

# Luye Pharma Group Ltd. 绿叶制药集团有限公司

(incorporated in Bermuda with limited liability) Stock Code: 2186

# INTERIM REPORT 2019

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# **COMPANY OVERVIEW**

Luye Pharma Group Ltd. (the "Company") and its subsidiaries (collectively, the "Group") focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the People's Republic of China ("PRC" or "China"), the United States (the "U.S."), Europe and other countries or districts, namely oncology, central nervous system ("CNS"), cardiovascular system, alimentary tract and metabolism. The Group's product portfolio consists of over 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 2019. The Group's sales, marketing and distribution functions are conducted through around 1,000 sales and marketing personnel, as well as a network of approximately 1,700 distributors that collectively enabled the Group to sell its products to over 13,700 hospitals.

The international footprint of the Group covers 80 countries, including the U.S., and certain countries in Europe. The Group has commercial offices in the U.S., the United Kingdom, Switzerland, Japan, Hong Kong, Singapore and Malaysia. The Group also has strong sales partnerships with more than 50 partners throughout the world.

The Group's research and development ("R&D") activities are organised around four platforms — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. Besides, the Group has built wide collaboration with Chinese and multinational companies in the development of monoclonal antibodies and cell therapies areas. The Group balances clinical development risks by strategically allocating its efforts between proprietary formulations of proven compounds and new chemical entities. As at 30 June 2019, the Group's R&D team consisted of 596 employees, including 63 Ph.D. degree holders and 277 Master's degree holders in medical, pharmaceutical and other related areas.

As at 30 June 2019, the Group had been granted over 232 patents and had over 57 pending patent applications in the PRC, as well as over 671 patents and over 140 pending patent applications overseas.

As at 30 June 2019, the Group had a pipeline of 41 PRC product candidates in various stages of development. These candidates included 16 oncology products, 8 cardiovascular and metabolism products, as well as 15 CNS products.

Also, the Group had a pipeline of 10 candidate products in the U.S., Europe and Japan in various stages of development.



# **CORPORATE INFORMATION**

## **Board of Directors**

#### **Executive Directors**

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

#### **Non-Executive 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**

Clarendon House 2 Church Street Hamilton HM 11 Bermuda

#### Head Office and Principal Place of Business in the People's Republic of China

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

#### Auditor

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

## **Stock Code**

2186

#### **Company's Website**

www.luye.cn

### **Principal Bankers**

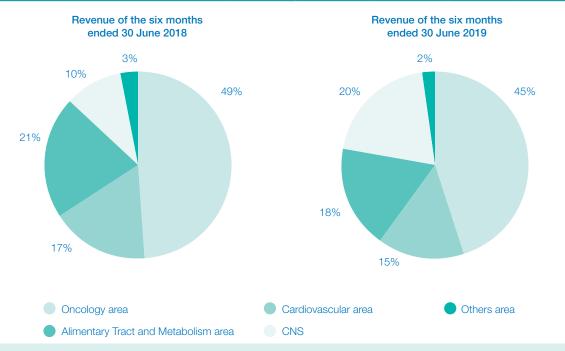
Bank of China Limited China Everbright Bank Industrial and Commercial Bank of China Limited Citibank (China) Limited



# **FINANCIAL HIGHLIGHTS**

- Revenue increased by RMB927.1 million or 42.1% to RMB3,130.9 million, as compared to the six months ended 30 June 2018.
- EBITDA increased by RMB386.3 million or 44.1% to RMB1,262.8 million, as compared to the six months ended 30 June 2018.
- Gross profit increased by RMB675.4 million or 38.5% to RMB2,431.9 million, as compared to the six months ended 30 June 2018, and a gross profit margin 77.7%.
- Net profit increased by RMB207.6 million or 36.9% to RMB770.8 million, as compared to the six months ended 30 June 2018.
- Profit attributable to shareholders increased by RMB203.7 million or 36.2% to RMB766.6 million, as compared to the six months ended 30 June 2018.
- Earnings per share was RMB23.93 cents compared to RMB17.54 cents for the six months ended 30 June 2018.
- The board (the "Board") of directors (the "Directors") declared an interim dividend of RMB0.059 (equivalent to HK\$0.067) per share for the six months ended 30 June 2019, compared to RMB0.043 (equivalent to HK\$0.051) per share for the six months ended 30 June 2018.

	2015 RMB Million	2016 RMB Million	2017 RMB Million	2018 RMB Million	30 June 2018 RMB Million	30 June 2019 RMB Million
Revenue	2,563.1	2,917.8	3,814.8	5,173.4	2,203.8	3,130.9
Gross Profit	2,087.4	2,382.7	2,963.4	4,049.4	1,756.5	2,431.9
EBITDA	1,028.9	1,146.0	1,416.6	1,961.3	876.5	1,262.8
Net Profit	764.7	894.0	980.6	1,306.0	563.2	770.8
Profit attributable to owners of the parent	754.5	891.5	981.4	1,303.4	562.9	766.6
Total Assets	7,052.9	9,205.8	10,760.4	17,538.8	16,157.0	18,595.9
Total Liabilities	1,253.4	2,643.8	3,864.5	9,604.8	8,829.4	10,072.0
Equity	5,799.5	6,562.0	6,895.9	7,934.0	7,327.6	8,523.9



#### **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. The Group has a portfolio of over 30 products, covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets. During the six months ended 30 June 2019, 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 42.1% in the first half of 2019 as compared to that of 2018. The Group continually invests in R&D to maintain its competitiveness, and has a robust product pipeline including 41 China product candidates and 10 U.S., Europe and Japan product candidates. The R&D costs increased by 30.6% in the reporting period when compared with that of the six months ended 30 June 2018.

#### **Market Positioning**

In China, the Group's key products are competitively positioned in four key therapeutic areas and have gained top-ranking market shares measured by revenue. According to IQVIA, oncology-related pharmaceutical products constituted the second largest market in China for pharmaceutical products in the first half of 2019. The Group's portfolio of oncology products includes Lipusu, the best-selling domestic pharmaceutical product for cancer treatment in China in the first half of 2019 according to IQVIA, as well as CMNa, a Class I New Chemical Drug and the only China National Medical Products Administration (the "NMPA", formerly known as the China Food and Drug Administration) approved sensitiser for cancer radiotherapy in China. IQVIA data showed that cardiovascular system-related pharmaceutical products constituted the third largest market for pharmaceutical products in the PRC in the first half of 2019. According to IQVIA, the Group's key cardiovascular system products, Xuezhikang and Maitongna, were the most popular Natural medicine for the treatment of hypercholesterolaemia and the best-selling vasoprotective pharmaceutical product in China in the first half of 2019, 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 2019. According to IQVIA, the Group was the second largest domestic pharmaceutical manufacturer of oral diabetic medications in China in the first half of 2019 by revenue. IQVIA data showed that CNS-related pharmaceutical products constituted the fourth largest market for pharmaceutical products in the PRC in the first half of 2019. The Group's key product Seroquel was the fourth largest product in schizophrenia therapeutic area and the largest quetiapine product in terms of sales in the PRC in the first half of 2019. Seroquel XR is the only quetiapine extended release formulation in the PRC.

For international markets, the Group's products are mainly positioned in CNS therapeutic area, including Seroquel, Seroquel XR, Rivastigmine patches, Fentanyl patches and Buprenorphine patches.

For the six months ended 30 June 2019, the Group's revenue from sales of oncology products, alimentary tract and metabolism products, cardiovascular system products and CNS products increased to RMB1,404.8 million, RMB552.2 million, RMB483.6 million and RMB613.6 million respectively, representing a growth rate of 29.0%, 17.3%, 32.9% and 182.6% as compared to the six months ended 30 June 2018 for the respective therapeutic areas, while revenue from other products increased by 21.5% to RMB76.7 million.



## **Key Products**

The Company believes that the Group's seven key products are competitively positioned for high prevalence medical conditions that are expected to grow stably globally.

# Lipusu<sup>®</sup> (力撲素<sup>®</sup>)

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 RMB29.8 billion in the first half of 2019 and by revenue, Lipusu was the most popular domestic pharmaceutical product for cancer treatment in China in the first half of 2019, as well as the most popular paclitaxel product in China in the first half of 2019. As of 30 June 2019, Lipusu represented the first and only paclitaxel liposome product approved for sale globally.

## CMNa<sup>®</sup> (希美納<sup>®</sup>)

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 NMPA approved sensitiser for cancer radiotherapy in China. According to the NMPA, CMNa was the only glycididazole product available for sale in the first half of 2019. 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<sup>®</sup> (血脂康<sup>®</sup>)

Xuezhikang is the Group's proprietary Natural medicine derived from red yeast rice indicated for hypercholesterolaemia and, according to the NMPA, the Group was the only Xuezhikang manufacturer in China as of 30 June 2019. 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 RMB8.5 billion in the first half of 2019. According to IQVIA, Xuezhikang ranked as the most popular Natural medicine for the treatment of hypercholesterolaemia in China in the first half of 2019.

### Maitongna<sup>®</sup> (麥通納<sup>®</sup>)

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 RMB1.5 billion in the first half of 2019. Maitongna was the best-selling sodium aescinate product in China in the first half of 2019 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in the first half of 2019.

#### Bei Xi<sup>®</sup> (貝希<sup>®</sup>)

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to the NMPA, the Group was the only manufacturer of acarbose in capsule form in the first half of 2019. According to IQVIA, the market for acarbose products in China was estimated to be approximately RMB2.3 billion in the first half of 2019 and Bei Xi ranked as the third most popular acarbose product in China in the first half of 2019.

#### **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 (the "U.S. FDA") and is indicated for mild to moderate dementia of the Alzheimer's type and dementia due to Parkinson's disease.

#### Seroquel<sup>®</sup> (思瑞康<sup>®</sup>) and Seroquel XR<sup>®</sup> (思瑞康緩釋片<sup>®</sup>)

Seroquel (quetiapine fumarate, immediate release, IR) and Seroquel XR (extended release formulation) are atypical antipsychotic medicines with antidepressant properties. The main indications for Seroquel are the treatment of schizophrenia and bipolar disorder. Seroquel XR is also approved in some markets for major depressive disorder and generalised anxiety disorder. According to IQVIA, Seroquel was the fourth largest product in schizophrenia therapeutic area and the largest quetiapine product in the PRC in the first half of 2019.

### R&D

The Group's 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. Besides, the Group has built wide collaboration with Chinese and multinational companies in the development of monoclonal antibodies and cell therapies areas. 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 2019, the Group's R&D team consisted of 596 employees, including 63 Ph.D. degree holders and 277 Master's degree holders in medical, pharmaceutical and other related areas. As at 30 June 2019, the Group had been granted over 232 patents and had over 57 pending patent applications in the PRC, as well as over 671 patents and over 140 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, cardiovascular and alimentary tract and metabolism, but also expanded into the CNS therapeutic area. As at 30 June 2019, the Group had a pipeline of 41 PRC product candidates in various stages of development. These candidates included 16 oncology products, 8 cardiovascular and metabolism products, as well as 15 CNS products.

Also, the Group had a pipeline of 10 candidate products in the U.S., Europe and Japan in various stages of development. In the U.S., one product candidate (LY03004) has filed New Drug Application ("NDA") and five candidates (LY03003, LY03005, LY01005, LY03010, LY02405) are in different clinical stages. In Europe, one product candidate (LY30410) has completed pivotal study in Germany. In Japan, one product (LY03003) has commenced clinical trials, one product (LY03005) has submitted clinical trial application and several products are targeting to commence application. Furthermore, the Group is registering its products in Brazil, New Zealand and other countries through various cooperation patterns such as co-development with its partners or licensing out, etc.

In March 2019, the Rotigotine Extended Release Microspheres for Injection (LY03003) has begun phase I clinical trial in Japan.

In March 2019, the Group has successfully submitted the NDA to the U.S. FDA for Rykindo<sup>®</sup> (LY03004), an Extended-Release Microspheres for Injection in the U.S., and the U.S. FDA has accepted the filing of the NDA of Rykindo<sup>®</sup> in May. To the Group's knowledge, this is the first NDA submission of a new formulation drug to the U.S. FDA by a Chinese pharmaceutical company.



In March 2019, the Group received approval from the NMPA to initiate clinical trials in China in relation to the Recombinant Human Vascular Endothelial Growth Factor Receptor-antibody Fusion Protein Ophthalmic Injection (LY09004).

In April 2019, the Group commenced phase III clinical trial in China in relation to the Recombinant Anti-RANKL Human Monoclonal Antibody Injection (LY06006).

In April 2019, the registration application of Pramipexole Dihydrochloride Extended Release Tablets has been accepted by the NMPA.

In May 2019, the pivotal study of Rivastigmine Multi-day Transdermal Patch (LY30410), an innovative delivery system drug for the treatment of Alzheimer's disease, has been completed in Germany.

In June 2019, the Acarbose Capsules (brand name "Bei Xi" (貝希)) was granted approval by NMPA for passing the Consistency of Quality and Efficacy Evaluation of Generic Drugs (the "Consistency Evaluation").

In July 2019, the daily-administered Rivastigmine Transdermal Patch in dosage strength 13.3mg/24h, which was submitted as a line extension to the existing marketing authorisations for its lower dosage strengths (4.6 and 9.5mg/24h), was approved under the Decentralised Procedures (DCP) by the German Federal Institute for Drugs and Medical Devices ("BfArM").

In August 2019, the Group submitted the clinical trial application in Japan for Ansofaxine Hydrochloride Extended Release Tablets (LY03005), a new chemical drug for the treatment of major depressive disorder.

#### 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 2019. The Group's sales, marketing and distribution functions are conducted through around 1,000 sales and marketing personnel, as well as a network of approximately 1,700 distributors that collectively enabled the Group to sell its products to over 13,700 hospitals, which comprised approximately 1,500 or approximately 78.0% of all Class III hospitals, approximately 3,900 or approximately 55.0% of all Class II hospitals and approximately 8,300 or approximately 47.0% of all Class I and other hospitals and medical institutions, in the PRC in the first half of 2019. 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 provides a solid foundation for the Group to continue to enhance market awareness of its brand and expand the market reach of its products.

The international footprint of the Group covers 80 countries, including the U.S., and certain countries in Europe. The Group has commercial offices in the U.S., the United Kingdom, Switzerland, Japan, Hong Kong, Singapore and Malaysia. The Group also has strong sales partnerships with more than 50 partners throughout the world.

#### Merger & Acquisition ("M&A") and Collaborations

In January 2019, the Group entered into an agreement with AstraZeneca, pursuant to which, AstraZeneca granted the right to promote the Group's Xuezhikang capsules in China. Under the agreement, AstraZeneca is responsible for the promotion of Xuezhikang capsules in the mainland China on an exclusive basis, while the Group continues to hold rights in relation to the product, such as asset rights, the right to sell, registration permit, all intellectual property rights and rights other than the right to promote. Under the agreement, both parties agreed that the sales of Xuezhikang capsule in China shall be maintained at a double digits Compound Annual Growth Rate ("CAGR") in the next ten years, significantly higher than the average growth rate of the market for the treatment of hypercholesterolaemia in China. Besides, both parties agreed to discuss potential registration and commercialisation opportunities of Xuezhikang capsules in other markets around the world (including but not limited to the U.S., Europe and other emerging markets) and to explore opportunities for closer ties of cooperation to enhance each other's future business development. In August 2019, Luye Pharma (Singapore) Pte Ltd entered into an agreement with AstraZeneca Singapore Pte Ltd, pursuant to which, AstraZeneca was granted the right to promote the Group's Lipascor<sup>®</sup> Capsules in Singapore.

In April 2019, the Group and Pharma Mar S.A. ("PharmaMar") entered into a license development and commercialization agreement with respect to a Phase III new innovative anticancer drug Zepsyre<sup>®</sup> (Lurbinectedin) ("the PharmaMar Agreement"). Pursuant to the terms of the PharmaMar Agreement, the Company will have the exclusive rights to develop and commercialize Zepsyre<sup>®</sup> for small cell lung cancer and all other indications in China. In addition, the Company will also have the right to request for the transfer of the technology with respect to the manufacturing of Zepsyre<sup>®</sup> to the Company in China during the term of the PharmaMar Agreement.

Lurbinectedin (PM1183) is a compound under clinical investigation. It is an inhibitor of RNA polymerase II. This enzyme is essential for the transcription process that is over-activated in tumors with transcription addiction. Lurbinectedin has been granted orphan drug designation from the U.S. FDA for the treatment of patients with small cell lung cancer. In May 2019, the abstract titled "Efficacy and safety profile of Lurbinectedin in second-line SCLC patients: results from a phase II single-agent trial" has been elected for this year's "Best of ASCO" (American Society of Clinical Oncology) meeting.

#### Outlook

Due to policy and market factors, the Chinese pharmaceutical industry remains at low growth rate in the first half of 2019. According to IQVIA, the growth rate of the Chinese pharmaceutical market was 11.0% in the first half of 2019, compared to 3.4% in that of 2018. The Group outperformed the market in both two periods with growth rate of 33.0% and 22.7%, 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 are posing great impacts on the industry.

For the six months ended 30 June 2019, the Group continued 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.

The Group also put a lot of effort on the academic studies of the marketed products. The Acarbose Capsules (brand name "Bei Xi" (貝希)) has been granted approval by the NMPA for passing the Consistency Evaluation. The Group's major products Lipusu has been included as a first-line drug in 2019 Chinese Society of Clinical Oncology Guidelines on Diagnosis and Treatment of Primary Lung Cancer in April 2019. The Group believes that the inclusion of Lipusu<sup>®</sup> in the Guidelines as a first-line drug represents a high recognition of its clinical value, which will significantly increase its penetration into the relevant indications, and will inject into its long-term growth with momentum.

As described above, during the six months ended 30 June 2019, the Group has made remarkable progresses in R&D fields. In China, LY06006 commenced phase III clinical trials; LY09004 has been approved by the NMPA to initiate clinical trials. The registration application of Pramipexole Dihydrochloride Extended Release Tablets has been accepted by the NMPA. Internationally, Rykindo<sup>®</sup> (LY03004) has successfully submitted NDA to the U.S. FDA and the U.S. FDA has accepted its filing of the NDA. LY30410 has been completed the pivotal study in Germany. The Rivastigmine Transdermal Patch in dosage strength 13.3mg/24h, has been approved under the Decentralised Procedures (DCP) by the BfArM. LY03003 has commenced Phase I Clinical Trial and LY03005 has submitted the clinical trial application in Japan.

For collaborations, the collaboration with AstraZeneca on Xuezhikang's promotion rights in mainland China will accelerate Xuezhikang's growth and improve its profitability. Besides, AstraZeneca and the Group will discuss potential registration and commercialisation opportunities of Xuezhikang capsules in other markets around the world.

The license in the exclusive rights to develop and commercialize Zepsyre<sup>®</sup> for small cell lung cancer and all other indications in China will enrich the Group's innovative product portfolio and leverage its sales and marketing capability in oncology therapeutic area.

For China sales and distribution, the Group's penetration into lower-tier hospitals is deepening and the Group's internal force is growing fast. Backed by sales of Seroquel and Seroquel XR and the upcoming Rivastigmine patch and LY03004, the Group has built a CNS sales team of 70 representatives. The collaboration with AstraZeneca on Xuezhikang enabled the Group to leverage AstraZeneca's cardiovascular team of 3,000 representatives and accelerate the growth of the product.

Internationally, the acquisition of Seroquel will further expand the Group's sales network and build up the commercialisation 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. The new oncology drug injection facility in Nanjing site has finished construction and is expected to obtain the Good Manufacture Practice ("GMP") certificate by the NMPA within the year. The new transdermal patch facility in Yantai has finished construction and was put into pilot production. The manufacturing site for transdermal patches in Miesbach, Germany, attained compliance with the Falsified Medicines Directive (Directive 2011/62/EC) of the European Union (also known as serialisation requirement) in February 2019. A total of 14 inspections and audits by government authorities and customers in the reporting period underlined the compliance with GMP standards.

Management of the Group is confident that, with the Group's strong, competitive positions 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 business phase.



### **Financial Review**

#### Revenue

For the six months ended 30 June 2019, the Group's revenue amounted to approximately RMB3,130.9 million, as compared to RMB2,203.8 million for the six months ended 30 June 2018, representing an increase of approximately RMB927.1 million, or 42.1%. The increase is mainly attributable to the sales growth of the Group's key products.

For the six months ended 30 June 2019, the Group's revenue from sales of oncology products increased to RMB1,404.8 million, as compared to RMB1,088.8 million for the six months ended 30 June 2018, representing an increase of approximately RMB316.0 million, or 29.0%, primarily attributable to the increase in sales volume of various oncology products of the Group.

For the six months ended 30 June 2019, revenue from sales of cardiovascular system products increased to RMB483.6 million, as compared to RMB363.9 million for the six months ended 30 June 2018, representing an increase of approximately RMB119.7 million, or 32.9%, primarily attributable to the increase in sales volume of various cardiovascular system products of the Group.

For the six months ended 30 June 2019, revenue from sales of alimentary tract and metabolism products increased to RMB552.2 million, as compared to RMB470.7 million for the six months ended 30 June 2018, representing an increase of approximately RMB81.5 million, or 17.3%, 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 2019, revenue from sales of CNS products increased to RMB613.6 million, as compared to RMB217.1 million for the six months ended 30 June 2018, representing a increase of approximately RMB396.5 million or 182.6%, primarily attributable to our newly acquired business.

For the six months ended 30 June 2019, revenue from sales of other products increased to RMB76.7 million, as compared to RMB63.2 million for the six months ended 30 June 2018, representing an increase of approximately RMB13.5 million, or 21.5%, 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 RMB447.3 million for the six months ended 30 June 2018 to approximately RMB699.0 million for the six months ended 30 June 2019, which accounted for approximately 22.3% of the Group's total revenue for the same period.

#### **Gross Profit**

For the six months ended 30 June 2019, the Group's gross profit increased to RMB2,431.9 million, as compared to RMB1,756.5 million for the six months ended 30 June 2018, representing an increase of approximately RMB675.4 million, or 38.5%. The gross profit margin of 77.7%, as compared to 79.7% for the six month ended 30 June 2018 decreased slightly mainly due to higher sales of slightly lower margin products.

#### **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 2019, the Group's other income and gains increased to RMB164.1 million, as compared to RMB114.8 million for the six months ended 30 June 2018, representing an increase of approximately RMB49.3 million, or 42.9%. The increase is mainly attributable to increase in government grants recognised during the period, higher interest income and higher foreign exchange gain. The increase is offset by lower investment income during the six months ended 30 June 2019, as compared to the corresponding period of 2018.

#### **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 2019, the Group's selling and distribution expenses amounted to RMB1,008.7 million, as compared to RMB729.8 million for the six months ended 30 June 2018, representing an increase of RMB278.9 million, or 38.2%. The increase was mainly attributable to increased promotional activities for the Group's products. On the other hand, as a percentage of revenue the Group's selling and distribution expenses decreased from 33.1% for the six months ended 30 June 2018 to 32.2% for the six months ended 30 June 2019, primarily as a result of the lower selling and distribution expense margin to revenue for our newly acquired business.

#### **Administrative Expenses**

The Group's administrative expenses primarily consisted of staff cost, general operating expenses, conference and entertainment expenses, travel and transportation expenses, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the six months ended 30 June 2019, the Group's administrative expenses amounted to approximately RMB258.0 million, as compared to RMB217.3 million for the six months ended 30 June 2018, representing an increase of approximately RMB40.7 million, or 18.7%. The slight increase is primarily attributable to higher staff cost during the period.

#### **Other Expenses**

The Group's other expenses primarily consisted of its R&D costs, changes in fair value of investments, donations, loss on disposals of property, plant and equipment and miscellaneous expenses. For the six months ended 30 June 2019, the Group's other expenses amounted to approximately RMB277.6 million, as compared to RMB200.0 million for the six months ended 30 June 2018, representing an increase of approximately RMB77.6 million, or 38.8%. The increase was mainly due to increase in R&D costs during the period.

#### **Finance Costs**

For the six months ended 30 June 2019, the Group's finance costs amounted to RMB113.2 million, as compared to RMB50.5 million for the six months ended 30 June 2018, representing an increase of approximately RMB62.7 million, or 123.9%. The increase was mainly due to the higher level of monthly average outstanding bank borrowings during the six months ended 30 June 2019 as compared to the corresponding period of 2018.

#### **Income Tax Expense**

For the six months ended 30 June 2019, the Group's income tax expense amounted to RMB168.1 million, as compared to RMB110.9 million for the six months ended 30 June 2018, representing an increase of RMB57.2 million, or 51.6%. The effective tax rate for the six months ended 30 June 2019 and 30 June 2018 were 17.9% and 16.4%, respectively.



#### **Net Profit**

The Group's net profit for the six months ended 30 June 2019 was approximately RMB770.8 million, as compared to RMB563.2 million for the six months ended 30 June 2018, representing an increase of approximately RMB207.6 million, or 36.9%.

#### **Liquidity, Financial and Capital Resources**

#### **Net Current Assets**

As at 30 June 2019, the Group had net current assets of approximately RMB1,778.7 million, as compared to approximately RMB472.4 million as at 31 December 2018. The current ratio of the Group increased slightly to approximately 1.2 as at 30 June 2019 from approximately 1.1 as at 31 December 2018. The increase in net current assets was mainly attributable to lower levels of loan and borrowings in current liability.

#### **Borrowings and Pledge of Assets**

As at 30 June 2019, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB6,066.0 million, as compared to approximately RMB6,138.1 million as at 31 December 2018. Amongst the loans and borrowings, approximately RMB4,159.5 million are repayable within one year, and approximately RMB1,906.5 million are repayable after one year. RMB1,621.3 million of the loans and borrowings of the Group carried interest at fixed interest rate. The increase in loans and borrowings is mainly for working capital of the Group. The bank loans were secured by the Group's time deposits, notes receivable and property, plant and equipment. As at 30 June 2019, the Group's borrowings were primarily denominated in RMB, Euro, U.S. dollar, and Hong Kong dollar, and the cash and cash equivalents were primarily denominated in RMB, U.S. dollar and Euro. Certain Group's bank loans are secured by:

- (i) the pledge of certain Group's time deposits of RMB565,000,000 (31 December 2018: RMB841,073,000);
- (ii) the pledge of certain Group's notes receivable of RMB10,095,000 (31 December 2018: RMB2,126,000);
- (iii) the pledge of certain Group's intra-group notes receivable of RMB961,000,000 (31 December 2018: RMB275,000,000); and
- (iv) the pledge of certain Group's property, plant and equipment of RMB211,173,000 (31 December 2018: Nil).

#### **Gearing Ratio**

As at 30 June 2019, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, decreased to 71.2% from 77.4% as at 31 December 2018. The decrease was primarily due to a decrease in the Group's total borrowings taken during the reporting period.

#### **Contingent Liabilities**

As at 30 June 2019, 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 2019. The directors of the Company expect that the fluctuation of the RMB exchange rate will not have a material adverse effect on the operation of the Group.

#### **Hedging Activities**

During the six months ended to 30 June 2019, 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.

#### **Share Option Scheme**

During the six months ended 30 June 2019 and up to the date of this interim report, the Group has no share option scheme.

#### Share Award Scheme (the "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 2019, the Board has granted to the selected employees an aggregate of 25,206,000 shares under the Scheme, and an aggregate of 63,028,000 shares were awarded pursuant to the Scheme as at 30 June 2019.

#### **Significant Investments Held**

During the six months ended 30 June 2019, 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 Agreement with Covenants relating to Specific Performance Obligations of the Controlling Shareholder

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 Ioan 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.

#### **Employees and Remuneration Policy**

As at 30 June 2019, the Group employed a total of 4,240 employees, as compared to a total of 4,417 employees as at 31 December 2018. The staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB384.4 million for the six months ended 30 June 2019 as compared to RMB320.1 million for the corresponding period in 2018. 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.

## **Subsequent Events after the Interim Period**

#### Issuance of 2024 Bonds and Utilisation of 2019 Issue Mandate

On 9 July 2019, the Company issued US\$300,000,000 1.50 per cent convertible bonds due 2024 (the "2024 Bonds"). For further details of the 2024 Bonds, please refer to the announcements of the Company dated 24 June 2019 and 9 July 2019. As disclosed in the poll results announcement of the Company dated 12 June 2019, resolutions were passed at the annual general meeting of the Company approving the giving of a general mandate (the "2019 Issue Mandate") to the Directors to allot, issue and deal with additional shares not exceeding 20% of the issued share capital of the Company, which limit is extended by the number of shares repurchased by the Company. On 16 July 2019, 6,000,000 Shares were cancelled in respect of shares repurchased by the Company under the previous general mandate to repurchase Shares (approved in the annual general meeting of the Company held on 11 June 2018). As at the date of this interim report, the issued share capital of the Company comprised 3,268,965,343 Shares, and the Company is allowed to allot and issue a maximum of 653,793,068 new Shares under the 2019 Issue Mandate. Based on the initial conversion price of HK\$8.15, the conversion shares in respect of 2024 Bonds are expected to utilise approximately 287,657,668 Shares under the 2019 Issue Mandate, representing approximately 44.00% of the maximum number of Shares that may be allotted and issued under the 2019 Issue Mandate. Save as disclosed in this interim report, there has been no material changes that are required to be disclosed under paragraphs 32 and 40(2) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

#### **Legal Proceedings**

In the ordinary course of business of the Group, the Group may from time to time be involved in legal proceedings. As at the date of the this interim report, the Group was involved in the following legal proceedings: (i) the previous distributor of "Seroquel" in Mainland China has commenced arbitration against the Group disputing the Group's basis of terminating the distribution agreement with such distributor; and (ii) in connection with the LY03004 NDA, the patent holders and Risperidone NDA holder have brought a patent infringement litigation against the Group under Hatch-Waxman Act of the U.S., and the Group is working closely with its professional advisers, including U.S. patent counsels to handle these matters. Based on the information currently available to the Group and its preliminary assessment, the Board does not expect any of the above mentioned legal proceedings would have any material adverse impact on the existing business operations and financial position of the Group taken as a whole.



#### **Interim Dividend**

The Board declared an interim dividend of RMB0.059 (equivalent to HK\$0.067) per share for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB0.043 (equivalent to HK\$0.051)), totalling approximately RMB191,654,000, to the shareholders of the Company whose names appear on the Company's register of shareholders on 13 September 2019. The interim dividend is expected to be paid on or around 30 September 2019.

#### **Closure of Register of Shareholders**

For determining the entitlement to the proposed interim dividend, the register of shareholders of the Company was closed from 11 September 2019 to 13 September 2019, both days inclusive, during which period no transfer of shares of the Company was registered. In order to qualify for the proposed interim dividend, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 10 September 2019.

#### **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 Listing Rules as its own code of corporate governance.

During the six months ended 30 June 2019, 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 for the six months ended 30 June 2019.

### Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2019 period, an aggregate of 1,000,000 Shares were repurchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate price of approximately HK\$4.98 million, which does not include any fees associated with the repurchase. As the Board considers that the value of the Company's shares is consistently undervalued, it trusts that the action taken will go towards addressing this trend. The Board also believes that given the current financial resources of the Company, the share repurchase will not affect the Company's solid financial position. Details of shares repurchased during the period are set out as follows:

	Number of Shares purchased	Price paid	per Share	Aggregate		
Date of repurchase	on the Stock Exchange	Highest (HK\$)	Lowest (HK\$)	consideration paid (HK\$)		
3 January 2019	1,000,000	5.03	4.94	4,982,075.03		

All the shares repurchased were subsequently cancelled. Save as the aforesaid repurchase of Shares, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for six months ended 30 June 2019.

### **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, interim results announcement of the Group for the six months ended 30 June 2019 and this interim report, and recommended their respective adoption by the Board.

In addition, the independent auditor of the Company, Ernst & Young, has reviewed the unaudited interim results for the six months ended 30 June 2019 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 in directors' information since the date of the Company's annual report for the year ended 31 December 2018, are set out as follows:

- Mr. Zhang Hua Qiao has resigned from his position as independent non-executive director of Yancoal Australia Ltd (a company listed on the Australian Securities Exchange (stock code: YAL)), China Rapid Finance Limited (a company listed on the New York Stock Exchange (NYSE: XRF)) and Boer Power Holdings Limited (a company listed on the Main Board of the Stock Exchange (stock code: 1685)) in January 2019, March 2019 and May 2019, respectively.
- Mr. Leung Man Kit has resigned from his position as independent non-executive director of China Huiyuan Juice Group Limited (a company listed on the Main Board of the Stock Exchange (stock code: 1886)) in January 2019.
- Mr. Song Rui Lin has been serving as independent director of Shenzhen Chipscreen Biosciences Co., Ltd. (深圳微芯 生物科技股份有限公司) (a company listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange (stock code: 688321)) since August 2019.

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 with a focuses on the development of biopharmaceutical products. Shandong Boan is controlled by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each an executive Director, and a controlling shareholder of the Company.

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 2019, the Board considered the development progress of product candidates of Shandong Boan, as well as the general business operations of Shandong Boan and its prospects. Up to the date of this interim report, no transactions to acquire any suitable product candidate or other cooperation opportunity were agreed or concluded. The Group will maintain regular communications with Shandong Boan.

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

As at 30 June 2019, the interests or short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

#### (i) Interest in the Company

Name of Director	Nature of interest	Number of securities <sup>(1)</sup>	Approximate percentage of shareholding
Liu Dian Bo <sup>(1)(2)</sup>	Founder of a discretionary trust	1,517,113,930(L)	46.32%
		74,740,909(S)	2.28%
Zhang Hua Qiao <sup>(3)</sup>	Beneficial owner	250,000(L)	0.01%
Lo Yuk Lam <sup>(3)</sup>	Beneficial owner	250,000(L)	0.01%
Leung Man Kit <sup>(3)</sup>	Beneficial owner	250,000(L)	0.01%
Choy Sze Chung Jojo <sup>(3)</sup>	Beneficial owner	250,000(L)	0.01%
Song Rui Lin <sup>(3)</sup>	Beneficial owner	250,000(L)	0.01%

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

Notes:

 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 and 74,740,909 short position in the Company held by LuYe Pharmaceutical Investment Co., Ltd. Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd.

- 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.

#### (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	Luve 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 interest	1,800(L)	15%
Yuan Hui Xian	Luye Life Sciences Group Ltd.	Beneficial interest	1,800(L)	15%

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

Notes:

- 1. 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.
- 2. 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, none of our Directors and chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register required to be kept under section 352 of the SFO, or (ii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## **Directors' Rights to Acquire Shares or Debentures**

Save as otherwise disclosed in this interim report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate for the six months ended 30 June 2019.



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

As at 30 June 2019, to the best of the Directors' knowledge, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interests and/or short position in the Shares or the underlying Shares which fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of securities <sup>(1)</sup>	Approximate percentage of shareholding
LuYe Pharmaceutical Investment Co., Ltd. <sup>(1)</sup>	Beneficial owner	1,517,113,930(L)	46.32%
(1)		74,740,909(S)	2.28%
LuYe Pharmaceutical International Co., Ltd. <sup>(1)</sup>	Interest in controlled corporation	1,517,113,930(L)	46.32%
		74,740,909(S)	2.28%
Luye Pharma Holdings Limited <sup>(1)</sup>	Interest in controlled corporation	1,517,113,930(L)	46.32%
		74,740,909(S)	2.28%
Luye Life Sciences Group Ltd. <sup>(2)</sup>	Interest in controlled corporation	1,517,113,930(L)	46.32%
		74,740,909(S)	2.28%
Nelumbo Investments Limited <sup>(2)</sup>	Interest in controlled corporation	1,517,113,930(L)	46.32%
		74,740,909(S)	2.28%
Ginkgo (PTC) Limited <sup>(2)</sup>	Trustee	1,517,113,930(L)	46.32%
		74,740,909(S)	2.28%
Shorea LBG <sup>(2)</sup>	Interest in controlled corporation	1,517,113,930(L)	46.32%
		74,740,909(S)	2.28%
中國平安保險(集團)股份有限公司 <sup>⑶</sup>	Interest in controlled corporation	546,355,060(L)	16.68%
平安銀行股份有限公司 <sup>(3)</sup>	Security interest in shares	546,355,060(L)	16.68%

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

Notes:

- 1. LuYe Pharmaceutical Investment Co., Ltd. is wholly-owned by LuYe Pharmaceutical International Co., Ltd., which is in turn whollyowned by Luye Pharma Holdings Ltd..
- 2. Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd. The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo (PTC) Limited is wholly-owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.
- 3. According to the relevant DI Notice filed on 24 June 2016 in connection with the Company available on www.hkex.com.hk, 平安銀行 股份有限公司 is held by 中國平安保險(集團)股份有限公司 as to 49.56%.

Save as disclosed above, as at 30 June 2019, 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**



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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 23 to 66, which comprises the condensed consolidated statement of financial position of Luye Pharma Group Ltd. (the "Company") and its subsidiaries (the "Group") as at 30 June 2019 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 other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board ("IASB"). 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 28 August 2019



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	30 June 2018 (Unaudited) RMB'000
REVENUE Cost of sales	4	3,130,894 (699,006)	2,203,775 (447,281)
Gross profit		2,431,888	1,756,494
Other income and gains Selling and distribution expenses Administrative expenses Other expenses Finance costs Share of profit of an associate	4	164,087 (1,008,726) (257,976) (277,616) (113,157) 329	114,804 (729,790) (217,265) (200,044) (50,544) 396
PROFIT BEFORE TAX	5	938,829	674,051
Income tax expense	7	(168,061)	(110,867)
PROFIT FOR THE PERIOD		770,768	563,184
Attributable to: Owners of the parent Non-controlling interests		766,616 4,152 770,768	562,879 305 563,184
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9	110,100	
Basic (RMB) — For profit for the period		23.93 cents	17.54 cents
Diluted (RMB) — For profit for the period		23.82 cents	17.48 cents

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	30 June 2019 (Unaudited) RMB'000	30 June 2018 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	770,768	563,184
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Debt investments at fair value through other comprehensive income: Changes in fair value Reclassification adjustments for gains included in the consolidated statement of profit or loss	-	8,586 (8,688)
	_	(102)
Exchange differences on translation of foreign operations	(13,006)	5,921
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	(13,006)	5,819
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income: Changes in fair value	(5,588)	(416)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	(5,588)	(416)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(18,594)	5,403
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	752,174	568,587
Attributable to: Owners of the parent Non-controlling interests	748,022 4,152	568,282 305
	752,174	568,587



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	2,986,884	2,837,140
Advance payments for property, plant and			,, -
equipment and other intangible assets		350,805	141,451
Right-of-use assets		259,281	_
Prepaid land lease payments			217,048
Goodwill		1,038,201	1,040,879
Other intangible assets	11	4,429,464	4,445,063
Investment in an associate		6,382	5,935
Equity investments designated at fair value through			-,
other comprehensive income	13	70,915	76,368
Financial assets at fair value through profit or loss	12	1,263	1,263
Deferred tax assets		121,028	98,355
Total non-current assets		9,264,223	8,863,502
CURRENT ASSETS			
Inventories		636,113	585,609
Trade and notes receivables	14	1,757,301	1,531,282
Prepayments, other receivables and other assets	15	254,861	254,902
Due from related parties	20(b)	3,357	2,816
Financial assets at fair value through profit or loss	12	1,655,704	1,882,839
Restricted cash	16	28,377	28,345
Pledged time deposits	16	1,436,565	1,409,782
Time deposits with original maturity of over three months	16	2,286,520	1,306,868
Cash and cash equivalents	16	1,272,912	1,672,865
Total current assets		9,331,710	8,675,308
CURRENT LIABILITIES			
Trade and notes payables	17	568,185	279,750
Other payables and accruals		2,455,672	2,461,783
Derivative financial instruments		2,902	—
Interest-bearing bank and other borrowings	18	4,159,480	5,290,547
Government grants		24,267	42,090
Dividend payable		185,124	—
Tax payable		157,385	128,760
Total current liabilities		7,553,015	8,202,930
NET CURRENT ASSETS		1,778,695	472,378
TOTAL ASSETS LESS CURRENT LIABILITIES		11,042,918	9,335,880



# INTERIM CONDENSED CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

30 June 2019

Note	30 Jur 20 <sup>-</sup> (Unaudite RMB'00	19 2018 d) (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	11,042,91	<b>18</b> 9,335,880
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings 18	1,906,52	23 847,596
Retirement benefit obligations	4,57	
Long-term payables	313,05	
Government grants	122,21	
Deferred revenue	44,07	
Deferred tax liabilities	128,50	
Total non-current liabilities	2,518,99	91 1,401,851
Net assets	8,523,92	27 7,934,029
EQUITY		
Equity attributable to owners of the parent		
Share capital	421,33	421,337
Treasury shares	(310,01	
Share premium	2,764,66	
Reserves	5,517,54	46 4,928,033
	8,393,53	<b>7,808,413</b>
Non-controlling interests	130,38	39 125,616
Total equity	8,523,92	7,934,029



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

#### For the six months ended 30 June 2019

	Attributable to owners of the parent											
	Share 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	Total equity RMB'000
At 1 January 2019 (audited)	421,337	(305,626)	2,764,669	41,387	723,140	36,763	4,112,091	5,955	8,697	7,808,413	125,616	7,934,029
Profit for the period Other comprehensive income for the period: Changes in fair value of investments,							766,616			766,616	4,152	770,768
net of tax								(5,588)		(5,588)		(5,588)
Exchange differences on translation of foreign operations	-								(13,006)	(13,006)		(13,006)
Total comprehensive income for the period	-						766,616	(5,588)	(13,006)	748,022	4,152	752,174
Repurchase of ordinary shares Equity-settled share award expense Final 2018 dividend declared		(4,388) — —				_ 26,615 _	 (185,124)			(4,388) 26,615 (185,124)	_ 621 _	(4,388) 27,236 (185,124)
At 30 June 2019 (unaudited)	421,337	(310,014)	2,764,669	41,387	723,140	63,378	4,693,583	367	(4,309)	8,393,538	130,389	8,523,927

#### For the six months ended 30 June 2018

	Attributable to owners of the parent											
	Share 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	Total equity RMB'000
At 1 January 2018 Effect on adoption of IFRS 9	427,269	(459,284) —	2,936,817 —	41,387	611,073	6,107	3,196,919 12,316	12,340 (11,333)	(4,225)	6,768,403 983	127,513	6,895,916 983
At 1 January 2018 (audited)	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 Other comprehensive income for the period:	-	-	-	-	-	-	562,879	-	-	562,879	305	563,184
Changes in fair value of investments, net of tax Exchange differences related to foreign	-	-	-	-	-	-	-	(518)	-	(518)	-	(518)
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 Sale of shares repurchased for share award	(5,932)	178,080	(172,148)	-	-	-	-	-	-	-	-	-
scheme	_	1,646	_	_	_	_	_	_	_	1,646	_	1,646
Equity-settled share award expense	_		_	_	_	9,272	_	_	_	9,272	211	9,483
Final 2017 dividend 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

\* These reserve accounts comprise the consolidated reserves of RMB5,517,546,000 in the consolidated statement of financial position as at 30 June 2019.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

Notes	30 June 2019 (Unaudited) RMB'000	30 June 2018 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	938,829	674,051
Adjustments for:	300,023	074,001
Share of profit of an associate	(329)	(396)
Depreciation and amortisation of non-current assets	210,781	151,951
Loss on disposal of non-current assets 5	159	340
Equity-settled share award expense 21	27,236	9,483
Interest income 4	(45,782)	(23,557)
Investment income from financial assets at fair value through profit or loss 4	(13,213)	(31,734)
Changes in fair value of investments 4	(15,020)	(29,608)
Investment income from entrusted loans 4	_	(903)
Interest expense 6	113,157	50,544
	1,215,818	800,171
Increase in inventories	(50,504)	(108,889)
Increase in trade and notes receivables	(226,026)	(15,531)
(Increase)/decrease in prepayments, other receivables and other assets	(3,457)	2,866
(Increase)/decrease in amounts due from related parties	(541)	217
Increase in pledged time deposits	(304,399)	(118,320)
Increase in restricted cash	(32)	(5,506)
Increase in trade and notes payables	288,435	28,223
Increase/(decrease) in other payables and accruals	51,839	(29,699)
(Decrease)/increase in government grants	(11,526)	345
Decrease in deferred revenue	(3,255)	(3,274)
Cash generated from operations	956,352	550,603
Interest paid	(101,503)	(49,516)
Income tax paid	(100,415)	(125,814)
Net cash flows from operating activities	754,434	375,273



# INTERIM CONDENSED CONSOLIDATED

STATEMENT OF CASH FLOWS

For the six months ended 30 June

	30 June 2019 (Unaudited) RMB'000	30 June 2018 (Unaudited) RMB'000
Net cash flows from operating activities	754,434	375,273
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of non-current assets	(624,916)	(2,089,098)
Purchases of investments	(1,891,050)	(3,199,881)
Proceeds from disposals of investments	2,108,000	3,006,000
Dividend income from investments	32,414	31,734
Proceeds from disposals of items of property, plant and equipment	2,024	3,219
Increase in government grants	7,200	1,500
Increase in deferred revenue	6,644	6,504
(Increase)/decrease in time deposits with original maturity of over three months	(979,652)	80,705
Decrease/(increase) in pledged time deposits	1,543	(9,276)
Addition to entrusted loan receivables	-	(60,000)
Collection of entrusted loan receivables	_	60,000
Receipt of investment income from entrusted loans	_	903
Interest received	26,159	14,681
Net cash flows used in investing activities	(1,311,634)	(2,153,009)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loans	(4,951,271)	(1,995,671)
New loans	4,839,753	5,075,757
Decrease/(increase) in pledged time deposits	276,073	(626,095)
Dividends paid		(148,999)
Proceeds from sales of shares held for the share award scheme	_	1,646
Repurchase of ordinary shares	(8,851)	
Principal portion of lease payments	(8,346)	
Net cash flows from financing activities	147,358	2,306,638
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(400.040)	E00.000
Effect of foreign exchange rate changes, net	(409,842) 9,889	528,902 761
Cash and cash equivalents at 1 January	9,889 1,672,865	1,265,872
CASH AND CASH EQUIVALENTS AT 30 JUNE	1,272,912	1,795,535



#### **1. Corporate information**

The interim condensed consolidated financial information for the six months ended 30 June 2019 was approved and authorised by the board of directors on 28 August 2019.

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 information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

The interim condensed consolidated financial information has been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, financial assets at fair value through profit or loss, notes receivable and derivative financial instruments which have been measured at fair value. The interim condensed consolidated financial information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.



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

#### 2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") effective as of 1 January 2019.

Amendments to IFRS 9	Prepayment Features with Negative Compensation
IFRS 16	Leases
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
IFRIC 23	Uncertainty over Income Tax Treatments
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases — Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

#### New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.



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

#### 2.2 Changes in accounting policies and disclosures (Continued)

(a) Adoption of IFRS 16 (Continued)

#### New definition of a lease (Continued)

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

#### As a lessee - Leases previously classified as operating leases

#### Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

#### Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interestbearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease



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

#### 2.2 Changes in accounting policies and disclosures (Continued)

(a) Adoption of IFRS 16 (Continued)

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	250,645
Decrease in prepaid land lease payments	(217,048)
Decrease in prepayments, other receivables and other assets	(6,374)
Increase in total assets	27,223
Liabilities	
Increase in interest-bearing bank and other borrowings	27,223
Increase in total liabilities	27,223

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	30,412
Weighted average incremental borrowing rate as at 1 January 2019	4.76%
Discounted operating lease commitments as at 1 January 2019 Less: Commitments relating to short-term leases and those leases	27,496
with a remaining lease term ending on or before 31 December 2019	(511)
Add: Commitments relating to leases previously classified as finance leases	238
Lease liabilities as at 1 January 2019	27,223



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

#### 2.2 Changes in accounting policies and disclosures (Continued)

(a) Adoption of IFRS 16 (Continued)

#### Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

#### Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

#### Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.



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

#### 2.2 Changes in accounting policies and disclosures (Continued)

(a) Adoption of IFRS 16 (Continued)

#### Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

# Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within 'interest-bearing bank and other borrowings'), and the movement during the period are as follow:

	Right-of-use assets					
	Plant and machinery RMB'000	Motor vehicles RMB'000	Land and buildings RMB'000	Land use right RMB'000	Sub-total RMB'000	Lease liabilities RMB'000
As at 1 January 2019	_	_	27,223	223,422	250,645	27,223
Additions	2,467	627	18,063	_	21,157	20,527
Depreciation charge	(172)	(156)	(8,598)	(3,141)	(12,067)	_
Interest expense	_	_	_	_	_	946
Payments	_	_	_	_	_	(9,292)
Exchange realignment	_	(3)	(451)	_	(454)	(26)
As at 30 June 2019	2,295	468	36,237	220,281	259,281	39,378

The Group recognised rental expenses from short-term leases of RMB5,046,000 for the six months ended 30 June 2019.

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# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

#### 2.2 Changes in accounting policies and disclosures (Continued)

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures did not have any impact on the Group's interim condensed consolidated financial information.
- (c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.



### 3. Operating segment information

The Group manages its businesses by type of products. The Group's chief operating decision maker is the Chief Executive Officer, who reviews revenue from and results of the major type of products sold for the purpose of 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 2019 (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	1,404,820	483,603	552,181	613,560	76,730	3,130,894
Total revenue	1,404,820	483,603	552,181	613,560	76,730	3,130,894
Segment results	761,965	202,324	208,011	224,513	26,349	1,423,162
Other income and gains Administrative expenses Other expenses Finance costs Share of profit of an associate						164,087 (257,976) (277,616) (113,157) 329
Profit before tax						938,829

### 3. Operating segment information (Continued)

#### 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

### 4. Revenue, other income and gains

An analysis of revenue is as follows:

		For the six months ended 30 June		
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000		
Revenue from contracts with customers Sale of goods	3,130,894	2,203,775		



### 4. Revenue, other income and gains (Continued)

#### **Revenue from contracts with customers**

### Disaggregated revenue information

For the six months ended 30 June 2019 (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
<b>Type of goods or services</b> Sale of goods	1,404,820	483,603	552,181	613,560	76,730	3,130,894
Total revenue from contracts with customers	1,404,820	483,603	552,181	613,560	76,730	3,130,894
<b>Geographical markets</b> Mainland China Other countries	1,404,820 —	478,566 5,037	548,423 3,758	119,392 494,168	76,091 639	2,627,292 503,602
Total revenue from contracts with customers	1,404,820	483,603	552,181	613,560	76,730	3,130,894
<b>Timing of revenue</b> <b>recognition</b> Goods transferred at a point in time	1,404,820	483,603	552,181	613,560	76,730	3,130,894
Total revenue from contracts with customers	1,404,820	483,603	552,181	613,560	76,730	3,130,894



### 4. Revenue, other income and gains (Continued)

#### Revenue from contracts with customers (Continued)

Disaggregated revenue information (Continued) 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
<b>Type of goods or services</b> Sale of goods	1,088,810	363,942	470,732	217,133	63,158	2,203,775
		000,012		211,100		
Total revenue from contracts						
with customers	1,088,810	363,942	470,732	217,133	63,158	2,203,775
Geographical markets						
Mainland China	1,088,810	355,597	468,810	_	62,704	1,975,921
Other countries	_	8,345	1,922	217,133	454	227,854
Total revenue from contracts						
with customers	1,088,810	363,942	470,732	217,133	63,158	2,203,775
Timing of revenue recognition						
Goods transferred at a						
point in time	1,088,810	363,942	470,732	217,133	63,158	2,203,775
Total revenue from contracts						
with customers	1,088,810	363,942	470,732	217,133	63,158	2,203,775

### 4. Revenue, other income and gains (Continued)

		For the six months ended 30 June		
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000		
Other income and gains				
Bank interest income	45,782	23,557		
Government grants	66,160	23,010		
Investment income from financial assets at fair value				
through profit or loss	13,213	31,734		
Changes in fair value of investments	15,020	29,608		
Investment income from entrusted loans	-	903		
Foreign exchange gain, net	18,858	771		
Others	5,054	5,221		
	164,087	114,804		

### 5. Profit before tax

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

		For the six months ended 30 June		
	2019 2018   (Unaudited) (Unaudited)   RMB'000 RMB'000			
Depreciation of items of property, plant and equipment	98,750	79,221		
Amortisation of other intangible assets	99,964	69,589		
Amortisation of prepaid land lease payments	-	3,141		
Depreciation of right-of-use assets	12,067	—		
Operating lease expenses	5,046	11,271		
Auditor's remuneration	1,900	1,730		
Research and development costs	258,712	198,165		
Cost of inventories sold	699,006	447,281		
Foreign exchange gain, net	(18,858)	(771)		
Equity-settled share award expense	27,236	9,483		
Loss on disposal of non-current assets	159	340		

#### 6. Finance costs

		For the six months ended 30 June		
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000		
Interest on bank loans Amortised interest on discounted long-term payables Interest on discounted notes receivable Interest on lease liabilities	92,317 10,576 9,318 946	50,528  		
Finance charges payable under a hire purchase contract	-	16		
	113,157	50,544		

### 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		
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000		
Current tax: Income tax charge	141,095	95,364		
Under/(overprovision) in prior years Deferred tax	10,352 16,614	(2,820) 18,323		
Total tax charge for the period	168,061	110,867		



### 8. Dividends

		For the six months ended 30 June		
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000		
Final declared and paid — RMB0.057 (2017: RMB0.045) per ordinary share	185,124	148,999		
Interim — RMB0.059 (2018: RMB0.043) per ordinary share (note)	191,654	140,720		
	376,778	289,719		

Note: On 28 August 2019, the board of directors declared an interim dividend of RMB0.059 (equivalent to HK\$0.067) (the six months ended 30 June 2018: RMB0.043 (equivalent to HK\$0.051)) per share, amounting to a total of approximately RMB191,654,000 (the six months ended 30 June 2018: RMB140,720,000).

### 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 3,203,477,893 (the six months ended 30 June 2018: 3,209,434,467) 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		
	2019 (Unaudited) (Unaud RMB'000 RME		
<b>Earnings</b> Profit attributable to ordinary equity holders of the parent	766,616	562,879	

### 9. Earnings per share attributable to ordinary equity holders of the parent (Continued)

		For the six months ended 30 June		
	2019 (Unaudited)	2018 (Unaudited)		
Shares				
Weighted average number of ordinary shares in issue during the period Effect of dilution — weighted average number of ordinary shares under the share award scheme	3,203,477,893 15,147,097	3,209,434,467		
	3,218,624,990	3,220,888,591		

### 10. Property, plant and equipment

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Carrying amount at beginning of period Additions Depreciation provided during the period Exchange realignment Disposals	2,837,140 252,183 (98,750) (1,506) (2,183)	2,009,970 996,136 (166,289) 1,705 (4,382)
Carrying amount at end of period	2,986,884	2,837,140

As at 30 June 2019, the Group was applying for certificates of ownership for certain properties with a net book value of RMB1,571,000 (31 December 2018: RMB1,612,000). 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.

As at 30 June 2019, the Group has pledged property, plant and equipment of RMB211,173,000 (31 December 2018: Nil) to secure bank loans of RMB150,000,000 (31 December 2018: Nil) (note 18).



### **11. Other intangible assets**

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Carrying amount at beginning of period Additions Amortisation provided during the period Exchange realignment	4,445,063 90,494 (99,964) (6,129)	828,702 3,616,628 (144,614) 144,347
Carrying amount at end of period	4,429,464	4,445,063

### 12. Financial assets at fair value through profit or loss

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Current		
Investments in financial products, at fair value	1,623,622	1,842,346
Listed equity investment, at fair value	32,082	40,493
	1,655,704	1,882,839
Non-current		
Unlisted equity investments	1,263	1,263
	1,656,967	1,884,102

The investments in bank financial products represent investments in certain wealth management products issued by commercial banks with expected interest rates ranging from 3.25% to 4.15% 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 the unlisted equity investments which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

As at 30 June 2019, investments in financial products of RMB1,307,352,000 (31 December 2018: RMB1,335,000,000) were pledged to secure intra-group notes payable.

As at 30 June 2019, investments in financial products of RMB154,130,000 (31 December 2018: RMB25,000,000) were pledged to secure notes payable (note 17).

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# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

# 13. Equity investments designated at fair value through other comprehensive income

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
<b>Non-current</b> Listed equity investment, at fair value Unlisted equity investment, at fair value	2,157 68,758	2,200 74,168
	70,915	76,368

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

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

The fair value of the unlisted equity investments which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

### 14. Trade and notes receivables

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Trade receivables Notes receivable	1,301,386 461,172	1,143,778 391,999
Less: Impairment of trade receivables	1,762,558 (5,257)	1,535,777 (4,495)
	1,757,301	1,531,282

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.



#### 14. Trade and notes receivables (Continued)

As at 30 June 2019, notes receivable of RMB461,172,000 (31 December 2018: RMB391,999,000) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under IFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2019.

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 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Less than 3 months Between 3 and 6 months Between 6 and 12 months Between 1 and 2 years Over 2 years	1,214,528 52,323 18,026 14,307 2,202	824,520 277,068 32,564 8,077 1,549
	1,301,386	1,143,778

As at 30 June 2019, the Group has pledged notes receivable of RMB19,308,000 (31 December 2018: RMB127,372,000) and intra-group notes receivable of RMB1,930,000 (31 December 2018: Nil) to secure intra-group notes receivable of RMB21,238,000 (31 December 2018: RMB127,180,000).

As at 30 June 2019, the Group has pledged notes receivable of RMB2,968,000 (31 December 2018: RMB45,341,000) and intra-group notes receivable of RMB24,070,000 (31 December 2018: Nil) to secure notes payable of RMB27,038,000 (31 December 2018: RMB45,273,000) (note 17).

As at 30 June 2019, the Group has pledged notes receivable of RMB10,095,000 (31 December 2018: RMB2,126,000) and intra-group notes receivable of RMB961,000,000 (31 December 2018: RMB275,000,000) to secure short-term loans of EUR64,000,000 and US\$75,000,000 (31 December 2018: EUR15,000,000 and EUR30,000,000) (note 18).

The notes receivable are due within six months.

As at 30 June 2019, intra-group notes receivable of RMB720,000,000 (31 December 2018: RMB495,000,000) were discounted, and nil of notes receivable was discounted (31 December 2018: RMB7,722,000).

As at 30 June 2019, 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 RMB859,266,000 (31 December 2018: RMB223,041,000) (the "Endorsement"). The Endorsed Notes have a maturity from one to six months as at 30 June 2019. 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").

### 14. Trade and notes receivables (Continued)

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 RMB826,727,000 (31 December 2018: RMB188,867,000) (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 RMB32,539,000 as at 30 June 2019 (31 December 2018: RMB34,174,000) 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.

### 15. Prepayments, other receivables and other assets

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Other receivables Prepaid income tax Prepaid other tax Prepayments	91,727 12,282 47,692 106,160	101,962 34,689 21,919 99,332
Impairment allowance	257,861 (3,000) 254,861	257,902 (3,000) 254,902

An impairment analysis is performed at each reporting date by applying an expected credit loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions. As at 30 June 2019, the expected credit loss rate was close to zero, except default a credit impairment allowance of RMB3,000,000 (31 December 2018: RMB3,000,000).

### 16. Cash and cash equivalents and pledged time deposits

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Cash and bank balances	994,320	1,752,983
Time deposits	4,001,677	2,636,532
Less:	4,995,997	4,389,515
Pledged time deposits for letters of credit	(9,799)	(11,342)
Pledged time deposits for bank loans	(565,000)	(841,073)
Pledged time deposits for notes payable	(861,766)	(557,367)
Non-pledged time deposits with original		
maturity over three months when acquired	(2,286,520)	(1,306,868)
Cash and cash equivalents	1,272,912	1,672,865
Denominated in RMB	1,184,397	1,359,894
Denominated in US\$	50,066	145,301
Denominated in EUR	28,504	126,632
Denominated in others	9,945	41,038
Cash and cash equivalents	1,272,912	1,672,865

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.

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

As at 30 June 2019, restricted cash of RMB20,435,000 (31 December 2018: RMB20,341,000) 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. Restricted cash of RMB7,942,000 (31 December 2018: RMB8,004,000) represented an account balance held at China Minsheng Banking Corporation Limited. The account was opened for a bank loan of Luye Pharma Europe AG, which shall only be used for the payment of the interest, fees and principal of the loan. The borrower shall not utilise any amounts in the account without consent from the lender. The restricted cash 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 2019, time deposits of RMB565,000,000 (31 December 2018: RMB841,073,000) were pledged to secure bank loans (note 18).

As at 30 June 2019, time deposits of RMB758,966,000 (31 December 2018: RMB551,700,000) were pledged to secure intra-group notes payable.

As at 30 June 2019, time deposit of RMB102,800,000 was pledged to secure notes payable (31 December 2018: RMB5,667,000) (note 17).

### **17. Trade and notes payables**

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Trade payables Notes payable	284,217 283,968	201,151 78,599
	568,185	279,750



### 17. Trade and notes payables (Continued)

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

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Less than 3 months	485,423	263,980
Between 3 and 6 months	75,579	10,786
Between 6 and 12 months	4,646	2,779
Between 1 and 2 years	1,115	1,156
Over 2 years	1,422	1,049
	568,185	279,750

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

As at 30 June 2019, notes payable of RMB27,038,000 (31 December 2018: RMB45,273,000) were secured by the Group's notes receivable with a carrying amount of RMB2,968,000 (31 December 2018: RMB45,341,000) and the Group's intra-group notes receivable with a carrying amount of RMB24,070,000 (31 December 2018: Nil) (note 14).

As at 30 June 2019, notes payable of RMB102,800,000 (31 December 2018: RMB5,667,000) were secured by the Group's time deposit with a carrying amount of RMB102,800,000 (31 December 2018: RMB5,667,000) (note 16).

As at 30 June 2019, notes payable of RMB154,130,000 (31 December 2018: RMB25,000,000) were secured by the Group's investments in financial products with a carrying amount of RMB154,130,000 (31 December 2018: RMB25,000,000) (note 12).

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



### **18. Interest-bearing bank and other borrowings**

#### As at 30 June 2019

	Effective interest rate		
	(%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB30,000,000 bank loan	1-Year LPR+0.04	4 March 2020	30,000
RMB20,000,000 bank loan	1-Year LPR+0.04	4 March 2020	20,000
RMB200,000,000 bank loan	1-Year LPR+0.04	24 April 2020	200,000
RMB200,000,000 bank loan	1-Year LPR+0.04	26 April 2020	200,000
RMB31,694,074 bank loan	4.35	14 August 2019	31,694
RMB9,966,116 bank loan	4.35	17 September 2019	9,966
RMB15,221,298 bank loan	4.35	6 October 2019	15,223
RMB23,023,204 bank loan	4.35	6 November 2019	23,023
RMB28,021,305 bank loan	4.35	6 December 2019	28,021
RMB50,000,000 bank loan	4.35	18 October 2019	50,000
RMB80,000,000 bank loan	4.35	22 October 2019	80,000
RMB80,000,000 bank loan	4.35	17 July 2019	80,000
RMB70,000,000 bank loan	4.35	19 July 2019	70,000
RMB100,000,000 bank loan	4.20	30 July 2019	100,000
RMB60,000,000 bank loan	4.35	20 August 2019	60,000
RMB70,000,000 bank loan	4.35	12 September 2019	70,000
RMB150,000,000 bank loan	1-Year LPR+0.04	17 April 2020	150,000
RMB94,000,000 bank loan	4.35	25 April 2020	94,000
HK\$117,800,000 bank loan	1-Month HIBOR+1.50	14 July 2019	103,629
HK\$175,000,000 bank loan	1-Month HIBOR+1.10	9 May 2020	156,340
EUR30,000,000 bank loan	3-Month EURIBOR+0.70	30 October 2019	234,51(
EUR21,000,000 bank loan	3-Month EURIBOR+0.70	6 March 2020	164,157
EUR21,000,000 bank loan	3-Month EURIBOR+0.70	24 April 2020	164,157
EUR12,000,000 bank loan	3-Month EURIBOR+0.80	12 April 2020	93,804
EUR9,500,000 bank loan	3-Month EURIBOR+0.80	15 April 2020	74,261
EUR22,000,000 bank loan	1-Year LIBOR +1.01	27 March 2020	171,974
US\$30,000,000 bank loan	6-Month LIBOR+1.10	5 December 2019	206,241
US\$15,000,000 bank loan	3-Month LIBOR+0.80	24 April 2020	103,120
US\$40,000,000 bank loan	3-Month LIBOR+0.85	24 June 2020	274,988
US\$20,000,000 bank loan	1-Year LIBOR+1.30	24 June 2020	137,494
			,
iscounted notes receivable	3.25	10 July 2019	50,000
	3.45	20 December 2019	100,000
	3.65	16 January 2020	100,000
	3.30	14 January 2020	50,000
	3.65	20 August 2019	50,000
	3.45	27 February 2020	60,000
	3.32	20 March 2020	100,000
	3.40	3 April 2020	70,000
	3.40	18 July 2019	140,000
		10 July 2019	140,000



# 18. Interest-bearing bank and other borrowings (Continued)

#### As at 30 June 2019 (Continued)

	Effective interest rate (%)	Maturity	RMB'000
Current portion of long term bank loans — secured			
EUR6,000,000 bank loan	3-Month EURIBOR+1.70	13 August 2019	46,902
EUR9,000,000 bank loan US\$13,800,000 bank loan	3-Month EURIBOR+1.70 3-Month LIBOR+2.85	14 February 2020 30 June 2020	70,353 94,871
US\$1,800,000 bank loan	3-Month LIBOR+2.85	30 June 2020	12,526
Current portion of other borrowings — unsecured			18,226
			4,159,480
Non-current			
Bank loans - secured			
RMB150,000,000 bank loan	4.90	21 December 2020-	
		6 June 2025	150,000
EUR99,000,000 bank loan	3-Month EURIBOR+1.70	14 August 2020–	===
US\$15,657,000 bank loan	3-Month LIBOR+2.85	14 August 2023 30 June 2021–	773,883
000 10,007,000 Darik Idari		30 June 2025	107,650
US\$124,200,000 bank loan	3-Month LIBOR+2.85	30 June 2021–	
		30 June 2025	853,838
Other borrowings - unsecured			21,152
			1,906,523
			6,066,003

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### **18. Interest-bearing bank and other borrowings (continued)**

#### As at 31 December 2018

	Effective interest rate (%)	Maturity	RMB'000
	(70)	Waturity	
Current			
Bank loans — secured			
RMB400,000,000 bank loan	4.35	25 April 2019	400,000
RMB100,000,000 bank loan	4.35	5 February 2019	100,00
RMB50,000,000 bank loan	5.00	15 February 2019	50,00
RMB80,000,000 bank loan	5.00	22 February 2019	80,00
RMB69,000,000 bank loan	5.00	18 January 2019	69,00
RMB81,000,000 bank loan	5.00	16 January 2019	81,00
RMB100,000,000 bank loan	5.09	25 September 2019	100,00
RMB60,000,000 bank loan	4.40	22 February 2019	60,00
RMB5,000,000 bank loan	5.01	12 June 2019	5,00
RMB70,000,000 bank loan	5.00	12 February 2019	70,00
HK\$117,800,000 bank loan	1-Month HIBOR+1.50	11 March 2019	103,21
US\$299,003,804 bank loan	1-Month LIBOR+1.40	26 June 2019	2,052,11
U\$\$30,000,000 bank loan	6-Month LIBOR+1.10	5 December 2019	205,89
US\$25,000,000 bank loan	1-Year LIBOR+1.35	9 July 2019	171,58
EUR21,000,000 bank loan	1-Year EURIBOR+1.35	1 August 2019	164,79
EUR30,000,000 bank loan	3-Month EURIBOR+0.70	30 October 2019	235,41
EUR26,000,000 bank loan	3-Month EURIBOR+0.70	15 May 2019	204,03
EUR23,200,000 bank loan	1-Year EURIBOR+1.50	23 April 2019	182,05
EUR22,000,000 bank loan	3-Month EURIBOR+0.70	5 March 2019	172,64
EUR15,000,000 bank loan	6-Month EURIBOR+1.45	14 May 2019	117,71
EUR8,800,000 bank loan	1-Year EURIBOR+1.50	18 April 2019	69,05
Discounted notes receivable	3.90	27 January 2019	7,72
	3.75	26 January 2019	15,00
	4.35	28 June 2019	10,00
	3.85	18 October 2019	100,00
	3.65	18 October 2019	100,00
	3.20	18 October 2019	110,00
	3.30	18 October 2019	30,00
	3.35	18 October 2019	30,00
	3.45	18 October 2019	100,00
Current portion of long term bank loans — secured			
EUR6,000,000 bank loan	3-Month EURIBOR+1.70	13 February 2019	47,08
EUR6,000,000 bank loan	3-Month EURIBOR+1.70	13 August 2019	47,08
Current portion of long term finance lease payables	2.20	31 December 2019	15

5,290,547



### 18. Interest-bearing bank and other borrowings (Continued)

#### As at 31 December 2018 (Continued)

	Effective interest rate		
	(%)	Maturity	RMB'000
New summer			
Non-current Bank loans — secured			
EUR108,000,000 bank loan	3-Month EURIBOR+1.70	14 February 2020-	
E011100,000,000 bank loan		14 August 2023	847,508
		14 August 2020	047,000
Finance lease payables	2.20	1 January 2020–	
		30 August 2020	88
			847,596
			6,138,143

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

- (i) the pledge of certain of the Group's time deposits of RMB565,000,000 (31 December 2018: RMB841,073,000) (note 16);
- (ii) the pledge of certain of the Group's notes receivable of RMB10,095,000 (31 December 2018: RMB2,126,000) (note 14);
- (iii) the pledge of certain of the Group's intra-group notes receivable of RMB961,000,000 (31 December 2018: RMB275,000,000) (note 14); and
- (iv) the pledge of certain of the Group's property, plant and equipment of RMB211,173,000 (31 December 2018: Nil) (note 10).

### **19. Commitments**

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

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Contracted, but not provided for: Land and buildings	251,442	295,494
Plant and machinery Other intangible assets	291,506 1,961,429	489,968 1,966,641
	2,504,377	2,752,103

### 20. 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 certain directors of the Company

(a) The Group had the following transactions with related parties during the six months ended 30 June 2019 and 2018:

		For the six months ended 30 June	
	Notes	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Sales of products to Steward Cross	(i)	2,680	2,785
Sales of inventories to Shandong Boan	(ii)		846
Milestone payment for the acquisition of biological antibody drugs under research and development from Shandong Boan	(iii)	200,000	_



#### 20. Related party transactions (Continued)

(a) The Group had the following transactions with related parties during the six months ended 30 June 2019 and 2018: (Continued)

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 consideration was determined at the price mutually agreed between the parties.
- (b) Outstanding balances with related parties:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
<b>Due from related parties</b> Steward Cross Shandong Boan	1,519 1,838	2,135 681
	3,357	2,816

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

#### 21. Share award scheme

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

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

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

#### 21. Share award scheme (Continued)

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

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

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

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.



#### 21. Share award scheme (Continued)

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.

Pursuant to share award notices issued on 15 May 2019 to those selected employees, an aggregate of 25,206,000 shares (the "2019 Awarded Shares") of the Company of US\$0.02 each were granted at the consideration of HK\$4 for each share and the earliest vesting date of the 2019 Awarded Shares is 15 May 2022. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meet the expectation of the Company on daily performance.

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 2019 Granted on 15 May 2019	27,676,500 (25,206,000)	37,822,000 25,206,000
At 30 June 2019	2,470,500	63,028,000
Exercisable as at 30 June 2019	-	-
	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2018 Disposal Granted on 15 May 2018	48,194,500 (420,000) (20,098,000)	17,724,000 — 20,098,000

Exercisable as at 31 December 2018

At 31 December 2018

The fair value of the shares granted during the period was HK\$99,060,000 (HK\$3.93 each), and the Group recognised a share award expense of RMB27,236,000 during the period (the six months ended 30 June 2018: RMB9,483,000). Out of the share award expense, an amount of RMB563,000 was included in the directors' remuneration (the six months ended 30 June 2018: RMB366,000).

27,676,500

37,822,000

### **22. Financial instruments by category**

The carrying amounts of each of the categories of financial instruments as at 30 June 2019 and 31 December 2018 are as follows:

#### As at 30 June 2019 (Unaudited)

#### **Financial assets**

	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other				
comprehensive income	-	70,915		70,915
Notes receivable	-	461,172		461,172
Trade receivables	-		1,296,129	1,296,129
Financial assets included in prepayments, other receivables and				
other assets	-		88,727	88,727
Financial assets at fair value through profit or loss	1,656,967			1,656,967
Cash and cash equivalents	-		1,272,912	1,272,912
Time deposits with original maturity of over three months	_		2,286,520	2,286,520
Pledged time deposits	_		1,436,565	1,436,565
Restricted cash	_		28,377	28,377
Due from related parties	-		3,357	3,357
	1,656,967	532,087	6,412,587	8,601,641



### 22. Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at 30 June 2019 and 31 December 2018 are as follows: (Continued)

#### As at 30 June 2019 (Unaudited)

#### **Financial liabilities**

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
To de and actor a subles		500 405	500 405
Trade and notes payables	_	568,185	568,185
Financial liabilities included in			
other payables and accruals	—	2,208,339	2,208,339
Long-term payables	_	313,055	313,055
Derivative financial instruments	2,902		2,902
Interest-bearing bank and other borrowings	-	6,066,003	6,066,003
	2,902	9,155,582	9,158,484



### 22. Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at 30 June 2019 and 31 December 2018 are as follows: (Continued)

#### As at 31 December 2018 (Audited)

#### **Financial assets**

	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value				
through other comprehensive income	—	76,368	—	76,368
Notes receivable	—	391,999	—	391,999
Trade receivables	—	—	1,139,283	1,139,283
Financial assets included in prepayments,				
other receivables and other assets	—	—	98,962	98,962
Financial assets at fair value through				
profit or loss	1,884,102	—	—	1,884,102
Cash and cash equivalents	—	—	1,672,865	1,672,865
Time deposits with original maturity of over				
three months	—	—	1,306,868	1,306,868
Pledged time deposits	—	—	1,409,782	1,409,782
Restricted cash	—	—	28,345	28,345
Due from related parties			2,816	2,816
	1,884,102	468,367	5,658,921	8,011,390



#### 22. Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at 30 June 2019 and 31 December 2018 are as follows: (Continued)

#### As at 31 December 2018 (Audited)

#### **Financial liabilities**

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and notes payables	279,750	279,750
Financial liabilities included in	,	
other payables and accruals	2,219,217	2,219,217
Long-term payables	311,068	311,068
Interest-bearing bank and other borrowings	6,138,143	6,138,143
	8,948,178	8,948,178

### 23. Fair value and fair value hierarchy of financial instruments

During the reporting period, the fair values of the Group's financial instruments approximated to their respective carrying amounts.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

Management has determined that the carrying amounts of cash and cash equivalents, pledged time deposits, restricted cash, trade receivables, other receivables and other assets, amounts due from related parties, trade and notes payables, other payables and short-term interest-bearing bank and other borrowings, based on their notional amounts, reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

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

The carrying amounts of long-term interest-bearing bank loans, which incur interest at floating interest rate, also approximate to their fair values as the interest rate is periodically adjusted to market rate. The fair values of the long-term payables and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings and lease liabilities as at the end of the reporting period was assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income are based on recently executed transaction prices in securities of the issuer. The fair value of the unlisted equity investment at fair value through profit or loss has been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the management to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, which is price to book value ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by a book value measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to measure the fair value of the unlisted equity investment. The management believes that the estimated fair value resulting from the valuation technique, which is recorded in the consolidated statement of financial position, and the related change in fair values, which is recorded in the consolidated statement of profit and loss, are reasonable, and that it was the most appropriate value at the end of the reporting period.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group enters into derivative financial instruments with banks. Derivative financial instruments, including forward currency contracts, foreign currency swaps and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of banks, foreign exchange spot and forward rates and interest rate swaps are the same as their fair values.

The fair values of the notes receivable classified as financial assets at fair value through other comprehensive income under IFRS 9 as at 30 June 2019 have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within six months, thus their fair values approximate to their carrying values.



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

#### Fair value hierarchy

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

#### Assets measured at fair value:

#### As at 30 June 2019 (Unaudited)

	Fair value	Fair value measurement using		
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income Notes receivable Financial assets at fair value through	2,157 —	68,758 461,172		70,915 461,172
profit or loss	32,082	1,624,885		1,656,967
	34,239	2,154,815		2,189,054

#### As at 31 December 2018 (Audited)

	Fair value			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income Notes receivable	2,200	74,168 391,999		76,368 391,999
Financial assets at fair value through profit or loss	40,493	1,843,609		1,884,102
	42,693	2,309,776	_	2,352,469

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

#### Fair value hierarchy (continued)

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

LUYE PHARMA GROUP LTD.

#### Liabilities measured at fair value:

#### As at 30 June 2019 (Unaudited)

	Fair value	using		
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	_	2,902		2,902

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

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (the six months ended 30 June 2018: 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, and there were no transfers into or out of Level 3).

#### 24. Events after the reporting period

On 9 July 2019, the Company issued US\$300,000,000 1.50 per cent convertible bonds due 2024 (the "2024 Bonds"). For further details of the 2024 Bonds, please refer to the announcements of the Company dated 24 June 2019 and 9 July 2019. As disclosed in the poll results announcement of the Company dated 12 June 2019, resolutions were passed at the annual general meeting of the Company approving the giving of a general mandate (the "2019 Issue Mandate") to the Directors to allot, issue and deal with additional shares not exceeding 20% of the issued share capital of the Company, which limit is extended by the number of shares repurchased by the Company. On 16 July 2019, 6,000,000 Shares were cancelled in respect of shares repurchased by the Company under the previous general mandate to repurchase Shares (approved in the annual general meeting of the Company held on 11 June 2018).