



INTERIM
REPORT
2020



Pharma
绿叶制药

Luye Pharma Group Ltd.
绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

Stock Code: 2186

CONTENTS

Company Overview	02
Corporate Information	03
Financial Highlights	05
Management Discussion and Analysis	06
Other Information	18
Review Report of Interim Financial Information	23
Interim Condensed Consolidated Statement of Profit or Loss	24
Interim Condensed Consolidated Statement of Comprehensive Income	25
Interim Condensed Consolidated Statement of Financial Position	26
Interim Condensed Consolidated Statement of Changes in Equity	28
Interim Condensed Consolidated Statement of Cash Flows	30
Notes to the Interim Condensed Consolidated Financial Information	32

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 fastest growing therapeutic areas in the People’s Republic of China (“PRC” or “China”), the United States (“the U.S.”), Europe and other countries or districts, namely oncology, central nervous system (“CNS”), cardiovascular system, alimentary tract and metabolism. The Group has a portfolio of over 30 products, covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets.

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in the first half of 2020. The Group’s sales, marketing and distribution functions are conducted through around 1,000 sales and marketing personnel, a network of approximately 1,700 distributors that collectively enabled the Group to sell its products to over 16,700 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 R&D activities are organised around four platforms in chemical drug sector — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. After completion of the acquisition of Shandong Boan Biological Technology Co., Ltd. (“Shandong Boan”) in February 2020, the Group has expanded its R&D capability to biological sector supported by Shandong Boan’s four largest cutting-edge platforms, namely Human Antibody Transgenic Mouse and Phage Display Technology, Bispecific T-cell Engager Technology, Antibody-drug Conjugate (“ADC”) Technology and Nanobody Platform. The Group balances clinical development risk by strategically allocating its resources between proprietary formulations of proven compounds and new chemical entities as well as biosimilars and novel antibodies. As at 30 June 2020, the Group’s R&D team consisted of 887 employees, including 87 Ph.D. degree holders and 430 Master’s degree holders in medical, pharmaceutical and other related areas.

As at 30 June 2020, the Group had been granted over 231 patents and had over 77 pending patent applications in the PRC, as well as over 672 patents and over 119 pending patent applications overseas.

As at 30 June 2020, the Group had 31 PRC pipeline product candidates in various stages of development. These candidates included 12 oncology products, 14 CNS products and 5 other products.

Also, the Group had 12 pipeline product candidates in the U.S., Europe and Japan in various stages of development.

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-Executive 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
 People's Republic of China
 (postal code: 264003)

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

Principal Place of Business in Hong Kong

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

Principal Share Registrar and Transfer Office

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

CORPORATE INFORMATION

Hong Kong Share Registrar

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

Legal Advisers

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

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

Auditor

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

Stock Code

2186

Company's Website

www.luye.cn

Principal Bankers

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

FINANCIAL HIGHLIGHTS

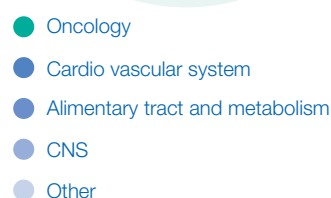
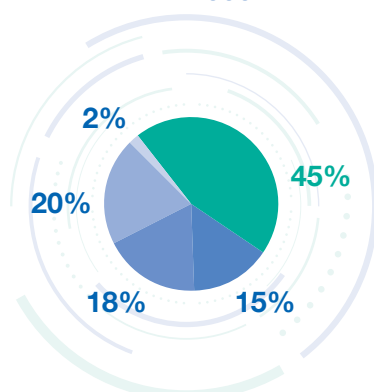
- Revenue decreased by RMB168.9 million or 5.4% to RMB2,962.2 million, as compared to the six months ended 30 June 2019.
- Gross profit decreased by RMB234.2 million or 9.6% to RMB2,197.9 million, as compared to the six months ended 30 June 2019, and gross profit margin was 74.2%.
- Net profit decreased by RMB155.0 million or 22.3% to RMB540.3 million, as compared to the six months ended 30 June 2019. Normalised Net Profit* decreased by RMB64.6 million or 9.3% to RMB630.7 million as compared to the six months ended 30 June 2019.
- Profit attributable to shareholders decreased by RMB191.8 million or 26.2% to RMB539.4 million, as compared to the six months ended 30 June 2019.
- EBITDA decreased by RMB38.8 million or 3.2% to RMB1,162.2 million, as compared to the six months ended 30 June 2019. Normalised EBITDA* decreased by RMB15.3 million or 1.3% to RMB1,185.8 million as compared to the six months ended 30 June 2019.
- Earnings per share was RMB16.90 cents compared to RMB22.83 cents for the six months ended 30 June 2019.
- No interim dividend was proposed by the board (the "Board") of director (the "Directors") of the Company for the six months ended 30 June 2020.

* Normalised EBITDA and Normalised Net Profit are defined as the EBITDA and net profit excluding convertible bond interest and fair value adjustment of contingent considerations.

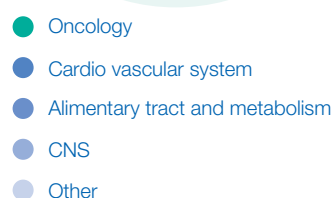
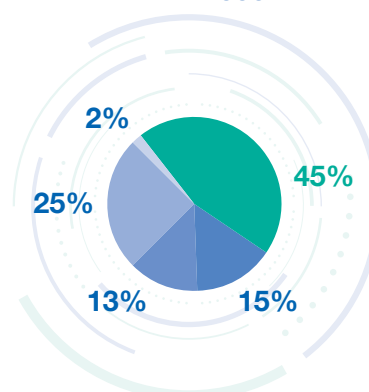
* Note: Prior period numbers have been restated due to a business combination involving entities under common control. Further details are included in note 2 of the interim condensed consolidated financial information.

	2016 RMB Million Restated	2017 RMB Million Restated	2018 RMB Million Restated	2019 RMB Million Restated	30 June 2019 RMB Million Restated	30 June 2020 RMB Million
Revenue	2,945.5	3,812.2	5,172.5	6,357.7	3,131.1	2,962.2
Gross Profit	2,413.0	2,963.4	4,049.4	4,879.2	2,432.1	2,197.9
EBITDA	1,150.0	1,291.8	1,781.1	2,385.4	1,201.1	1,162.2
Net Profit	883.5	837.7	1,094.7	1,353.3	695.3	540.3
Profit attributable to owners of the Parent	883.2	914.4	1,204.3	1,398.9	731.2	539.4
Total Assets	9,310.9	10,795.1	17,590.5	19,263.0	18,512.7	19,564.9
Total Liability	2,822.5	4,115.5	10,084.2	10,457.4	10,491.9	11,742.2
Equity	6,488.4	6,679.6	7,506.3	8,805.6	8,020.8	7,822.7

30 June 2019
RMB'000



30 June 2020
RMB'000



MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fastest growing therapeutic areas in the People's Republic of China ("PRC" or "China"), the United States ("the U.S."), Europe and other countries or districts, namely oncology, central nervous system ("CNS"), cardiovascular system, alimentary tract and metabolism. The Group has a portfolio of over 30 products, covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets. During the six months ended 30 June 2020, the Group's business was influenced by COVID19 and global economic fluctuations but still maintained stably. The Group recorded a revenue decrease of 5.4% in the first half of 2020 as compared to that of 2019. The Group continually invests in R&D to maintain its competitiveness, and has a robust product pipeline including 31 China pipeline product candidates and 12 U.S., Europe and Japan pipeline product candidates.

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 largest market in China for pharmaceutical products in the first half of 2020. The Group's portfolio of oncology products includes Lipusu, the second largest domestic pharmaceutical product for cancer treatment in China in the first half of 2020 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 2020. 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 second largest vasoprotective pharmaceutical product in China in the first half of 2020, respectively. According to IQVIA, alimentary tract and metabolism-related pharmaceutical products constituted the second largest market for pharmaceutical products in the PRC in the first half of 2020. According to IQVIA, the Group was the third largest domestic pharmaceutical manufacturer of oral diabetic medications in China in the first half of 2020 measured by revenue. IQVIA data showed that central nervous system-related pharmaceutical products constituted the fourth largest market for pharmaceutical products in the PRC in the first half of 2020. The Group's key product Seroquel was the third largest product in schizophrenia therapeutic area and the largest quetiapine product in terms of sales in the PRC in the first half of 2020.

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 2020, the Group's revenue from sales of oncology products decreased by 5.0% to RMB1,334.2 million, while revenue from CNS products increased by 21.6% to RMB746.3 million. Revenue from alimentary tract and metabolism products and cardiovascular system products decreased by 29.1% and 11.2% to RMB391.3 million and RMB429.5 million respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

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[®] (力撲素[®])

Lipusu is the Group's proprietary formulation of paclitaxel using an innovative liposome injection delivery vehicle and a chemotherapy treatment of certain types of cancer. According to IQVIA, the market for oncology pharmaceutical products in the PRC was RMB47.9 billion in the first half of 2020 and measured by revenue, Lipusu was the second largest domestic pharmaceutical product for cancer treatment in China in the first half of 2020, as well as the most popular paclitaxel product in China in the first half of 2020. As of 30 June 2020, Lipusu represented the first and only paclitaxel liposome product approved for sale globally.

CMNa[®] (希美納[®])

CMNa is sodium glycididazole, a proprietary compound that the Group prepares in injectable form and is indicated for use in connection with radiotherapy for certain solid tumours. It is a Class I New Chemical Drug and the only 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 2020. An independent third party study in 2009 concluded that the use of CMNa for the treatment of certain cancers increased the probability of complete or partial remission and reduced overall treatment costs.

Xuezhikang[®] (血脂康[®])

Xuezhikang is the Group's proprietary 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 2020. 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 RMB4.6 billion in the first half of 2020. According to IQVIA, Xuezhikang ranked as the most popular natural medicine for the treatment of hypercholesterolaemia in China in the first half of 2020.

Maitongna[®] (麥通納[®])

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral edema and edema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IQVIA, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB1.5 billion in the first half of 2020. Maitongna was the best-selling sodium aescinate product in China in the first half of 2020 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in the first half of 2020.

Bei Xi[®] (貝希[®])

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to the NMPA, the Group was the only manufacturer of acarbose in capsule form in the first half of 2020. According to IQVIA, the market for acarbose products in China was estimated to be approximately RMB1.6 billion in the first half of 2020 and Bei Xi ranked as the third most popular acarbose product in China in the first half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Rivastigmine Transdermal Patches (the “Rivastigmine Patch”)

The Rivastigmine Patch is rivastigmine in transdermal patches form approved by the Food and Drug Administration of the United States (“U.S. FDA”) and the NMPA, indicated for mild to moderate dementia of the Alzheimer’s type and dementia due to Parkinson’s disease.

Seroquel® (思瑞康®) and Seroquel XR® (思瑞康緩釋片®)

Seroquel (quetiapine fumarate, immediate release, IR) and Seroquel XR (extended release formulation) are atypical anti-psychotic medicines with antidepressant properties. The main indications for Seroquel are the treatment of schizophrenia and bipolar disorder. Seroquel XR is also approved in some markets for major depressive disorder and generalised anxiety disorder. According to IQVIA, Seroquel was the third largest product in schizophrenia therapeutic area and the largest quetiapine product in the PRC in the first half of 2020.

Research and Development

The Group’s R&D activities are organised around four platforms in the chemical drug sector — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. After completion of the acquisition of Shandong Boan in February 2020, the Group has expanded its R&D capability to biological sector supported by Shandong Boan’s four largest cutting-edge platforms, namely Human Antibody Transgenic Mouse and Phage Display Technology, Bispecific T-cell Engager Technology, Antibody-drug Conjugate (“ADC”) Technology and Nanobody Platform. The Group balances clinical development risks by strategically allocating its resources between proprietary formulations of proven compounds and new chemical entities as well as biosimilars and novel antibodies. The Group believes that its R&D capabilities will be the driving force behind the Group’s long-term competitiveness, as well as the Group’s future growth and development. As at 30 June 2020, the Group’s R&D team consisted of 887 employees, including 87 Ph.D. degree holders and 430 Master’s degree holders in medical, pharmaceutical and other related areas. As at 30 June 2020, the Group had been granted over 231 patents and had over 77 pending patent applications in the PRC, as well as over 672 patents and over 119 pending patent applications overseas.

The Group will continue to invest in the three innovative platforms, namely New Drug Delivery Systems (“NDDS”), New Chemical Entity (“NEC”) and Biotech to develop new products in four strategic therapeutic areas — oncology, CNS, cardiovascular and alimentary tract and metabolism. As at 30 June 2020, the Group had 31 PRC pipeline product candidates in various stages of development. These candidates included 12 oncology products, 14 CNS products and 5 other products.

Also, the Group had 12 pipeline product candidates in the U.S., Europe and Japan in various stages of development. In the U.S., two pipeline product candidates (LY03004 and LY03005) have filed New Drug Application (“NDA”) and two pipeline product candidates (LY03003, LY03010) are in different clinical stages. LY06006/LY01011 has received investigational new drug (“IND”) approval from the U.S. FDA, as the Group’s first biosimilar IND approval in the U.S.. In Europe, one pipeline product candidate (LY30410) has submitted Marketing Authorization Application (“MAA”) and one product (LY03004) is under clinical trial stage. In Japan, two pipeline product candidates (LY03003 and LY03005) are under clinical trial stages.

MANAGEMENT DISCUSSION AND ANALYSIS

For overseas R&D progress:

In January 2020, the Company received a complete response letter (the “CRL”) from the U.S. FDA regarding its NDA for LY03004, an Extended-Release Microspheres for Injection administered biweekly for the treatment of schizophrenia and bipolar I disorder. The CRL requested additional information and the satisfactory resolution of inspection issues of the active pharmaceutical ingredient (“API”) manufacturing facility before the relevant application may be approved. Previously, the manufacturing facility of the Group located in Yantai, China for the manufacturing of LY03004 successfully passed a PAI with no FDA-483, Inspection Observation.

In March 2020, the U.S. FDA has completed the filing review and has determined to accept the filing for LY03005, a new chemical drug for the treatment of major depressive disorder, in accordance with 505(b)(2) of the Federal Food, Drug and Cosmetic Act and 21 CFR § 314.50.

In May 2020, Shandong Boan has submitted the IND application for its recombinant anti-RANKL fully human monoclonal antibody injection (Denosumab Injection, LY06006/LY01011) product to the U.S. FDA. It is the first overseas IND application regarding a biopharmaceutical product of the Group. In June 2020, Shandong Boan has obtained the approval to initiate clinical trials.

In May 2020, the MAA within the European territory for Rivastigmine Multi-day Transdermal Patch (“Rivastigmine MD” or “LY30410”), an innovative delivery system drug being developed by the Group for the treatment of Alzheimer’s disease, has been accepted for review by EU competent authorities.

For China R&D progress:

In March 2020, the Group’s Class 1 new drug LPM3480392 injection (“LY03014”) has obtained the approval from the CDE to initiate clinical trials. LY03014 is a small molecule Gi protein biased at mu-opioid receptor agonist, indicated for the treatment of postoperative moderate-to-severe acute pain and breakthrough cancer pain.

In April 2020, the MAA for Bevacizumab injection (LY01008, biosimilar to Avastin[®]) has been accepted by CDE, NMPA. The product was developed by Shandong Boan.

In June 2020, the marking registration of Rivastigmine Patch (金斯明[®]) has been approved by the NMPA. It is the first transdermal patch product approved for marketing according to the requirements of quality and efficacy consistency evaluation.

In June 2020, the clinical trial application of the Group’s innovative products, Hydrochloride Irinotecan Floxuridine Liposome Injection (“LY01616”) has received formal acceptance from CDE, NMPA. Irinotecan combined with fluorouracil is one of the first choices for the chemotherapy treatment of advanced colorectal cancer. LY01616 is an innovative combinational liposome formulation loaded with irinotecan and floxuridine, indicated for the treatment of colorectal cancer. Currently there is no same drug product launched globally.

In June 2020, the IND application of Rivastigmine Multi-Day Transdermal Patch (LY03013) developed by the Group for the treatment of Alzheimer’s disease has been formally accepted by CDE, NMPA. The product has submitted MAA in the Europe.

In June 2020, the Group’s synthetic class one new drug LPM4870108 tablets (“LY01018”), a smallmolecule inhibitor of NTRK with independent intellectual property right, has received formal acceptance of IND application from the CDE. This drug is designed for the treatment of NTRK fusion positive cancer patients with different tumor types and patients with drug resistance to the first generation NTRK inhibitor.

MANAGEMENT DISCUSSION AND ANALYSIS

In August 2020, Lurbinectedin for injection (LY01017), a product of the Group licensed in from Pharma Mar, S.A. (“PharmaMar”), has obtained the approval from CDE, NMPA to initiate clinical trials. Lurbinectedin indicated for Small Cell Lung Cancer (SCLC) is an inhibitor of RNA polymerase II. RNA polymerase II is an enzyme that is essential for the transcription process that is over-activated in tumors with transcriptional addiction. In June 2020, the U.S. FDA has approved Lurbinectedin (brand name: Zepzelca™) for the treatment of adult patients with metastatic Small Cell Lung Cancer who suffered from relapse, after platinum-based chemotherapy. Besides, NDAs have also been submitted in relation to Lurbinectedin in Switzerland, Canada and Israel.

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 2020. The Group’s sales, marketing and distribution functions are conducted through around 1,000 sales and marketing personnel, a network of approximately 1,700 distributors that collectively enabled the Group to sell its products to over 16,700 hospitals, which comprised approximately 1,800 or approximately 83.0% of all Class III hospitals, approximately 4,900 or approximately 60.0% of all Class II hospitals and approximately 10,000 or approximately 49.0% of all Class I and other hospitals and medical institutions, in the PRC in the first half of 2020. 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.

During the 2020 national volume-based procurement in China, Bei Xi was one of the two successful tenders. Given that the market share of Bei Xi in Acarbose market in China was only 6.4% in 2019, the directors of the Company (the “Directors”) expect that the successful tender will significantly increase its market share and facilitate the product’s entry into new provincial markets in China.

For international markets, the business 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.

In February 2020, the Group granted Cipla Medpro South Africa (Pty) Limited the exclusive distribution and marketing rights for Seroquel® and Seroquel XR® in South Africa, Namibia and Botswana. In May 2020, the Group granted Moksha8 Brasil Distribuidora e Representação de Medicamentos Ltda. and Moksha8 Farmacéutica, S. de R.L. de C.V. the exclusive promotion right for Seroquel® and Seroquel XR® in Brazil and Mexico; and granted Alvogen Korea Co., Ltd. the exclusive distribution and marketing rights for Seroquel® and Seroquel XR® in South Korea.

Merger & Acquisition (“M&A”)

In February 2020, the Group completed the acquisition of 98.0% equity interest in Shandong Boan. Shandong Boan is a biotechnology company that develops biopharmaceutical products (including biosimilar and innovative drugs) with a focus on oncology, CNS, diabetes and immune diseases. Through the strategic acquisition of Shandong Boan, a company with a proven track record in the R&D of biosimilars and innovative drugs, the Group hopes to not only further expand and diversify its pipeline product portfolio, but also further accelerate its growth and penetration in the fast-growing biopharmaceutical sub-segment.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board believes that Shandong Boan's portfolio of biosimilar and innovative products is highly complementary to the Group's existing core strengths and such acquisition will assist the Group in maintaining its position as a leading pharmaceutical player in China. In addition, Shandong Boan's novel antibody products have the potential to provide the Group with numerous excellent growth opportunities in the longer term.

Industry Risk

In the past two years, the National Healthcare Security Administration ("NHSA") has organised three rounds of volume-based procurement. In the first round of "4+7" volume-based procurement, 25 drugs won the bid with an average price cut of 51.0%. In the second round of volume-based procurement in the "Alliance area", the 25 products cut price 24.0% on average compared with the first round of "4+7" round. While in the third round of 2020 national volume-based procurement in 31 provinces and cities, another 32 drugs won the bid with an average price cut of 55.0%.

The Group's major product Bei Xi was included in the third round of 2020 national volume-based procurement with a price cut of approximately 60.0%. Even if the sales volume will significantly increase, there still be an uncertainty of its sales value growth.

In the most recent volume-based procurement organised in August 2020, there are 56 products on the procurement list. Quetiapine fumarate, immediate release was included in the list and the Group's product Seroquel, as the originator, did not win the bidding. Three generic products won the bidding with a price cut of approximately 60 percent.

With the further advancement of medical reform, volume-based procurement will become the core task of NHSA. It is generally believed that the drug volume-based procurement is expected to be fully implemented and become the standard practice in China.

For the National Drug Reimbursement List ("NDRL"), a yearly dynamic management has becoming the new normal.

Furthermore, the short-term volatility effects on the industry caused by the pandemic of COVID-19 is inevitable.

Outlook

Due to policy and market factors as well as the pandemic of COVID-19, the Chinese pharmaceutical industry recorded a decrease in revenue of 18.5% in the first half of 2020 according to IQVIA, while the Group outperformed the industry by just recording a decrease in revenue of 5.4%.

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 pharmaceutical companies' developments. In recent years, policies such as volume-based procurement and reimbursement have been creating significant impacts to the industry.

During the 2020 national volume-based procurement, the Group's major product Bei Xi was one of the two successful tenders. Given that the market share of Bei Xi in Acarbose market in China was only 6.4% in 2019, the successful tender is expected to significantly increase its market share and facilitate the product's entry into more new provincial markets.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group also put a lot of effort on the academic studies of the marketed products. The Group's major product Lipusu has been recommended under the 2020 Chinese Society of Clinical Oncology (中國臨床腫瘤學會) ("CSCO") guidelines (the "Guidelines") on diagnosis and treatment of breast cancer for first-line rescue chemotherapy for Her2-negative advanced breast cancer. The Group believes that the inclusion of Lipusu in the Guidelines represents a high recognition of its clinical value, which will significantly increase its penetration into the relevant indications.

For the six months ended 30 June 2020, 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 pipeline product candidates.

As described above, during the six months ended 30 June 2020, the Group has made remarkable progresses in R&D fields. In China, the marking registration of Rivastigmine Patch (金斯明®) has been approved by NMPA; the MAA for LY01008 has been accepted by CDE, NMPA; the clinical trial application of LY03014 and LY01017 has been approved by CDE, NMPA; the IND application of LY01616, LY03013 and LY01018 have been formally accepted by CDE, NMPA. Internationally, the NDA of LY03005 has been formally accepted by the U.S. FDA; the clinical trial application of LY06006/LY01011 has been approved by the U.S. FDA; the MAA of LY30410 has been accepted for review by EU competent authorities; the Group received the CRL regarding the NDA of LY03004 from the U.S. FDA and is working closely with its API partners and the U.S. FDA to address the issues raised in the letter.

For M&A, the acquisition of Shandong Boan is expected to not only expand and diversify the Group's pipeline portfolio, but also accelerate its growth and penetration in the fast-growing biopharmaceutical sub-segment.

For sales and distribution, the penetration into lower-tier hospitals is deepening. Backed by sales of Seroquel and Seroquel XR and the upcoming Rivastigmine Patch and LY03004, the Group has built a CNS sales team of over 100 representatives.

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 manufacturing site for transdermal patches in Miesbach, Germany, has maintained operations with no significant disruptions by COVID-19.

Looking forward to the whole year, significant changes have taken place for the macro-economic environment. The outbreak of the COVID-19 and the global economic fluctuations have brought new challenges to the daily operation of the industry. Facing these challenges, the Group needs to further improve the management efficiency and put more efforts to the R&D of key products, speeding up the launch of the pipeline product candidates. Externally, the Group will keep penetrating into the domestic and international markets with advantages, widely seeking outside cooperation opportunities to ensure the business maintains high-quality and healthy growth.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

For the six months ended 30 June 2020, the Group's revenue amounted to approximately RMB2,962.2 million, as compared to RMB3,131.1 million for the six months ended 30 June 2019, representing an decrease of approximately RMB168.9 million, or 5.4%. The decrease is mainly attributable to drop in sales growth of some of the Group's key products.

For the six months ended 30 June 2020, the Group's revenue from sales of oncology products decreased to RMB1,334.2 million, as compared to RMB1,404.8 million for the six months ended 30 June 2019, representing a decrease of approximately RMB70.6 million, or 5.0%, primarily attributable to the decrease in sales volume and average selling price of some oncology products of the Group.

For the six months ended 30 June 2020, revenue from sales of cardiovascular system products decreased to RMB429.5 million, as compared to RMB483.6 million for the six months ended 30 June 2019, representing a decrease of approximately RMB54.1 million, or 11.2%, primarily attributable to the decrease in sales volume of few cardiovascular system products of the Group.

For the six months ended 30 June 2020, revenue from sales of alimentary tract and metabolism products decreased to RMB391.3 million, as compared to RMB552.2 million for the six months ended 30 June 2019, representing a decrease of approximately RMB160.9 million, or 29.1%, primarily attributable to the decrease in average selling price of various alimentary tract and metabolism products of the Group.

For the six months ended 30 June 2020, revenue from sales of CNS products increased to RMB746.3 million, as compared to RMB613.6 million for the six months ended 30 June 2019, representing an increase of approximately RMB132.7 million or 21.6%, primarily attributable to the increase in sales of CNS products.

For the six months ended 30 June 2020, revenue from sales of other products decreased to RMB60.8 million, as compared to RMB77.0 million for the six months ended 30 June 2019, representing a decrease of approximately RMB16.2 million, or 21.0%, primarily attributable to the decrease in sales volume of various other products of the Group.

Cost of Sales

The Group's cost of sales increased from RMB699.0 million for the six months ended 30 June 2019 to approximately RMB764.3 million for the six months ended 30 June 2020, which accounted for approximately 25.8% of the Group's total revenue for the same period.

Gross Profit

For the six months ended 30 June 2020, the Group's gross profit decreased to RMB2,197.9 million, as compared to RMB2,432.1 million for the six months ended 30 June 2019, representing a decrease of approximately RMB234.2 million, or 9.6%. The gross profit margin of 74.2% decreased slightly as compared to 77.7% for the six month ended 30 June 2019. mainly due to the drop in selling price of some products and higher sales of slightly lower margin products.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020, the Group's other income and gains increased to RMB181.6 million, as compared to RMB165.7 million for the six months ended 30 June 2019, representing an increase of approximately RMB15.9 million, or 9.6%. The increase is mainly attributable to increase in government grants recognised during the period.

Selling and Distribution Expenses

The Group's selling and distribution expenses consisted of expenses that were directly related to the Group's marketing, promotion and distribution activities. For the six months ended 30 June 2020, the Group's selling and distribution expenses amounted to RMB873.9 million, as compared to RMB1,008.7 million for the six months ended 30 June 2019, representing a decrease of RMB134.8 million, or 13.4%. The decrease was mainly attributable to decrease in promotion expenses, travelling expenses, conference expenses and staff costs. On the other hand, as a percentage of revenue, the Group's selling and distribution expenses decreased from 32.2% for the six months ended 30 June 2019 to 29.5% for the six months ended 30 June 2020, primarily as a result of the lower selling and distribution expense margin and higher sales of lower expense product.

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 2020, the Group's administrative expenses amounted to approximately RMB248.0 million, as compared to RMB258.7 million for the six months ended 30 June 2019, representing a decrease of approximately RMB10.7 million, or 4.1%. The slight decrease is primarily attributable to lower staff cost, transportation and conference expenses during the period.

Other Expenses

The Group's other expenses primarily consisted of its R&D costs, changes in fair value of financial instruments, donations, loss on disposals of property, plant and equipment and miscellaneous expenses. For the six months ended 30 June 2020, the Group's other expenses amounted to approximately RMB351.0 million, as compared to RMB346.7 million for the six months ended 30 June 2019, representing an increase of approximately RMB4.3 million, or 1.2%. The increase was mainly due to a fair value adjustment on contingent considerations during the period.

Finance Costs

For the six months ended 30 June 2020, the Group's finance costs amounted to RMB223.0 million, as compared to RMB120.6 million for the six months ended 30 June 2019, representing an increase of approximately RMB102.4 million, or 84.9%. The increase was mainly due to the higher level of monthly average outstanding bank borrowings and convertible bond interests during the six months ended 30 June 2020 as compared to the corresponding period of 2019.

Income Tax Expense

For the six months ended 30 June 2020, the Group's income tax expense amounted to RMB144.2 million, as compared to RMB168.1 million for the six months ended 30 June 2019, representing a decrease of RMB23.9 million, or 14.2%. The effective tax rate for the six months ended 30 June 2020 and 2019 were 21.1% and 19.5%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Profit

The Group's net profit for the six months ended 30 June 2020 was approximately RMB540.3 million, as compared to RMB695.3 million for the six months ended 30 June 2019, representing a decrease of approximately RMB155.0 million, or 22.3%.

Liquidity, Financial and Capital Resources

Net Current Assets

As at 30 June 2020, the Group had net current assets of approximately RMB2,868.3 million, as compared to approximately RMB3,790.2 million as at 31 December 2019. The current ratio of the Group decreased slightly to approximately 1.5 as at 30 June 2020 from approximately 1.7 as at 31 December 2019. The decrease in net current assets was mainly attributable to higher level of loans and borrowings in current liability.

Borrowings and Pledge of Assets

As at 30 June 2020, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB7,077.9 million, as compared to approximately RMB6,718.6 million as at 31 December 2019. Amongst the loans and borrowings, approximately RMB4,406.2 million are repayable within one year, and approximately RMB2,671.6 million are repayable after one year. RMB3,709.6 million of the loans and borrowings of the Group carried interest at fixed interest rate. The increase in loans and borrowing was mainly for working capital of the Group. The bank loans were secured by the Group's time deposits, property, plant and equipment and notes receivable. As at 30 June 2020, the Group's borrowings were primarily denominated in RMB, Euro, HK dollar and U.S. dollar, and the cash and cash equivalents were primarily denominated in RMB and U.S. dollars.

Gearing Ratio

As at 30 June 2020, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, increased to 90.5% from 76.3% as at 31 December 2019. The increase was primarily due to the decrease in the Group's total equity after the acquisition of a subsidiary under common control and increase in the Group's total borrowings taken during the reporting period. If the Group did not take in the acquisition, the gearing ratio will be 72.3% as at 30 June 2020.

Contingent Liabilities

As at the date of this interim report, a subsidiary of the Group was involved in arbitration proceedings commenced by the previous distributor of Seroquel in Mainland China disputing the subsidiary's basis of terminating the distribution agreement with such distributor. The Directors, based on information currently available to the Group and preliminary assessment taking into account the advice from the Group's relevant legal counsel in relation to the arbitration proceedings, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the arbitration, other than for the related legal and other costs.

Foreign Exchange and Exchange Rate Risk

The Group primarily operates in the PRC and is exposed to foreign currency risk arising from fluctuations in exchange rate between RMB and other currencies in which the Group conducts its business. The Group is subject to foreign currency risk attributable to the bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. The Group seeks to limit the exposure to foreign currency risk by minimising its net foreign currency position. The Group did not enter into any hedging transactions in respect of foreign currency risk as at 30 June 2020. The Directors expect that the fluctuation of the RMB exchange rate will not have a material adverse effect on the operation of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Convertible Bonds

On 9 July 2019, the Company issued 1.50 per cent convertible bonds with an aggregate principal amount of US\$300,000,000. There was no movement in the number of these convertible bonds during the period. The bonds are convertible at the option of the bondholders into ordinary shares with the initial conversion price of HK\$8.15 per share at any time on or after 19 August 2019 and up to the close of business on the date falling ten days prior to 9 July 2024. The conversion price of the bonds was adjusted to HK\$7.90 per share with effect from 3 July 2020 as a result of the declaration of dividends. The bonds are redeemable at the option of the bondholders at a 3.75 per cent gross yield upon early redemption. Any convertible bonds not converted will be redeemed on 9 July 2024 at 112.25 per cent of its principal amount together with accrued but unpaid interest thereon. The bonds carry interest at a rate of 1.50 per cent per annum, which is payable semi-annually in arrears on 9 January and 9 July. The Board considers that the issue of the convertible bonds represents an opportunity to improve the liquidity position of the Group and to replace certain short term loans of the Group. None of the convertible bonds were repaid or redeemed during the period.

The net proceeds from the convertible bonds, after deducting all the related costs and expenses, was approximately US\$296,430,000. As of 30 June 2020, the proceeds have been used for refinancing onshore and offshore indebtedness and general corporate purposes, as disclosed in the announcement dated 24 June 2019.

- **Use of proceeds of the Bonds**

The net proceeds from Bonds (after deduction of commissions and other related expenses) are approximately US\$296,430,000. The Group intends to apply the net proceeds from the issue of the Bonds for refinancing the Group's indebtedness and general corporate purposes. As of 30 June 2020, US\$296,430,000 (of which US\$101,619,500 was used during the six months ended 30 June 2020) of the net proceeds of the Bonds were allocated or applied to repaying loans and other general corporate purposes.

- **Conversion price and shares to be issued upon full conversion**

The initial conversion price of the Bonds was HK\$8.15 per share and was adjusted to HK\$7.90 per Share with effect from 3 July 2020. Assuming full conversion of the Bonds, the total number of shares issued by the Company would be 296,760,759 Shares.

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 2020, no awards were made under the Scheme.

Hedging Activities

As at 30 June 2020, the Group did not use any financial instruments for hedging purposes and did not enter into any hedging transactions in respect of foreign currency risk or interest rate risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Investments Held

As at 30 June 2020, 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.

Employees and Remuneration Policy

As at 30 June 2020, the Group employed a total of 4,822 employees, as compared to a total of 4,851 employees as at 31 December 2019. The staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB405.3 million for the six months ended 30 June 2020 as compared to RMB390.8 million for the corresponding period in 2019. 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 Reporting Period

The Group did not have any significant subsequent events after the interim period ended 30 June 2020.

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 Europe AG (formerly known as Luye Pharma Switzerland AG) ("LPEU") and a bank (the "Bank"), the Bank has agreed to grant to LPEU a term loan facility of up to EUR120 million for a term of 60 months from the date of initial utilisation under the August Facility Agreement. Under the August Facility Agreement, in the event that Luye Pharmaceutical Investment Co., Ltd. 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.

Legal Proceedings

A subsidiary of the Group is currently involved in an arbitration brought by the former distributor of Seroquel in Mainland China disputing the subsidiary's basis of terminating the distribution agreement with such distributor. The Directors, based on information currently available to the Group and preliminary assessment taking into account the advice from the Group's legal counsel in relation to the arbitration proceedings, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal and other costs.

OTHER INFORMATION

Interim Dividend

No interim dividend was proposed by the Board for the six months ended 30 June 2020 (the six months ended 30 June 2019: RMB0.059 (equivalent to HK\$0.067) per share).

Corporate Governance Practices

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

During the six months ended 30 June 2020, 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. Although the dual roles of Chairman and Chief Executive Officer is a deviation from the CG Code, the Board believes that with extensive experience in the pharmaceutical industry, vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals.

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuer (the “Model Code”) of Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2020.

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2020 period, an aggregate of 20,000,000 shares were repurchased on the Stock Exchange at an aggregate price of approximately HK\$85.74 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 six months ended 30 June 2020 are set out as follows:

Date of repurchase	Number of shares purchased on the Stock Exchange	Price paid per share		Aggregate consideration paid (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
3 February 2020	3,000,000	4.96	4.93	14,856,390
18 February 2020	3,000,000	5.07	5.01	15,148,809
21 February 2020	3,000,000	4.94	4.89	14,763,630
31 March 2020	3,000,000	3.82	3.75	11,359,359
1 April 2020	3,000,000	3.72	3.67	11,114,400
2 April 2020	2,000,000	3.74	3.73	7,460,780
6 April 2020	3,000,000	3.73	3.65	11,036,916
Total	20,000,000			85,740,284

All the 20,000,000 shares repurchased were cancelled on 16 April 2020 and 24 June 2020. 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 the six months ended 30 June 2020.

Audit Committee

The Audit Committee of the Company has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the unaudited interim condensed consolidated financial statements and interim results announcement of the Group for the six months ended 30 June 2020 and recommended its adoption by the Board.

In addition, the independent auditor of the Company, Ernst & Young, has reviewed the unaudited interim results for the six months ended 30 June 2020 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.

OTHER INFORMATION

Changes in Directors' Information

Upon specific enquiry by the Company and following confirmations from Directors, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's annual report for the year ended 31 December 2019.

Controlling Shareholder's Interest in Competing Business

Shandong Boan is a biotechnology company established in 2013 with a focus 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.

The Company, through its wholly-owned subsidiary, had entered into a Sale and Purchase Agreement on 1 December 2019, to acquire 98.0% equity interest in Shandong Boan (the "Acquisition"). The Acquisition was completed in February 2020. Following the completion, Shandong Boan becomes a subsidiary of the Company. During the six months ended 30 June 2020 and up to the completion of our acquisition of Shandong Boan, Mr. Liu has provided the Board with the updates on the development progress of product candidates of Shandong Boan.

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

As at 30 June 2020, 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 ⁽¹⁾	Approximate percentage of shareholding
Liu Dian Bo ⁽¹⁾⁽²⁾	Founder of a discretionary trust	1,517,113,930(L) 72,701,950(S)	46.70% 2.24%
Zhang Hua Qiao ⁽³⁾	Beneficial owner	250,000(L)	0.01%
Lo Yuk Lam ⁽³⁾	Beneficial owner	250,000(L)	0.01%
Leung Man Kit ⁽³⁾	Beneficial owner	250,000(L)	0.01%
Choy Sze Chung Jojo ⁽³⁾	Beneficial owner	250,000(L)	0.01%
Song Rui Lin ⁽³⁾	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.

OTHER INFORMATION

Notes:

1. Mr. Liu Dian Bo through his controlled corporations, namely Shorea LBG, Ginkgo (PTC) Limited, Nelumbo Investments Limited, Luye Life Sciences Group Ltd., Luye Pharma Holdings Ltd., LuYe Pharmaceutical International Co., Ltd. and LuYe Pharmaceutical Investment Co., Ltd., is deemed to be interested in 1,517,113,930 ordinary shares and 72,701,950 short position in the Company held by LuYe Pharmaceutical Investment Co., Ltd. Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd.
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	Luye Pharma Holdings Ltd.	Founder of a discretionary trust	1,136,852(L)	100%
Liu Dian Bo	Luye Pharmaceutical International Co., Ltd.	Founder of a discretionary trust	202,180,988(L)	100%
Liu Dian Bo	Luye Pharmaceutical Investment Co., Ltd.	Founder of a discretionary trust	1(L)	100%
Liu Dian Bo	Nelumbo Investments Limited	Founder of a discretionary trust	1(L)	100%
Yang Rong Bing	Luye Life Sciences Group Ltd.	Beneficial 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, as at 30 June 2020, 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.

OTHER INFORMATION

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 2020.

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

As at 30 June 2020, 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 ⁽¹⁾	Approximate percentage of shareholding
LuYe Pharmaceutical Investment Co., Ltd. ⁽¹⁾	Beneficial owner	1,517,113,930(L)	46.70%
		72,701,950(S)	2.24%
LuYe Pharmaceutical International Co., Ltd. ⁽¹⁾	Interest in controlled corporation	1,517,113,930(L)	46.70%
		72,701,950(S)	2.24%
Luye Pharma Holdings Limited ⁽¹⁾	Interest in controlled corporation	1,517,113,930(L)	46.70%
		72,701,950(S)	2.24%
Luye Life Sciences Group Ltd. ⁽²⁾	Interest in controlled corporation	1,517,113,930(L)	46.70%
		72,701,950(S)	2.24%
Nelumbo Investments Limited ⁽²⁾	Interest in controlled corporation	1,517,113,930(L)	46.70%
		72,701,950(S)	2.24%
Ginkgo (PTC) Limited ⁽²⁾	Trustee	1,517,113,930(L)	46.70%
		72,701,950(S)	2.24%
Shorea LBG ⁽²⁾	Interest in controlled corporation	1,517,113,930(L)	46.70%
		72,701,950(S)	2.24%

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

Notes:

- LuYe Pharmaceutical Investment Co., Ltd. is wholly-owned by LuYe Pharmaceutical International Co., Ltd., which is in turn wholly-owned by Luye Pharma Holdings Ltd..
- Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd. 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.

Save as disclosed above, as at 30 June 2020, 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 24 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 2020 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

27 August 2020

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	30 June 2019 (Unaudited) (Restated) RMB'000
REVENUE	4	2,962,201	3,131,149
Cost of sales		(764,336)	(699,006)
Gross profit		2,197,865	2,432,143
Other income and gains	4	181,568	165,684
Selling and distribution expenses		(873,863)	(1,008,726)
Administrative expenses		(248,018)	(258,684)
Other expenses		(351,022)	(346,710)
Finance costs	6	(222,981)	(120,636)
Share of profit of an associate		1,026	329
PROFIT BEFORE TAX	5	684,575	863,400
Income tax expense	7	(144,247)	(168,061)
PROFIT FOR THE PERIOD		540,328	695,339
Attributable to:			
Owners of the parent		539,416	731,240
Non-controlling interests		912	(35,901)
		540,328	695,339
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic (RMB)			
— For profit for the period		16.90 cents	22.83 cents
Diluted (RMB)			
— For profit for the period		16.86 cents	22.72 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	30 June 2020 (Unaudited) RMB'000	30 June 2019 (Unaudited) (Restated) RMB'000
PROFIT FOR THE PERIOD	540,328	695,339
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(6,127)	(13,006)
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	6,221	(5,588)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	94	(18,594)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	540,422	676,745
Attributable to:		
Owners of the parent	539,510	712,646
Non-controlling interests	912	(35,901)
	540,422	676,745

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

		30 June 2020 (Unaudited)	31 December 2019 (Audited) (Restated)
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	3,506,327	3,277,117
Advance payments for property, plant and equipment and other intangible assets		445,614	414,871
Right-of-use assets		281,161	256,208
Goodwill		1,050,927	1,038,068
Other intangible assets	11	4,761,662	4,597,102
Investment in an associate		7,396	6,346
Equity investments designated at fair value through other comprehensive income		71,484	64,257
Financial assets at fair value through profit or loss	12	1,263	1,263
Pledged time deposits	14	150,000	50,000
Deferred tax assets		110,316	93,859
Total non-current assets		10,386,150	9,799,091
CURRENT ASSETS			
Inventories		631,775	617,178
Trade and notes receivables	13	1,843,838	1,697,931
Prepayments, other receivables and other assets		325,774	273,659
Due from related parties	21(c)	1,711	83,547
Financial assets at fair value through profit or loss	12	990,726	1,861,639
Restricted cash		37,230	36,643
Pledged time deposits	14	980,255	1,565,009
Time deposits with original maturity of over three months	14	589,540	1,001,000
Cash and cash equivalents	14	3,777,855	2,327,349
Total current assets		9,178,704	9,463,955
CURRENT LIABILITIES			
Trade and notes payables	15	467,462	318,958
Other payables and accruals		974,907	1,084,901
Derivative financial instruments		4,955	—
Interest-bearing bank and other borrowings	16	4,406,226	4,041,497
Government grants		33,738	18,693
Tax payable		225,903	203,799
Due to related parties	21(c)	21,685	936
Dividend payable		175,487	5,000
Total current liabilities		6,310,363	5,673,784
NET CURRENT ASSETS		2,868,341	3,790,171
TOTAL ASSETS LESS CURRENT LIABILITIES		13,254,491	13,589,262

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

		30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) (Restated) RMB'000
	Notes		
TOTAL ASSETS LESS CURRENT LIABILITIES		13,254,491	13,589,262
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	16	2,671,639	2,677,120
Convertible bonds	17	1,911,650	1,833,173
Long-term payables		56,636	55,810
Contingent consideration payables	18	561,761	—
Employee defined benefit obligation		8,065	7,880
Government grants		132,238	131,854
Deferred tax liabilities		89,861	77,772
Total non-current liabilities		5,431,850	4,783,609
Net assets		7,822,641	8,805,653
EQUITY			
Equity attributable to owners of the parent			
Issued capital		417,991	420,565
Treasury shares		(279,558)	(279,558)
Share premium		1,114,971	2,671,071
Equity component of convertible bonds		292,398	292,398
Reserves		6,122,334	5,727,149
		7,668,136	8,831,625
Non-controlling interests		154,505	(25,972)
Total equity		7,822,641	8,805,653

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the parent												
	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Equity component of convertible bonds RMB'000	Safety production reserve* RMB'000	Statutory surplus reserves* RMB'000	Share award scheme reserve* RMB'000	Retained earnings* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Foreign currency translation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020 (restated)	420,565	(279,558)	2,671,071	292,398	—	907,644	99,871	4,730,023	(7,332)	(3,057)	8,831,625	(25,972)	8,805,653
Profit for the period	—	—	—	—	—	—	—	539,416	—	—	539,416	912	540,328
Other comprehensive income for the period:													
Changes in fair value of investments, net of tax	—	—	—	—	—	—	—	—	6,221	—	6,221	—	6,221
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	—	(6,127)	(6,127)	—	(6,127)
Total comprehensive income for the period	—	—	—	—	—	—	—	539,416	6,221	(6,127)	539,510	912	540,422
Repurchase of shares (note a)	—	(77,962)	—	—	—	—	—	—	—	—	(77,962)	—	(77,962)
Cancellation of treasury shares (note a)	(2,574)	77,962	(75,388)	—	—	—	—	—	—	—	—	—	—
Appropriation to safety production reserve	—	—	—	—	8,709	—	—	(8,709)	—	—	—	—	—
Safety production reserve used	—	—	—	—	(1,741)	—	—	1,741	—	—	—	—	—
Equity-settled share award expense	—	—	—	—	—	—	31,162	—	—	—	31,162	822	31,984
Final 2019 dividend (note 8)	—	—	—	—	—	—	—	(175,487)	—	—	(175,487)	—	(175,487)
Acquisition of a subsidiary under common control (note b)	—	—	(1,261,546)	—	—	—	—	—	—	—	(1,261,546)	—	(1,261,546)
Acquisition of non-controlling interests (note c)	—	—	(219,166)	—	—	—	—	—	—	—	(219,166)	178,743	(40,423)
At 30 June 2020 (unaudited)	417,991	(279,558)	1,114,971	292,398	6,968	907,644	131,033	5,086,984	(1,111)	(9,184)	7,668,136	154,505	7,822,641

Notes:

- During the period, the Company repurchased and cancelled 20,000,000 shares.
- On 17 February 2020, the Group obtained control over Shandong Boan Biological Technology Co., Ltd. ("Shandong Boan") through business combinations involving entities under common control. Further details of the transaction are included in note 2.1.
- During the period, the Group acquired the non-controlling interests of Shandong Boan, and Shandong Boan became wholly owned by the Group.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the parent											
	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Other reserves RMB'000	Statutory surplus reserves RMB'000	Share award scheme reserve RMB'000	Retained earnings RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Foreign currency translation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019 (restated)	421,337	(305,626)	2,764,669	51,387	723,140	36,763	3,894,523	5,955	8,697	7,600,845	(94,505)	7,506,340
Profit for the period (restated)	–	–	–	–	–	–	731,240	–	–	731,240	(35,901)	695,339
Other comprehensive income for the period:												
Changes in fair value of investments, 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 (restated)	–	–	–	–	–	–	731,240	(5,588)	(13,006)	712,646	(35,901)	676,745
Repurchase of ordinary shares	–	(4,388)	–	–	–	–	–	–	–	(4,388)	–	(4,388)
Equity-settled share award expense	–	–	–	–	–	26,615	–	–	–	26,615	621	27,236
Final 2018 dividend declared	–	–	–	–	–	–	(185,124)	–	–	(185,124)	–	(185,124)
At 30 June 2019 (unaudited) (restated)	421,337	(310,014)	2,764,669	51,387	723,140	63,378	4,440,639	367	(4,309)	8,150,594	(129,785)	8,020,809

* These reserve accounts comprise the consolidated reserves of RMB6,122,334,000 in the consolidated statement of financial position as at 30 June 2020.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

		30 June 2020 (Unaudited) RMB'000	30 June 2019 (Unaudited) (Restated) RMB'000
	Notes		
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		684,575	863,400
Adjustments for:			
Share of profit of an associate		(1,026)	(329)
Depreciation and amortisation of non-current assets		254,687	217,050
Loss on disposal of non-current assets	5	31	159
Equity-settled share award expense	22	31,984	27,236
Bank interest income	4	(43,574)	(45,814)
Interest income on loans to a related party	4	(1,283)	—
Investment income from financial assets at fair value through profit or loss	4	(26,387)	(13,213)
Changes in fair value of investments	4	(243)	(15,020)
Fair value adjustment of contingent considerations	18	23,582	—
Interest expense	6	222,981	120,636
		1,145,327	1,154,105
Increase in inventories		(14,597)	(53,398)
Increase in trade and notes receivables		(145,953)	(226,026)
Increase in prepayments, other receivables and other assets		(47,671)	(11,322)
(Increase)/decrease in amounts due from related parties		(785)	616
Increase in pledged time deposits		(169,327)	(304,399)
Increase in restricted cash		(587)	(32)
Increase in trade and notes payables		148,504	279,986
(Decrease)/increase in other payables and accruals		(112,794)	42,936
Increase/(decrease) in government grants		1,729	(11,526)
Increase in amounts due to a related party		858	1,422
Decrease in deferred revenue		—	(3,255)
Cash generated from operations		804,704	869,107
Interest paid		(171,283)	(107,238)
Income tax paid		(126,233)	(100,415)
Net cash flows from operating activities		507,188	661,454

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	30 June 2020 (Unaudited) RMB'000	30 June 2019 (Unaudited) (Restated) RMB'000
Net cash flows from operating activities	507,188	661,454
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of non-current assets	(671,214)	(464,434)
Purchases of investments	(2,559,220)	(1,891,050)
Proceeds from disposals of investments	3,414,618	2,108,000
Dividend income from investments	49,892	32,414
Proceeds from disposals of items of property, plant and equipment	307	2,024
Increase in government grants	13,700	7,200
Increase in deferred revenue	—	6,644
Decrease/(increase) in time deposits with original maturity of over three months	411,460	(979,652)
(Increase)/decrease in pledged time deposits	(17,565)	2,984
Acquisition of a subsidiary under common control	(723,367)	—
Receipts of repayments from a related party	103,795	—
Interest received	39,173	26,191
Net cash flows from/(used in) investing activities	61,579	(1,149,679)
CASH FLOWS FROM FINANCING ACTIVITIES		
New loans	4,737,517	4,929,753
Repayment of loans	(4,376,526)	(4,971,271)
Decrease in pledged time deposits	671,646	276,073
Dividend paid to non-controlling interests	(5,000)	—
Loans from related parties	—	133,216
Repayment of loans from a related party	—	(281,216)
Repurchase of ordinary shares	(77,962)	(8,851)
Principal portion of lease payments	(8,949)	(8,346)
Net cash flows from financing activities	940,726	69,358
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,509,493	(418,867)
Effect of foreign exchange rate changes, net	(58,987)	9,889
Cash and cash equivalents at 1 January	2,327,349	1,697,363
CASH AND CASH EQUIVALENTS At 30 JUNE	3,777,855	1,288,385

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Corporate information

The interim condensed consolidated financial information for the six months ended 30 June 2020 was approved and authorised by the board of directors on 27 August 2020.

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.

In the opinion of the directors, the ultimate holding company of the Company is Luye Life Sciences Group Ltd., which is incorporated in Bermuda.

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 2020 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 2019.

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, derivative financial instruments and contingent consideration payables 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

2.1 Basis of preparation (Continued)

Restatement of prior period's condensed consolidated financial information due to business combinations involving entities under common control

On 1 December 2019, Shandong Luye Pharmaceutical Co., Ltd. ("Shandong Luye"), a wholly-owned subsidiary of the Company, and Luye Investment Group Co. Ltd. ("LIG") entered into a sale and purchase agreement pursuant to which Shandong Luye has conditionally agreed to purchase and LIG has conditionally agreed to sell its 98.0% equity interest in Shandong Boan for a total purchase price of up to RMB1,446,700,000 (approximately US\$205,800,000). The total purchase price for the acquisition comprised an initial payment of RMB723,350,000 (approximately US\$102,900,000), which was payable by the Group in cash upon completion or closely thereafter and two subsequent payments of RMB361,675,000 (approximately US\$51,450,000) each payable only upon the grant by the competent authority in China of the marketing authorisation for LY01008 and LY06006, respectively. LY01008 and LY06006 are two biosimilar products under research and development by Shandong Boan. Shandong Luye obtained the control over Shandong Boan on 17 February 2020.

Since Shandong Luye and Shandong Boan are under common control of the controlling shareholder, Mr. Liu Dian Bo, before and after the business combination, the acquisition of Shandong Boan is considered as a business combination involving entities under common control. Accordingly, the Group applied the principles of merger accounting to account for the acquisition of Shandong Boan in preparing the interim condensed consolidated financial information.

By applying the principles of merger accounting, the interim condensed consolidated financial information of the Group also included the operation results of Shandong Boan as if it had been combined with the Group throughout the six months ended 30 June 2020, and from the earliest date presented. Comparative figures as at 31 December 2019 and for the six months ended 30 June 2019 have been restated as a result of such. All intra-group transactions and balances have been eliminated on consolidation.

The operating results previously reported by the Group for the six months ended 30 June 2019 have been restated to include the operating results of Shandong Boan as set out below:

	As previously reported (Unaudited) RMB'000	Shandong Boan RMB'000	Elimination of inter-company transactions RMB'000	As restated (Unaudited) RMB'000
Revenue	3,130,894	255	—	3,131,149
Profit before tax	938,829	(76,042)	613	863,400
Profit for the period	770,768	(76,042)	613	695,339

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

2.1 Basis of preparation (Continued)

Restatement of prior period's condensed consolidated financial information due to business combinations involving entities under common control (Continued)

The financial position previously reported by the Group at 31 December 2019 has been restated to include the assets and liabilities of Shandong Boan as set out below:

	As previously reported (Audited) RMB'000	Shandong Boan RMB'000	Elimination of inter-company balances RMB'000	As restated (Audited) RMB'000
Total non-current assets	9,954,095	235,135	(390,139)	9,799,091
Total current assets	9,359,843	106,640	(2,528)	9,463,955
Total non-current liabilities	4,395,609	388,000	—	4,783,609
Total current liabilities	5,546,487	514,166	(386,869)	5,673,784
Total equity	9,371,842	(560,391)	(5,798)	8,805,653

The cash flows previously reported by the Group for the six months ended 30 June 2019 have been restated to include the cash flows of Shandong Boan as set out below:

	As previously reported (Unaudited) RMB'000	Shandong Boan RMB'000	Elimination of inter-company transactions RMB'000	As restated (Unaudited) RMB'000
Cash and cash equivalents at beginning of period	1,672,865	24,498	—	1,697,363
Net cash flow from operating activities	754,434	107,020	(200,000)	661,454
Net cash flow used in investing activities	(1,311,634)	(38,045)	200,000	(1,149,679)
Net cash flow from/(used in) financing activities	147,358	(78,000)	—	69,358
Effect of exchange rate changes on cash and cash equivalents	9,889	—	—	9,889
Cash and cash equivalents at end of period	1,272,912	15,473	—	1,288,385

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

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 2019, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>
Conceptual Framework for Financial Reporting	

The adoption of these revised standards has had no significant financial effect on the interim condensed consolidated financial information and there have been no significant changes to the accounting policies applied in the interim condensed consolidated financial information.

The Group has not applied the new and revised International Financial Reporting Standards, that have been issued but are not yet effective, in the interim condensed consolidated financial information.

3. Operating segment information

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. Operating segment information (Continued)

For the six months ended 30 June 2020 (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	1,334,214	429,507	391,313	746,335	60,832	2,962,201
Total revenue	1,334,214	429,507	391,313	746,335	60,832	2,962,201
Segment results	771,863	153,170	104,106	272,149	22,714	1,324,002
Other income and gains						181,568
Administrative expenses						(248,018)
Other expenses						(351,022)
Finance costs						(222,981)
Share of profit of an associate						1,026
Profit before tax						684,575

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. Operating segment information (Continued)

For the six months ended 30 June 2019 (Unaudited) (Restated)

	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	76,985	3,131,149
Total revenue	1,404,820	483,603	552,181	613,560	76,985	3,131,149
Segment results	761,965	202,324	208,011	224,513	26,604	1,423,417
Other income and gains						165,684
Administrative expenses						(258,684)
Other expenses						(346,710)
Finance costs						(120,636)
Share of profit of an associate						329
Profit before tax						863,400

4. Revenue, other income and gains

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) (Restated) RMB'000
Revenue from contracts with customers		
Sale of goods	2,962,201	3,131,149

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4. Revenue, other income and gains (Continued)

Revenue from contracts with customers

Disaggregated revenue information

For the six months ended 30 June 2020 (Unaudited)

	Oncology drugs RMB'000	Cardio- vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Type of goods or services						
Sale of products	1,334,214	429,507	391,313	746,335	60,832	2,962,201
Total revenue from contracts with customers	1,334,214	429,507	391,313	746,335	60,832	2,962,201
Geographical markets						
Mainland China	1,334,214	425,466	390,122	141,251	60,402	2,351,455
Other countries	—	4,041	1,191	605,084	430	610,746
Total revenue from contracts with customers	1,334,214	429,507	391,313	746,335	60,832	2,962,201
Timing of revenue recognition						
Goods transferred at a point in time	1,334,214	429,507	391,313	746,335	60,832	2,962,201
Total revenue from contracts with customers	1,334,214	429,507	391,313	746,335	60,832	2,962,201

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4. Revenue, other income and gains (Continued)

Revenue from contracts with customers (Continued)

Disaggregated revenue information (Continued)

For the six months ended 30 June 2019 (Unaudited) (Restated)

	Oncology drugs RMB'000	Cardio- vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Type of goods or services						
Sale of products	1,404,820	483,603	552,181	613,560	76,985	3,131,149
Total revenue from contracts with customers	1,404,820	483,603	552,181	613,560	76,985	3,131,149
Geographical markets						
Mainland China	1,404,820	478,566	548,423	119,392	76,346	2,627,547
Other countries	—	5,037	3,758	494,168	639	503,602
Total revenue from contracts with customers	1,404,820	483,603	552,181	613,560	76,985	3,131,149
Timing of revenue recognition						
Goods transferred at a point in time	1,404,820	483,603	552,181	613,560	76,985	3,131,149
Total revenue from contracts with customers	1,404,820	483,603	552,181	613,560	76,985	3,131,149

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4. Revenue, other income and gains (Continued)

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) (Restated) RMB'000
Other income and gains		
Bank interest income	43,574	45,814
Interest income on loans to a related party	1,283	—
Government grants	92,668	67,679
Investment income from financial assets at fair value through profit or loss	26,387	13,213
Changes in fair value of investments	243	15,020
Foreign exchange gain, net	15,076	18,858
Others	2,337	5,100
	181,568	165,684

5. Profit before tax

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

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) (Restated) RMB'000
Depreciation of items of property, plant and equipment	135,324	103,831
Amortisation of other intangible assets	105,837	101,152
Depreciation of right-of-use assets	13,526	12,067
Auditor's remuneration	2,200	1,900
Research and development costs	326,142	327,806
Cost of inventories sold	764,336	699,006
Foreign exchange gain, net	(15,076)	(18,858)
Equity-settled share award expense	31,984	27,236
Remeasurement of contingent considerations	23,582	—
Loss on disposal of non-current assets	31	159

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. Finance costs

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited) (Restated)
	RMB'000	RMB'000
Interest on bank loans	137,647	98,178
Amortised interest on discounted long-term payables	1,507	10,576
Interest on discounted notes receivable	4,573	9,318
Interest on discounted letters of credit	11,646	—
Interest on lease liabilities	799	946
Interest on convertible bonds	66,809	—
Interest on loans from a related party	—	1,618
	222,981	120,636

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	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax	148,294	151,447
Deferred tax	(4,047)	16,614
Total tax charge for the period	144,247	168,061

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8. Dividends

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Final declared and paid — RMB0.054 (2018: RMB0.057) per ordinary share	175,487	185,124
Interim — nil (2019: RMB0.059) per ordinary share (note)	—	191,654
	175,487	376,778

Note: No interim dividend was declared by the Company for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB0.059 (equivalent to HK\$0.067) per share, amounting to a total of approximately RMB191,654,000).

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 3,191,219,590 (six months ended 30 June 2019: 3,203,477,893) 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.

No adjustment has been made to the basic earnings per share amounts presented in respect of a dilution from the impact of the convertible bonds outstanding, as it had an anti-dilutive effect.

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

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) (Restated) RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	539,416	731,240

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

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

	For the six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period	3,191,219,590	3,203,477,893
Effect of dilution — weighted average number of ordinary shares under the share award scheme	7,324,059	15,147,097
	3,198,543,649	3,218,624,990

10. Property, plant and equipment

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) (Restated) RMB'000
Carrying amount at beginning of period	3,277,117	2,904,324
Additions	361,243	677,672
Depreciation provided during the period	(135,324)	(224,537)
Exchange realignment	3,629	(1,511)
Disposals	(338)	(78,831)
Carrying amount at end of period	3,506,327	3,277,117

As at 30 June 2020, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB559,075,000 (31 December 2019: RMB582,211,000) were pledged to secure bank loans (note 16).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. Other intangible assets

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) (Restated) RMB'000
Carrying amount at beginning of period	4,597,102	4,456,939
Additions	205,853	333,223
Amortisation provided during the period	(105,837)	(207,726)
Write-off	—	(33,808)
Exchange realignment	64,544	48,474
Carrying amount at end of period	4,761,662	4,597,102

12. Financial assets at fair value through profit or loss

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Current		
Other unlisted investments, at fair value	961,936	1,786,097
Listed equity investment, at fair value	28,790	75,542
	990,726	1,861,639
Non-current		
Unlisted equity investments, at fair value	1,263	1,263
	991,989	1,862,902

The above other unlisted investments represent investments in certain wealth management products issued by commercial banks with expected interest rates ranging from 2.53% to 4% 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 2020, other unlisted investments of RMB550,000,000 (31 December 2019: RMB1,221,580,000) were pledged to secure intra-group notes payable (note 15).

As at 30 June 2020, other unlisted investments of RMB100,000,000 (31 December 2019: RMB88,320,000) were pledged to secure notes payable (note 15).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

12. Financial assets at fair value through profit or loss (Continued)

As at 30 June 2020, other unlisted investments of RMB200,000,000 (31 December 2019: Nil) were pledged to secure bank loans (note 16).

As at 30 June 2020, other unlisted investments of RMB100,000,000 (31 December 2019: Nil) were pledged to secure letters of credit.

13. Trade and notes receivables

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Trade receivables	1,195,948	1,215,596
Notes receivable	653,338	487,053
	1,849,286	1,702,649
Less: Impairment of trade receivables	(5,448)	(4,718)
	1,843,838	1,697,931

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.

The notes receivable are due within twelve months. As at 30 June 2020, notes receivable of RMB653,338,000 (31 December 2019: RMB487,053,000) 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 the six months ended 30 June 2020.

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 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Less than 3 months	1,137,371	1,141,426
Between 3 and 6 months	47,410	61,836
Between 6 and 12 months	8,411	8,213
Between 1 and 2 years	1,051	3,136
Over 2 years	1,705	985
	1,195,948	1,215,596

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13. Trade and notes receivables (Continued)

As at 30 June 2020, the Group has pledged notes receivable of RMB5,719,000 (31 December 2019: RMB50,000,000) to secure intra-group notes payable (note 15).

As at 30 June 2020, the Group has pledged notes receivable of RMB21,390,000 (31 December 2019: RMB13,567,000) to secure notes payable (note 15).

As at 30 June 2020, the Group has pledged notes receivable of RMB70,390,000 (31 December 2019: Nil) and intra-group notes receivable of RMB250,000,000 (31 December 2019: RMB170,000,000) to secure bank loans (note 16).

As at 30 June 2020, intra-group notes receivable of RMB130,000,000 (31 December 2019: RMB380,000,000) were discounted.

As at 30 June 2020, 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 RMB180,190,000 (31 December 2019: RMB327,597,000) (the "Endorsement"). The Endorsed Notes have a maturity from one to twelve months as at 30 June 2020. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement").

In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to certain Endorsed Notes accepted by large and reputable banks with amount of RMB149,446,000 (31 December 2019: RMB259,134,000) (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 RMB30,744,000 as at 30 June 2020 (31 December 2019: RMB68,463,000) because the directors of the Company believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14. Cash and cash equivalents and pledged time deposits

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) (Restated) RMB'000
Cash and bank balances	2,666,524	1,952,349
Time deposits	2,831,126	2,991,009
	5,497,650	4,943,358
Less:		
Pledged time deposits for letters of credit	(19,404)	(1,839)
Pledged time deposits for bank loans	(419,524)	(941,170)
Current pledged time deposits for notes payable	(541,327)	(622,000)
Non-current pledged time deposits for notes payable	(150,000)	(50,000)
Non-pledged time deposits with original maturity over three months when acquired	(589,540)	(1,001,000)
Cash and cash equivalents	3,777,855	2,327,349
Denominated in RMB	3,705,796	2,160,274
Denominated in US\$	34,966	108,878
Denominated in EUR	24,278	42,695
Denominated in others	12,815	15,502
Cash and cash equivalents	3,777,855	2,327,349

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

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

As at 30 June 2020, time deposits of RMB419,524,000 (31 December 2019: RMB941,170,000) were pledged to secure bank loans (note 16).

As at 30 June 2020, time deposits of RMB643,780,000 (31 December 2019: RMB672,000,000) were pledged to secure intra-group notes payable (note 15).

As at 30 June 2020, time deposits of RMB47,547,000 (31 December 2019: Nil) were pledged to secure Group's notes payable (note 15).

As at 30 June 2020, time deposits of RMB19,404,000 (31 December 2019: RMB1,839,000) were pledged to secure letters of credit.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15. Trade and notes payables

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) (Restated) RMB'000
Trade payables	301,987	217,071
Notes payable	165,475	101,887
	467,462	318,958

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 2020 (Unaudited) RMB'000	31 December 2019 (Audited) (Restated) RMB'000
Less than 3 months	429,982	299,304
Between 3 and 6 months	28,994	11,823
Between 6 and 12 months	4,276	3,918
Between 1 and 2 years	1,677	2,341
Over 2 years	2,533	1,572
	467,462	318,958

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

As at 30 June 2020, the Group's notes payable were secured by certain of the Group's notes receivable with a carrying amount of RMB21,390,000 (31 December 2019: RMB13,567,000) (note 13), other unlisted investments with a carrying amount of RMB100,000,000 (31 December 2019: RMB88,320,000) (note 12) and certain of the Group's time deposits of RMB47,547,000 (31 December 2019: Nil) (note 14).

As at 30 June 2020, the Group's intra-group notes payable were secured by certain of the Group's time deposits of RMB643,780,000 (31 December 2019: RMB672,000,000) (note 14), other unlisted investments with a carrying amount of RMB550,000,000 (31 December 2019: 1,221,580,000) (note 12) and certain of the Group's notes receivable with a carrying amount of RMB5,719,000 (31 December 2019: RMB50,000,000) (note 13).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. Interest-bearing bank and other borrowings

As at 30 June 2020

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB70,000,000 bank loan	1-year LPR-0.235	27 November 2020	70,000
RMB50,000,000 bank loan	4.13	2 March 2021	50,000
RMB200,000,000 bank loan	1-year LPR+0.08	19 March 2021	200,000
RMB100,000,000 bank loan	4.05	24 March 2021	100,000
RMB200,000,000 bank loan	4.05	14 March 2021	200,000
RMB92,957,095 bank loan	4.00	17 July 2020	92,957
RMB26,233,791 bank loan	4.00	15 September 2020	26,234
RMB18,746,460 bank loan	4.00	16 September 2020	18,746
RMB78,462,645 bank loan	3.95	21 September 2020	78,463
RMB27,392,995 bank loan	3.85	19 October 2020	27,393
RMB56,153,960 bank loan	3.85	8 December 2020	56,154
RMB80,000,000 bank loan	4.20	13 July 2020	80,000
RMB70,000,000 bank loan	4.20	16 July 2020	70,000
RMB100,000,000 bank loan	4.20	20 July 2020	100,000
RMB80,000,000 bank loan	4.00	14 December 2020	80,000
RMB45,000,000 bank loan	4.05	30 September 2020	45,000
RMB37,000,000 bank loan	4.05	4 September 2020	37,000
RMB65,000,000 bank loan	3.95	15 October 2020	65,000
RMB150,000,000 bank loan	1-year LPR+0.08	26 March 2021	150,000
RMB59,000,000 bank loan	4.05	18 September 2020	59,000
RMB55,000,000 bank loan	4.00	10 December 2020	55,000
RMB100,000,000 bank loan	1-year LPR+0.08	12 April 2021	100,000
RMB100,000,000 bank loan	4.20	17 July 2020	100,000
RMB100,000,000 bank loan	4.20	31 July 2020	100,000
RMB50,000,000 bank loan	4.20	16 October 2020	50,000
RMB206,981,000 bank loan	2.82	14 September 2020	206,981
HK\$117,800,000 bank loan	1-month HIBOR+1.50	17 July 2020	107,603
US\$20,000,000 bank loan	1-month LIBOR+1.10	31 July 2020	141,590
US\$7,000,000 bank loan	2.85	16 April 2021	49,557
US\$8,000,000 bank loan	2.35	22 April 2021	56,636
US\$40,000,000 bank loan	1.70	24 June 2021	283,180
US\$20,000,000 bank loan	1-month LIBOR+0.80	31 July 2020	144,417
EUR10,000,000 bank loan	1.45	16 April 2021	79,610
EUR11,000,000 bank loan	1.45	22 April 2021	87,571
EUR25,000,000 bank loan	1.42	8 May 2021	199,025
EUR20,000,000 bank loan	1.02	23 April 2021	159,220

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. Interest-bearing bank and other borrowings (Continued)

As at 30 June 2020 (Continued)

	Effective interest rate (%)	Maturity	RMB'000
Current portion of long term bank loans — secured			
RMB5,000,000 bank loan	4.90	21 December 2020	5,000
EUR10,000,000 bank loan	1.20	25 May 2021	79,610
US\$26,976,240 bank loan	3-month LIBOR+2.85	30 June 2021	190,978
Discounted notes receivable	3.50	26 August 2020	50,000
	3.50	27 October 2020	30,000
	2.30	16 October 2020	50,000
Discounted letters of credit	3.10	24 December 2020	100,000
	2.55	7 April 2021	20,000
	3.85	4 February 2021	200,000
	3.73	18 January 2021	100,000
	3.35	10 June 2021	40,000
Lease liabilities	4.42	30 June 2021	14,301
			4,406,226
Non-current			
Bank loans — secured			
RMB145,000,000 bank loan	4.90	21 December 2021– 6 June 2025	145,000
RMB250,000,000 bank loan	4.90	15 April 2022– 30 September 2026	250,000
US\$14,177,896 bank loan	3-month LIBOR+2.85	30 June 2022– 30 June 2025	100,372
US\$111,790,062 bank loan	3-month LIBOR+2.85	30 June 2022– 30 June 2025	791,418
US\$117,036,935 bank loan	3-month LIBOR+2.85	30 June 2022– 30 June 2025	828,563
EUR68,254,306 bank loan	3-month EURIBOR+1.70	14 August 2021– 14 August 2023	543,373
Lease liabilities	4.42	1 July 2021– 30 August 2023	12,913
			2,671,639
Total interest-bearing loans and borrowings			7,077,865
Convertible bonds	7.29	2020–2024	1,911,650
			8,989,515

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. Interest-bearing bank and other borrowings (Continued)

As at 31 December 2019 (Restated)

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB30,000,000 bank loan	LPR+0.04	4 March 2020	30,000
RMB20,000,000 bank loan	LPR+0.04	4 March 2020	20,000
RMB70,000,000 bank loan	LPR-0.235	27 November 2020	70,000
RMB200,000,000 bank loan	LPR+0.04	24 April 2020	200,000
RMB150,000,000 bank loan	LPR+0.04	17 April 2020	150,000
RMB76,150,000 bank loan	4.00	23 March 2020	76,150
RMB50,000,000 bank loan	4.30	18 February 2020	50,000
RMB80,000,000 bank loan	4.30	20 February 2020	80,000
RMB80,000,000 bank loan	4.35	14 January 2020	80,000
RMB70,000,000 bank loan	4.35	17 January 2020	70,000
RMB100,000,000 bank loan	4.20	22 January 2020	100,000
RMB65,000,000 bank loan	4.25	14 April 2020	65,000
RMB94,000,000 bank loan	4.35	25 April 2020	94,000
RMB100,000,000 bank loan	4.20	22 January 2020	100,000
RMB90,000,000 bank loan	6.50	29 February 2020	90,000
HK\$117,800,000 bank loan	1-month HIBOR+1.50	17 January 2020	105,523
HK\$175,000,000 bank loan	1-month HIBOR+1.10	8 May 2020	156,309
US\$15,000,000 bank loan	3-month LIBOR+0.80	24 April 2020	104,643
US\$39,793,989 bank loan	3-month LIBOR+0.85	24 June 2020	279,048
EUR21,000,000 bank loan	3-month EURIBOR+0.70	6 March 2020	164,126
EUR21,000,000 bank loan	3-month EURIBOR+0.70	24 April 2020	164,126
EUR12,000,000 bank loan	EURIBOR+1.40	12 April 2020	93,786
EUR9,500,000 bank loan	EURIBOR+1.40	15 April 2020	74,247
EUR22,000,000 bank loan	0.80	27 March 2020	171,941
EUR107,131,215 bank loan	3-month EURIBOR+1.70	On demand	837,284
Current portion of long term bank loans — secured			
RMB2,000,000 bank loan	4.90	21 December 2020	2,000
RMB5,367,431 bank loan	6.50	30 September 2020	5,367
RMB2,565,190 bank loan	6.18	7 July 2020	2,565
US\$1,750,200 bank loan	3-month LIBOR+2.85	30 June 2020	12,210
US\$13,800,000 bank loan	3-month LIBOR+2.85	30 June 2020	96,272
US\$14,373,600 bank loan	3-month LIBOR+2.85	30 June 2020	100,273

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. Interest-bearing bank and other borrowings (Continued)

As at 31 December 2019 (Restated) (Continued)

	Effective interest rate (%)	Maturity	RMB'000
Discounted notes receivable	3.65	16 January 2020	100,000
	3.30	14 January 2020	50,000
	3.45	27 February 2020	60,000
	3.32	20 March 2020	100,000
	3.40	3 April 2020	70,000
Lease liabilities	4.45	31 December 2020	16,627
			4,041,497
Non-current			
Bank loans — secured			
RMB148,000,000 bank loan	4.90	21 June 2020– 6 June 2025	148,000
RMB250,000,000 bank loan	4.90	15 April 2022– 30 September 2026	250,000
RMB90,000,000 bank loan	6.50	18 May 2021	90,000
RMB298,000,000 bank loan	6.18	7 January 2021– 7 July 2022	298,000
US\$15,751,800 bank loan	3-month LIBOR+2.85	30 June 2021– 30 June 2025	109,888
US\$124,200,000 bank loan	3-month LIBOR+2.85	30 June 2021– 30 June 2025	866,444
US\$129,362,400 bank loan	3-month LIBOR+2.85	30 June 2021– 30 June 2025	902,458
Lease liabilities	4.45	1 January 2021– 30 August 2023	12,330
			2,677,120
Total interest-bearing loans and borrowings			6,718,617
Convertible bonds	7.29	2019–2024	1,833,173
			8,551,790

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. Interest-bearing bank and other borrowings (Continued)

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

- (i) the pledge of certain of the Group's time deposits of RMB419,524,000 (31 December 2019: RMB941,170,000) (note 14);
- (ii) the pledge of certain of the Group's notes receivable of RMB70,390,000 (31 December 2019: Nil) (note 13);
- (iii) the pledge of certain of the Group's intra-group notes receivable of RMB250,000,000 (31 December 2019: RMB170,000,000) (note 13);
- (iv) the pledge of certain of the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB559,075,000 (31 December 2019: RMB582,211,000) (note 10);
- (v) the pledge of certain of the Group's other unlisted investments with a carrying amount of RMB200,000,000 (31 December 2019: Nil) (note 12); and
- (vi) the pledge of certain of the Group's subsidiaries' shares.

In addition, the Group's related parties have guaranteed certain of the Group's bank loans up to RMB485,932,000 as at 31 December 2019 (note 21(b)).

17. Convertible bonds

On 9 July 2019, the Company issued 1.50 per cent convertible bonds with an aggregate principal amount of US\$300,000,000. There was no movement in the number of these convertible bonds during the period. The bonds are convertible at the option of the bondholders into ordinary shares with the initial conversion price of HK\$8.15 per share at any time on or after 19 August 2019 and up to the close of business on the date falling ten days prior to 9 July 2024. The bonds are redeemable at the option of the bondholders at a 3.75 per cent gross yield upon early redemption. Any convertible bonds not converted will be redeemed on 9 July 2024 at 112.25 per cent of its principal amount together with accrued but unpaid interest thereon. The bonds carry interest at a rate of 1.50 per cent per annum, which is payable semi-annually in arrears on 9 January and 9 July. None of the convertible bonds were repaid or redeemed during the period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18. Contingent consideration payables

As part of the sale and purchase agreement dated 1 December 2019 (note 2.1), portions of the consideration were determined to be contingent, based on the grant by the competent authority in China of the marketing authorisation for LY01008 and LY06006, respectively. LY01008 and LY06006 are two biosimilar products under research and development by Shandong Boan. The movement of the fair value of contingent consideration payables is as follows:

	30 June 2020 (Unaudited) RMB'000
At the beginning of period	—
Arising from acquisition of Shandong Boan (note 2.1)	538,179
Fair value changes	23,582
At the end of period	561,761

The fair values of the contingent consideration payables were determined using discounted cash flow method and are within Level 3 fair value measurement. Significant unobservable valuation inputs for the fair value measurement of the contingent considerations are as follows:

Discount rate	11.11%
Discount for own non-performance risk	5%

19. Contingent liabilities

A subsidiary of the Group is currently involved in an arbitration brought by the former distributor of Seroquel in Mainland China disputing the subsidiary's basis of terminating the distribution agreement with such distributor. The directors of the Company, based on information currently available to the Group and preliminary assessment taking into account the advice from the Group's legal counsel in relation to the arbitration proceedings, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal and other costs.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

20. Commitments

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

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) (Restated) RMB'000
Contracted, but not provided for:		
Buildings	140,898	131,526
Plant and machinery	232,298	213,820
Other intangible assets	336,825	319,164
	710,021	664,510

21. Related party transactions

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

Company	Relationship
Steward Cross Pte. Ltd. ("Steward Cross")	Associate
Shandong International Biotech Park Development Co., Ltd. ("Biotech Park Development")	An entity controlled by the controlling shareholder
LIG	An entity controlled by the controlling shareholder
Yantai Lujian Real Estate Co., Ltd. ("Yantai Lujian Real Estate")	An entity controlled by the controlling shareholder

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

21. Related party transactions (Continued)

- (a) The Group had the following transactions with related parties during the six months ended 30 June 2020 and 2019:

	Notes	For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) (Restated) RMB'000
Sales of products to: Steward Cross	(i)	2,663	2,680
Interest income from a related party: LIG	(ii)	1,283	—
Interest expense to a related party: Biotech Park Development	(ii)	—	1,618
Receipts of repayments of advances including interests from a related party: LIG		103,795	—
Loans from a related party: Biotech Park Development	(ii)	—	133,216
Repayments of loans from a related party: Biotech Park Development		—	281,216
Technology service from a related party: Biotech Park Development	(iii)	1,206	1,000

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 Group had loans from/to certain related parties, and the loans bear interests of 4.35% to 6.18% per annum.
- (iii) The service fees were charged with reference to prices mutually agreed between the parties.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

21. Related party transactions (Continued)

(b) Other transactions with related parties:

During the period, the Group acquired a subsidiary, Shandong Boan, from LIG at a total purchase price of up to RMB1,446,700,000 (approximately US\$205,800,000), based on an external valuation of the business. Further details of the transaction are included in note 2.1 to the interim condensed consolidated financial information.

As at 31 December 2019, the Group guaranteed banking facilities granted to LIG amounting to RMB600,000,000, which was expired during the period.

As at 31 December 2019, LIG guaranteed certain bank loans made to the Group of up to RMB390,565,000. LIG, Biotech Park Development and Yantai Lujian Real Estate guaranteed certain bank loans made to the Group of up to RMB95,367,000. These bank loans were repaid during the period, as further detailed in note 16.

As at 30 June 2019, LIG guaranteed certain bank loans made to the Group of up to RMB90,365,000. LIG, Biotech Park Development and Yantai Lujian Real Estate guaranteed certain bank loans made to the Group of up to RMB100,000,000.

(c) Outstanding balances with related parties:

	Notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) (Restated) RMB'000
Due from related parties			
Steward Cross	(i)	1,711	926
LIG	(ii)	—	82,621
		1,711	83,547
Due to related parties			
Biotech Park Development	(i)	1,794	936
LIG	(iii)	19,891	—
		21,685	936

Notes:

- (i) The balances are unsecured, interest-free and have no fixed terms of repayment.
- (ii) The balance consists of loans to LIG which bear interest of 4.35% per annum and corresponding interests with a total amounting to RMB102,512,000, and accrued interests amounting to RMB19,891,000 for loans from LIG in prior periods. The balance is unsecured and has no fixed terms of repayment.
- (iii) The balance represents accrued interests for loans of prior periods and has no fixed terms of repayment.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22. Share award scheme

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

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22. Share award scheme (Continued)

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

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

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

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

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

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22. Share award scheme (Continued)

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

	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2020	2,470,500	63,028,000
Forfeited	3,724,000	(3,724,000)
At 30 June 2020	6,194,500	59,304,000
Exercisable as at 30 June 2020	—	16,474,000

	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2019	27,676,500	37,822,000
Granted on 15 May 2019	(25,206,000)	25,206,000
At 31 December 2019	2,470,500	63,028,000
Exercisable as at 31 December 2019	—	—

The Group recognised a share award expense of RMB31,984,000 during the period (the six months ended 30 June 2019: RMB27,236,000). Out of the share award expense, an amount of RMB247,000 was included in the directors' remuneration (the six months ended 30 June 2019: RMB563,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

23. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at 30 June 2020 and 31 December 2019 are as follows:

As at 30 June 2020 (Unaudited)

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Financial assets at amortised cost RMB'000	Total RMB'000
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity investments RMB'000		
Equity investments designated at fair value through other comprehensive income	—	—	71,484	—	71,484
Notes receivable	—	—	653,338	—	653,338
Trade receivables	—	—	—	1,190,500	1,190,500
Financial assets included in prepayments, other receivables and other assets	—	—	—	149,961	149,961
Financial assets at fair value through profit or loss	1,263	990,726	—	—	991,989
Cash and cash equivalents	—	—	—	3,777,855	3,777,855
Time deposits with original maturity of over three months	—	—	—	589,540	589,540
Pledged time deposits	—	—	—	1,130,255	1,130,255
Restricted cash	—	—	—	37,230	37,230
Due from related parties	—	—	—	1,711	1,711
	1,263	990,726	724,822	6,877,052	8,593,863

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and notes payables	—	467,462	467,462
Financial liabilities included in other payables and accruals	—	786,550	786,550
Long-term payables	—	56,636	56,636
Dividend payable	—	175,487	175,487
Convertible bonds	—	1,911,650	1,911,650
Derivative financial instruments	4,955	—	4,955
Due to related parties	—	21,685	21,685
Contingent consideration payables	561,761	—	561,761
Interest-bearing bank and other borrowings	—	7,077,865	7,077,865
	566,716	10,497,335	11,064,051

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

23. Financial instruments by category (Continued)

The carrying amounts of each of the categories of financial instruments as at 30 June 2020 and 31 December 2019 are as follows: (Continued)

As at 31 December 2019 (Audited) (Restated)

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	Designated as such upon initial recognition	Mandatorily designated as such	Equity investments		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income	—	—	64,257	—	64,257
Notes receivable	—	—	487,053	—	487,053
Trade receivables	—	—	—	1,210,878	1,210,878
Financial assets included in prepayments, other receivables and other assets	—	—	—	124,041	124,041
Financial assets at fair value through profit or loss	1,263	1,861,639	—	—	1,862,902
Cash and cash equivalents	—	—	—	2,327,349	2,327,349
Time deposits with original maturity of over three months	—	—	—	1,001,000	1,001,000
Pledged time deposits	—	—	—	1,615,009	1,615,009
Restricted cash	—	—	—	36,643	36,643
Due from related parties	—	—	—	83,547	83,547
	1,263	1,861,639	551,310	6,398,467	8,812,679

Financial liabilities

	Financial liabilities at amortised cost
	RMB'000
Trade and notes payables	318,958
Financial liabilities included in other payables and accruals	851,502
Dividend payable	5,000
Convertible bonds	1,833,173
Long-term payables	55,810
Due to related parties	936
Interest-bearing loans and other borrowings	6,718,617
	9,783,996

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. 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.

The fair values of the non-current portion of pledged time deposits and interest-bearing loans and other borrowings 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 value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

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

The Group invests in unlisted investments, which represent wealth management products issued by 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

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 curves. The carrying amounts of forward currency contracts, foreign currency swaps 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 as at 30 June 2020 have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within twelve months, thus their fair values approximate to their carrying values.

The fair values of the contingent consideration payables were determined using discounted cash flow method and are within Level 3 fair value measurement.

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2020:

	Valuation technique	Significant unobservable inputs	Weighted average rate	Sensitivity of fair value to the input
Contingent consideration payables	Discounted cash flow method	Discount rate	11.11%	2% increase/decrease in discount would result in decrease/increase in fair value by RMB21,680,000/RMB23,055,000
		Discount for own non-performance risk	5%	1% increase/decrease in multiple would result in decrease/increase in fair value by RMB5,665,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. 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 2020 (Unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	3,381	68,103	—	71,484
Notes receivable	—	653,338	—	653,338
Financial assets at fair value through profit or loss	23,835	968,154	—	991,989
	27,216	1,689,595	—	1,716,811

As at 31 December 2019 (Audited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	2,714	61,543	—	64,257
Notes receivable	—	487,053	—	487,053
Financial assets at fair value through profit or loss	75,542	1,787,360	—	1,862,902
	78,256	2,335,956	—	2,414,212

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

Fair value hierarchy (Continued)

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

Liabilities measured at fair value:

As at 30 June 2020 (Unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Contingent consideration payables	—	—	561,761	561,761
Derivative financial instruments	—	4,955	—	4,955
	—	4,955	561,761	566,716

The Group did not have any financial liabilities measured at fair value as at 31 December 2019.

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 2019: None).

25. Comparative Amounts

As further explained in note 2.1 to the interim condensed consolidated financial information, certain comparative amounts have been restated as a result of the adoption of merger accounting for the common control combination taking place during the period.