	3-Month EURIBOR+0.80	19 September 2018	84,167
EUR10,000,000 bank loan	1.30	16 October 2018	76,515
EUR8,800,000 bank loan	1-Year EURIBO+1.50	18 April 2019	67,275
EUR7,400,000 bank loan	0.70	16 November 2018	56,621
US\$300,000,000 bank loan	LIBOR+1.40	26 June 2019	1,984,978
US\$23,000,000 bank loan	3.10	12 July 2018	152,182
Finance lease payables, current portion	2.20	30 June 2019	145
			5,941,286
Non-current			
Finance lease payables	2.20	1 July 2019 -30 August 2020	157
			5,941,443



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. Interest-bearing loans and borrowings (Continued)

As at 31 December 2017

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB250,000,000 bank loan	3.70	24 January 2018	250,000
RMB130,000,000 bank loan	4.30	19 January 2018	130,000
RMB100,000,000 bank loan	4.35	20 May 2018	100,000
RMB70,000,000 bank loan	4.30	15 January 2018	70,000
RMB50,000,000 bank loan	4.35	8 June 2018	50,000
RMB50,000,000 bank loan	4.35	8 June 2018	50,000
EUR49,000,000 bank loan	EURIBOR+0.95	20 April 2018	382,313
EUR30,000,000 bank loan	0.25	6 August 2018	234,069
EUR26,000,000 bank loan	0.60	9 February 2018	202,860
EUR24,000,000 bank loan	EURIBOR+1.50	5 January 2018	187,255
EUR22,000,000 bank loan	1.50	18 September 2018	171,650
EUR20,000,000 bank loan	0.25	5 September 2018	156,046
EUR20,000,000 bank loan	3-Month EURIBOR+0.90	22 October 2018	156,046
EUR14,000,000 bank loan	EURIBOR+1.50	5 January 2018	109,232
EUR11,000,000 bank loan	3-Month EURIBOR+0.80	19 September 2018	85,825
EUR10,000,000 bank loan	1.30	16 April 2018	78,023
EUR10,000,000 bank loan	1.05	17 May 2018	78,023
EUR10,000,000 bank loan	1.30	16 October 2018	78,023
EUR7,400,000 bank loan	0.70	16 November 2018	57,737
HK\$100,000,000 bank loan	3-Month HIBOR+0.70	2 April 2018	83,590
US\$23,000,000 bank loan	3.10	11 July 2018	150,287
Finance lease payables, current portion	2.2	31 December 2018	146
			2,861,125
Non-current			
Finance lease payables	2.2	1 January 2019 –30 August 2020	232
			2,861,357



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. Interest-bearing loans and borrowings (Continued)

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

- (i) the pledge of certain of the Group's time deposits of RMB909,908,000 (31 December 2017: RMB283,813,000) (note 16);
- (ii) the pledge of certain of the Group's notes receivable of RMB77,985,000 (31 December 2017: RMB50,735,000) (note 14);
- (iii) the pledge of certain of the Group's intra-group notes receivable of RMB726,000,000 (31 December 2017: RMB726,500,000) (note 14); and
- (iv) the pledge of certain of the Group's financial assets at fair value through profit or loss of RMB111,200,000 (31 December 2017: RMB197,200,000) (note 12).

19. Long-term payables

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Installments for purchase of other intangible assets	1,832,152	—
	1,832,152	—

During the period, the Group and AstraZeneca UK Limited ("AstraZeneca") entered into an asset purchase and license agreement in relation to acquisition of AstraZeneca's rights relating to Seroquel and Seroquel XR with four installments payable. The long-term payables represent installments for purchase of the intangible assets to AstraZeneca.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. Commitments

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Contracted, but not provided for:		
Land and buildings	407,676	296,467
Plant and machinery	683,669	635,713
Other intangible assets	1,892,348	—
	2,983,693	932,180

21. Related party transactions

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

Company	Relationship
Steward Cross Pte. Ltd. ("Steward Cross")	Associate
Shandong Boan Biological Technology Co., Ltd. ("Shandong Boan")	An entity controlled by a director of the Company
Yantai Lujian Real Estate Co., Ltd. ("Lujian Real Estate")	An entity controlled by a director of the Company



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21. Related party transactions (Continued)

- (a) The Group had the following transactions with related parties during the six months ended 30 June 2018 and 2017:

	Notes	For the six months ended 30 June	
		2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Sales of products to Steward Cross	(i)	2,785	3,311
Sales of inventories to Shandong Boan	(ii)	846	—
Purchase of building from Lujian Real Estate	(iii)	—	5,710

Notes:

- (i) The sales to Steward Cross were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The sales to Shandong Boan were made on terms equivalent to those that prevail in arm's length transaction.
- (iii) The purchase from Lujian Real Estate was made on terms equivalent to those that prevail in arm's length transaction.

- (b) Outstanding balances with related parties:

Due from related parties

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Steward Cross	1,351	1,902
Shandong Boan	1,273	939
	2,624	2,841

The balances are unsecured, interest-free and have no fixed terms of repayment.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. Share award scheme

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

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

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

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

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



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. Share award scheme (Continued)

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

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

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

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

Pursuant to share award notices issued on 15 May 2017 to those selected employees, an aggregate of 17,724,000 shares (the "2017 Awarded Shares") of the Company of US\$0.02 each were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2017 Awarded Shares is 15 May 2020. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meet the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2018 to those selected employees, an aggregate of 20,098,000 shares (the "2018 Awarded Shares") of the Company of US\$0.02 each were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2018 Awarded Shares is 15 May 2021. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meet the expectation of the Company on daily performance.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. Share award scheme (Continued)

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

	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2018	48,194,500	17,724,000
Disposal	(420,000)	—
Granted on 15 May 2018	(20,098,000)	20,098,000
At 30 June 2018	27,676,500	37,822,000
Exercisable as at 30 June 2018	—	—

The fair value of the shares granted during the period was RMB104,517,000 (HK\$6.43 each), of which the Group recognised a share award expense of RMB9,483,000 during the period (the six months ended 30 June 2017: RMB1,175,000). Out of the share award expense, an amount of RMB366,000 was included in the directors' remuneration (the six months ended 30 June 2017: RMB80,000).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

23. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at 30 June 2018 and 31 December 2017 are as follows:

As at 30 June 2018 (Unaudited)

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	—	1,522,684	—	1,522,684
Financial assets at fair value through other comprehensive income	—	—	368,610	368,610
Trade and notes receivables	1,426,751	—	—	1,426,751
Financial assets included in prepayments, deposits and other receivables	91,283	—	—	91,283
Cash and cash equivalents	1,795,535	—	—	1,795,535
Time deposits with original maturity of over three months	865,998	—	—	865,998
Pledged short-term deposits	1,162,934	—	—	1,162,934
Restricted cash	16,758	—	—	16,758
Due from related parties	2,624	—	—	2,624
	5,361,883	1,522,684	368,610	7,253,177



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

23. Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at 30 June 2018 and 31 December 2017 are as follows: (Continued)

As at 30 June 2018 (Unaudited)

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and notes payables	132,822	132,822
Financial liabilities included in other payables and accruals	354,885	354,885
Interest-bearing loans and borrowings	5,941,443	5,941,443
Long-term payables	1,832,152	1,832,152
	8,261,302	8,261,302

As at 31 December 2017 (Audited)

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	1,663,361	1,663,361
Trade and notes receivables	1,411,220	—	1,411,220
Financial assets included in prepayments, deposits and other receivables	78,869	—	78,869
Cash and cash equivalents	1,265,872	—	1,265,872
Time deposits with original maturity of over three months	946,703	—	946,703
Pledged time deposits	409,243	—	409,243
Restricted cash	11,252	—	11,252
Due from related parties	2,841	—	2,841
	4,126,000	1,663,361	5,789,361



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

23. Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at 30 June 2018 and 31 December 2017 are as follows: (Continued)

As at 31 December 2017 (Audited)

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and notes payables	104,599	104,599
Financial liabilities included in other payables and accruals	249,985	249,985
Interest-bearing loans and borrowings	2,861,357	2,861,357
	3,215,941	3,215,941

Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments carried at fair value

During the period, the Group has carried all investment securities that are classified as FVOCI and FVPL at their fair values as required by IFRS 9 (note 12 and 13).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

24. Fair value and fair value hierarchy of financial instruments

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

Assets measured at fair value:

As at 30 June 2018 (Unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss:				
Listed equity investment	61,753	—	—	61,753
Investment in bank financial products	—	1,459,448	—	1,459,448
Unlisted equity investments	—	—	1,483	1,483
Financial assets at fair value through other comprehensive income:				
Investment in financial products	—	301,479	—	301,479
Listed equity investment	1,381	—	—	1,381
Unlisted equity investment	—	65,750	—	65,750
	63,134	1,826,677	1,483	1,891,294

As at 31 December 2017 (Audited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments:				
Equity investment	1,394	32,671	—	34,065
Investment in financial products	—	1,628,796	—	1,628,796
	1,394	1,661,467	—	1,662,861



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

24. Fair value and fair value hierarchy of financial instruments (Continued)

During the period, the unlisted equity investment of RMB61,753,000 was transferred out of level 2 to level 1 due to the listing of the ordinary shares which are actively traded since 24 May 2018 (the six months ended 30 June 2017: Nil).

There were no transfers into or out of Level 3 (the six months ended 30 June 2017: Nil).

The Group did not have any financial liabilities measured at fair value as at 30 June 2018 and 31 December 2017.

Financial instruments whose carrying amounts approximate to their fair values

Management has determined that the carrying amounts of cash and cash equivalents, time deposits, restricted cash, trade and notes receivables, deposits and other receivables, amounts due from related parties, trade and notes payables, other payables and short-term interest-bearing loans and borrowings, based on their notional amounts, reasonably approximate to their fair values because these financial instruments are mostly short term in nature. The carrying amounts of long-term interest-bearing loans and borrowings, which incur interest at floating interest rate, also approximate to their fair values as the interest rate is periodically adjusted to market rate.

25. Events after the reporting period

After the reporting period in July 2018, the Company's subsidiaries, namely, Luye Pharma AG and Luye Supply AG, entered into an agreement with Bayer AG to acquire the global rights to Apleek. Apleek is a new generation combined hormonal 7 day contraceptive transdermal patch containing ethinyl estradiol and gestodene, which has been developed jointly by Luye Pharma AG and Bayer AG. A number of patents relating to Apleek have been registered in the United States, the European Union, China, Japan and a number of other countries and regions.

For the details of the acquisition information, please refer to the Company's announcement dated 6 August 2018.

