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LUYE PHARMA GROUP LTD.

绿叶制药集团有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 02186)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

- Revenue increased by RMB353.0 million or 19.1% to RMB2,203.8 million, as compared to the six months ended 30 June 2017.
- EBITDA increased by RMB300.2 million or 52.1% to RMB876.5 million, as compared to the six months ended 30 June 2017. Normalised EBITDA* increased by RMB236.5 million or 36.4% to RMB886.0 million as compared to the six months ended 30 June 2017.
- Gross profit increased by RMB330.1 million or 23.1% to RMB1,756.5 million, as compared to the six months ended 30 June 2017, and a gross profit margin 79.7%.
- Net profit increased by RMB175.3 million or 45.2% to RMB563.2 million, as compared to the six months ended 30 June 2017. Normalised net profit* increased by RMB111.7 million or 24.2% to RMB572.7 million as compared to the six months ended 30 June 2017.
- Profit attributable to shareholders increased by RMB177.5 million or 46.1% to RMB562.9 million, as compared to the six months ended 30 June 2017.
- Earnings per share was RMB17.54 cents compared to RMB11.74 cents for the six months ended 30 June 2017.
- The Board declared an interim dividend of RMB0.043 (equivalent to HK\$0.051) per share for the six months ended 30 June 2018, compared to RMB0.029 (equivalent to HK\$0.033) per share for the six months ended 30 June 2017.

* Normalised EBITDA and normalised Net Profit are defined as the EBITDA and Net Profit excluding the equity-settled share award expense, one-off inventories amortisation and acquisition incurred expenses arising from the acquisition of new business in Europe by the Group at end of 2016.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Luye Pharma Group Ltd. (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2018, together with the comparative figures for the corresponding period of 2017, as follows:

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		As at	
		30 June	31 December
		2018	2017
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9,375,495</u>	<u>7,105,603</u>
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	157	232
Retirement benefit obligations		5,277	5,381
Long-term payables		1,832,152	—
Government grants		75,281	73,588
Deferred revenue		36,635	34,041
Deferred tax liabilities		<u>98,377</u>	<u>96,445</u>
Total non-current liabilities		<u>2,047,879</u>	<u>209,687</u>
Net assets		<u><u>7,327,616</u></u>	<u><u>6,895,916</u></u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		421,337	427,269
Treasury shares		(279,558)	(459,284)
Share premium		2,764,669	2,936,817
Reserves		<u>4,293,139</u>	<u>3,863,601</u>
		<u>7,199,587</u>	<u>6,768,403</u>
Non-controlling interests		<u>128,029</u>	<u>127,513</u>
Total equity		<u><u>7,327,616</u></u>	<u><u>6,895,916</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 were approved and authorised by the Board on 26 August 2018.

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

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

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

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

2.2 Changes in accounting policies

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

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

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

IFRS 9 Financial Instruments

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

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

(a) *Classification and measurement*

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

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

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

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

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

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

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

(b) *Impairment*

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

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

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

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

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

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

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

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

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

	Originally stated		IFRS 9
	Available-for-sale investments	Remeasurement upon application of IFRS 9	FVPL
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investment in bank financial products	1,327,267	—	1,327,267
Unlisted equity investment at cost	500	983	1,483
Unlisted equity investment at fair value	<u>32,671</u>	<u>—</u>	<u>32,671</u>
	<u>1,360,438</u>	<u>983</u>	<u>1,361,421</u>
	Available-for-sale investments	Remeasurement upon application of IFRS 9	FVOCI
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investment in financial products	301,529	—	301,529
Listed equity investment at fair value	<u>1,394</u>	<u>—</u>	<u>1,394</u>
	<u>302,923</u>	<u>—</u>	<u>302,923</u>

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

(a) *Sales of goods*

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

(b) *Advances received from customers*

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

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

(c) *Presentation and disclosure requirements*

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

3. OPERATING SEGMENT INFORMATION

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

For the six months ended 30 June 2018 (Unaudited)

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

For the six months ended 30 June 2017 (Unaudited)

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

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

Note:

Disaggregation of revenue from contracts with customers

Geographic information

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

Timing of revenue-recognition

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

5. PROFIT BEFORE TAX

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

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

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

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

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

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

8. DIVIDENDS

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

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

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

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent	<u>562,879</u>	<u>385,377</u>
	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
<i>Shares</i>		
Weighted average number of ordinary shares in issue during the period	3,209,434,467	3,282,113,358
Effect of dilution — weighted average number of ordinary shares under the share award scheme	<u>11,454,124</u>	<u>551,354</u>
	<u>3,220,888,591</u>	<u>3,282,664,712</u>

10. PROPERTY, PLANT AND EQUIPMENT

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

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

11. OTHER INTANGIBLE ASSETS

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

12. TRADE AND NOTES RECEIVABLES

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

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

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

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

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

As at 30 June 2018, the Group has pledged notes receivable of RMB7,980,000 (31 December 2017: RMB14,566,000) to secure notes payable of RMB7,980,000 (31 December 2017: RMB14,566,000) (note 13).

As at 30 June 2018, the Group has pledged notes receivable of RMB77,985,000 (31 December 2017: RMB50,735,000) and intra-group notes receivable of RMB726,000,000 (31 December 2017: RMB726,500,000) to secure short-term loans of EUR95,000,000 (31 December 2017: EUR90,000,000 and US\$23,000,000) (note 14).

The notes receivable are due within six months.

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

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

The Group continued to recognise the full carrying amount of the remaining Endorsed Notes and the associated trade and other payables settled with an amount of RMB57,341,000 as at 30 June 2018 (31 December 2017: RMB37,684,000) because the Directors 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.

13. TRADE AND NOTES PAYABLES

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

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

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

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

As at 30 June 2018, notes payable of RMB7,980,000 (31 December 2017: RMB14,566,000) were secured by the Group's notes receivable with a carrying amount of RMB7,980,000 (31 December 2017: RMB14,566,000) (note 12).

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

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

14. INTEREST-BEARING LOANS AND BORROWINGS

As at 30 June 2018

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

As at 31 December 2017

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

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

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

15. RELATED PARTY TRANSACTIONS

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

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

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

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

Notes:

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

(b) Outstanding balances with related parties:

Due from related parties

	For the six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Steward Cross	1,351	1,902
Shandong Boan	<u>1,273</u>	<u>939</u>
	<u><u>2,624</u></u>	<u><u>2,841</u></u>

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

16. 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 in accordance with 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 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 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 may from time to time cause to be paid and 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. The committee appointed and authorised by the Board to administer the Scheme, which shall consist of three members of the senior management of the Company to be appointed by the Board, may from time to time instruct the Trustee in writing to purchase shares on 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 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 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 is entitled to impose any conditions as it deems appropriate in its discretion with respect to the vesting of the Awarded Shares on the selected employee. Upon the vesting of the Awarded Shares, the selected employee may elect to have the Awarded Shares transferred to him or effect the sale of the Awarded Shares and receive the net proceeds from such sale. In either case, the selected employee shall pay the Company the Grant Price for the Awarded Shares.

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

The Scheme will terminate on the earlier of (i) the 10th anniversary date of the Adoption Date; or (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.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

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

Market Positioning

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

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

For the six months ended 30 June 2018, the Group's revenue from sales of oncology products, alimentary tract and metabolism products, cardiovascular system products and other products increased to RMB1,088.8 million, RMB470.7 million, RMB363.9 million and RMB63.2 million, respectively,

representing a growth rate of 16.3%, 33.5%, 27.8% and 32.6% while central nervous system products decreased by 5.5% to RMB217.1 million as compared to the six months ended 30 June 2017 for the respective therapeutic areas.

Key Products

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

***Lipusu*[®] (力撲素[®])**

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

***CMNa*[®] (希美納[®])**

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

***Xuezhikang*[®] (血脂康[®])**

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

***Maitongna*[®] (麥通納[®])**

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

aescinate product in China in the first half of 2018 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in the first half of 2018, according to IQVIA, with a market share of approximately 65.5% in the first half of 2018.

Bei Xi[®] (貝希[®])

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

Rivastigmine Transdermal Patches (the “Rivastigmine Patch”)

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

Seroquel[®] (思瑞康[®])

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

Research and Development (“R&D”)

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

Through the Group’s four platforms and the corresponding R&D capabilities, the Group focuses on R&D projects not only within its core strength therapeutic areas of oncology and alimentary tract and metabolism, but also expands into the CNS therapeutic area, which according to IQVIA, was one of the fastest growing therapeutic areas in China from 2015–2017 with a compound annual growth rate of

8.2%. As at 30 June 2018, the Group had a pipeline of 27 PRC product candidates in various stages of development. These candidates included 9 oncology products, 4 cardiovascular and metabolism products, as well as 14 CNS products.

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

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

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

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

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

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

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

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

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

Sales, Marketing and Distribution

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

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

Merger and Acquisition (“M&A”)

In June 2018, the Group acquired Seroquel and Seroquel XR, the atypical anti-psychotic (AAP) medicines with antidepressant properties, from AstraZeneca. AstraZeneca agreed to grant to Luye Pharma Hong Kong Limited a licence for the right, title and interest in the “Seroquel” registered trade marks, know-how, product records and regulatory information (“**Licensed Assets**”) in certain territories, which covers 51 countries and regions, including China, the United Kingdom, Brazil, Australia, Saudi Arabia, Mexico, South Korea, Thailand, Argentina, Malaysia and other countries and regions in Asia, Latin America, Africa, Oceania and Eastern Europe. The purchase price for the assets

transferred thereunder and the Licensed Assets was US\$546 million. The acquisition completion took place on 28 June 2018. Please refer to the Company's announcements dated 7 May 2018, 5 June 2018, 22 June 2018 and 28 June 2018, and the Company's circular dated 5 June 2018 for details.

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

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

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

Outlook

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

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

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

As described above, during the six months ended 30 June 2018, the Group has made remarkable progresses in R&D fields. In China, both LY03005 and LY03003 commenced phase III clinical trials. The clinical applications of LY03012, a China Class 1.1 New Chemical Drug, have received formal

acceptance by the CFDA. LY01013 has obtained the approval from the CFDA to initiate clinical trials. The CFDA has recently approved the inclusion of “depression arising from bipolar disorder” under the indication for Seroquel XR.

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

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

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

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

Cost of Sales

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

Gross Profit

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

Other Income and Gains

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Other Expenses

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

Finance Costs

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

Income Tax Expense

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

Net Profit

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

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Net Current Assets

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

Borrowings and Pledge of Assets

As at 30 June 2018, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB5,941.4 million, as compared to approximately RMB2,861.4 million as at 31 December 2017. Amongst the loans and borrowings, approximately RMB5,941.3 million are repayable within one year, and approximately RMB0.1 million are repayable after one year. RMB2,701.8 million of the loans and borrowings of the Group carried interest at fixed interest rate. The increase in loans and borrowings is mainly for acquisition and working capital of the Group. The bank loans were secured by the Group's time deposits, available-for-sale investments and notes receivable. As at 30 June 2018, the Group's borrowings were primarily denominated in RMB, Euro 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 2018, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, increased to 81.1% from 41.5% as at 31 December 2017. The increase was primarily due to an increase in the Group's total borrowings resulting from additional loans taken during the reporting period.

Contingent Liabilities

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

SHARE AWARD SCHEME

The Company adopted the Scheme on 10 January 2017. The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive Directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group. During the six months ended 30 June 2018, the Board has granted to the selected employees an aggregate of 20,098,000 Shares under the Scheme, and an aggregate of 37,822,000 Shares were awarded pursuant to the Scheme as at 30 June 2018. Details of the Scheme and the awards made up to 30 June 2018 are set out in note 16 to the interim condensed consolidated financial statements as set out in this announcement.

SIGNIFICANT INVESTMENTS HELD

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at the date of this announcement, the Group does not have other plans for material investments or capital assets.

SUBSEQUENT EVENTS AFTER THE INTERIM PERIOD

On 2 August 2018, Luye Pharma Switzerland AG ("**Luye Switzerland**"), an indirect wholly-owned subsidiary of the Company as borrower, entered into a term facility agreement (the "**Facility Agreement**") with a bank (the "**Bank**"), as lender, pursuant to which the Bank has agreed to grant to Luye Switzerland a term loan facility of up to EUR120 million for a term of 60 months from the date of initial utilisation under the Facility Agreement. The loan under the Facility Agreement will be applied by Luye Switzerland to repay its shareholder's loan with a view to generally lower the finance cost of the Group given that the loan under Facility Agreement has a relatively low interest rate.

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

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF SHAREHOLDERS

For determining the entitlement to the proposed interim dividend, the register of shareholders of the Company will be closed from 10 September 2018 to 12 September 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed interim dividend, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 7 September 2018.

CORPORATE GOVERNANCE PRACTICES

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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 2018 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 2018 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF THE INTERIM RESULTS AND 2018 INTERIM REPORT ON THE WEBSITES OF THE SEHK AND THE COMPANY

This interim results announcement is published on the websites of the SEHK (www.hkexnews.hk) and the Company (<http://www.luye.cn>), and the 2018 interim report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the SEHK and the Company in due course.

By order of the Board
LUYE PHARMA GROUP LTD.
LIU Dian Bo
Chairman

Hong Kong, 26 August 2018

As at the date of this announcement, the executive Directors of the Company are Mr. LIU Dian Bo, Mr. YANG Rong Bing, Mr. YUAN Hui Xian and Ms. ZHU Yuan Yuan; the non-executive Director is Mr. Song Rui Lin; and the independent non-executive Directors are Mr. ZHANG Hua Qiao, Professor LO Yuk Lam, Mr. LEUNG Man Kit and Mr. CHOY Sze Chung Jojo.