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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 2020**

**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 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.

## 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 2020, together with the comparative figures for the corresponding period of 2019, as follows:

### UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		<b>For the six months ended 30 June</b>	
		<b>2020</b>	<b>2019</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>(Restated)</b>	
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>REVENUE</b>	5	<b>2,962,201</b>	3,131,149
Cost of sales		<u>(764,336)</u>	<u>(699,006)</u>
Gross profit		<b>2,197,865</b>	2,432,143
Other income and gains	5	<b>181,568</b>	165,684
Selling and distribution expenses		<b>(873,863)</b>	(1,008,726)
Administrative expenses		<b>(248,018)</b>	(258,684)
Other expenses		<b>(351,022)</b>	(346,710)
Finance costs	7	<b>(222,981)</b>	(120,636)
Share of profit of an associate		<u><b>1,026</b></u>	<u>329</u>
<b>PROFIT BEFORE TAX</b>	6	<b>684,575</b>	863,400
Income tax expense	8	<u><b>(144,247)</b></u>	<u>(168,061)</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>540,328</b></u>	<u>695,339</u>
Attributable to:			
Owners of the parent		<b>539,416</b>	731,240
Non-controlling interests		<u><b>912</b></u>	<u>(35,901)</u>
		<u><b>540,328</b></u>	<u>695,339</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	10		
Basic (RMB)			
— For profit for the period		<u><b>16.90 cents</b></u>	<u>22.83 cents</u>
Diluted (RMB)			
— For profit for the period		<u><b>16.86 cents</b></u>	<u>22.72 cents</u>

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

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

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION**

		As at	
		30 June 2020 (Unaudited)	31 December 2019 (Audited) (Restated)
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	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		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		1,263	1,263
Pledged time deposits		150,000	50,000
Deferred tax assets		110,316	93,859
Total non-current assets		<u>10,386,150</u>	<u>9,799,091</u>
<b>CURRENT ASSETS</b>			
Inventories		631,775	617,178
Trade and notes receivables	12	1,843,838	1,697,931
Prepayments, other receivables and other assets		325,774	273,659
Due from related parties	16(c)	1,711	83,547
Financial assets at fair value through profit or loss		990,726	1,861,639
Restricted cash		37,230	36,643
Pledged time deposits		980,255	1,565,009
Time deposits with original maturity of over three months		589,540	1,001,000
Cash and cash equivalents		3,777,855	2,327,349
Total current assets		<u>9,178,704</u>	<u>9,463,955</u>
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	13	467,462	318,958
Other payables and accruals		974,907	1,084,901
Derivative financial instruments		4,955	—
Interest-bearing bank and other borrowings	14	4,406,226	4,041,497
Government grants		33,738	18,693
Tax payable		225,903	203,799
Due to related parties	16(c)	21,685	936
Dividend payable		175,487	5,000
Total current liabilities		<u>6,310,363</u>	<u>5,673,784</u>
<b>NET CURRENT ASSETS</b>		<u>2,868,341</u>	<u>3,790,171</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>13,254,491</u>	<u>13,589,262</u>

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION (CONTINUED)**

		As at	
		<b>30 June</b>	31 December
		<b>2020</b>	2019
		(Unaudited)	(Audited)
			(Restated)
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b><u>13,254,491</u></b>	<b><u>13,589,262</u></b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	14	2,671,639	2,677,120
Convertible bonds	15	1,911,650	1,833,173
Long-term payables		56,636	55,810
Contingent consideration payables		561,761	—
Employee defined benefit obligation		8,065	7,880
Government grants		132,238	131,854
Deferred tax liabilities		<u>89,861</u>	<u>77,772</u>
Total non-current liabilities		<u>5,431,850</u>	<u>4,783,609</u>
Net assets		<u>7,822,641</u>	<u>8,805,653</u>
<b>EQUITY</b>			
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		<u>6,122,334</u>	<u>5,727,149</u>
		7,668,136	8,831,625
Non-controlling interests		<u>154,505</u>	<u>(25,972)</u>
Total equity		<u>7,822,641</u>	<u>8,805,653</u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

*For the six months ended 30 June 2020*

## 1. CORPORATE INFORMATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 was approved and authorised by the Board 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

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.

### **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 Biological Technology Co., Ltd. (“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:

	<b>As previously reported (Unaudited)</b>	<b>Shandong Boan</b>	<b>Elimination of inter- company transactions</b>	<b>As restated (Unaudited)</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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

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:

	<b>As previously reported (Audited)</b>	<b>Shandong Boan</b>	<b>Elimination of inter- company balances</b>	<b>As restated (Audited)</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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:

	<b>As previously reported (Unaudited)</b>	<b>Shandong Boan</b>	<b>Elimination of inter- company transactions</b>	<b>As restated (Unaudited)</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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

### 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of this 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.

### 4. 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.



**For the six months ended 30 June 2020 (Unaudited)**

	Oncology drugs <i>RMB'000</i>	Cardio- vascular system drugs <i>RMB'000</i>	Alimentary tract and metabolism drugs <i>RMB'000</i>	Central nervous system drugs <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b>						
Sales to external customers	<u>1,334,214</u>	<u>429,507</u>	<u>391,313</u>	<u>746,335</u>	<u>60,832</u>	<u>2,962,201</u>
Total revenue	<u>1,334,214</u>	<u>429,507</u>	<u>391,313</u>	<u>746,335</u>	<u>60,832</u>	<u>2,962,201</u>
Segment results	<u>771,863</u>	<u>153,170</u>	<u>104,106</u>	<u>272,149</u>	<u>22,714</u>	<u>1,324,002</u>
Other income and gains						181,568
Administrative expenses						(248,018)
Other expenses						(351,022)
Finance costs						(222,981)
Share of profit of an associate						<u>1,026</u>
Profit before tax						<u>684,575</u>

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

	Oncology drugs <i>RMB'000</i>	Cardio- vascular system drugs <i>RMB'000</i>	Alimentary tract and metabolism drugs <i>RMB'000</i>	Central nervous system drugs <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b>						
Sales to external customers	<u>1,404,820</u>	<u>483,603</u>	<u>552,181</u>	<u>613,560</u>	<u>76,985</u>	<u>3,131,149</u>
Total revenue	<u>1,404,820</u>	<u>483,603</u>	<u>552,181</u>	<u>613,560</u>	<u>76,985</u>	<u>3,131,149</u>
Segment results	<u>761,965</u>	<u>202,324</u>	<u>208,011</u>	<u>224,513</u>	<u>26,604</u>	<u>1,423,417</u>
Other income and gains						165,684
Administrative expenses						(258,684)
Other expenses						(346,710)
Finance costs						(120,636)
Share of profit of an associate						<u>329</u>
Profit before tax						<u>863,400</u>

## 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
		(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue from contracts with customers</b>		
Sale of goods	<u>2,962,201</u>	<u>3,131,149</u>
<b>Other income and gains</b>		
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	<u>2,337</u>	<u>5,100</u>
	<u>181,568</u>	<u>165,684</u>

## 6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
		(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>31</u>	<u>159</u>

## 7. 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
	<u>222,981</u>	<u>120,636</u>

## 8. INCOME TAX

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)
		(Restated)
	RMB'000	RMB'000
Current tax	148,294	151,447
Deferred tax	(4,047)	16,614
	<u>144,247</u>	<u>168,061</u>

## 9. DIVIDENDS

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

## 10. 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:

	<b>For the six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	(Unaudited)
		(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent	<u><b>539,416</b></u>	<u>731,240</u>
	<b>For the six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	(Unaudited)
<i>Shares</i>		
Weighted average number of ordinary shares in issue during the period	<b>3,191,219,590</b>	3,203,477,893
Effect of dilution — weighted average number of ordinary shares under the share award scheme	<u><b>7,324,059</b></u>	<u>15,147,097</u>
	<u><b>3,198,543,649</b></u>	<u>3,218,624,990</u>

## 11. PROPERTY, PLANT AND EQUIPMENT

	<b>30 June 2020 (Unaudited) RMB'000</b>	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	<u>(338)</u>	<u>(78,831)</u>
Carrying amount at end of period	<u><b>3,506,327</b></u>	<u><b>3,277,117</b></u>

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 14).

## 12. TRADE AND NOTES RECEIVABLES

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

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 for 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:

	<b>30 June 2020 (Unaudited) RMB'000</b>	31 December 2019 (Audited) RMB'000
Less than 3 months	<b>1,137,371</b>	1,141,426
Between 3 and 6 months	<b>47,410</b>	61,836
Between 6 and 12 months	<b>8,411</b>	8,213
Between 1 and 2 years	<b>1,051</b>	3,136
Over 2 years	<b>1,705</b>	985
	<b><u>1,195,948</u></b>	<b><u>1,215,596</u></b>

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 13).

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 13).

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 14).

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 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

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

	<b>30 June 2020 (Unaudited) RMB'000</b>	31 December 2019 (Audited) (Restated) RMB'000
Less than 3 months	<b>429,982</b>	299,304
Between 3 and 6 months	<b>28,994</b>	11,823
Between 6 and 12 months	<b>4,276</b>	3,918
Between 1 and 2 years	<b>1,677</b>	2,341
Over 2 years	<b><u>2,533</u></b>	<u>1,572</u>
	<b><u><u>467,462</u></u></b>	<u><u>318,958</u></u>

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 12), other unlisted investments with a carrying amount of RMB100,000,000 (31 December 2019: RMB88,320,000) and certain of the Group's time deposits of RMB47,547,000 (31 December 2019: Nil).

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), other unlisted investments with a carrying amount of RMB550,000,000 (31 December 2019: RMB1,221,580,000) and certain of the Group's notes receivable with a carrying amount of RMB5,719,000 (31 December 2019: RMB50,000,000) (note 12).

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

## 14. INTEREST-BEARING LOANS AND BORROWINGS

As at 30 June 2020

	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>			
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



	<b>Effective interest rate (%)</b>	<b>Maturity</b>	<b>RMB'000</b>
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	<u>14,301</u>
			<u>4,406,226</u>
<b>Non-current</b>			
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	<u>12,913</u>
			<u>2,671,639</u>
Total interest-bearing loans and borrowings			<u><u>7,077,865</u></u>
Convertible bonds	7.29	2020 – 2024	<u>1,911,650</u>
			<u><u>8,989,515</u></u>

**As at 31 December 2019 (Restated)**

	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>			
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

	Effective interest rate (%)	Maturity	RMB'000
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
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	<u>16,627</u>
			<u>4,041,497</u>
<b>Non-current</b>			
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	<u>12,330</u>
			<u>2,677,120</u>
Total interest-bearing loans and borrowings			<u><u>6,718,617</u></u>
Convertible bonds	7.29	2019 – 2024	<u>1,833,173</u>
			<u><u>8,551,790</u></u>

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);
- (ii) the pledge of certain of the Group's notes receivable of RMB70,390,000 (31 December 2019: Nil) (note 12);
- (iii) the pledge of certain of the Group's intra-group notes receivable of RMB250,000,000 (31 December 2019: RMB170,000,000) (note 12);
- (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 11);
- (v) the pledge of certain of the Group's other unlisted investments with a carrying amount of RMB200,000,000 (31 December 2019: Nil); 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 16(b)).

## **15. 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.

## 16. 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

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

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

*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.

(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.

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 14.

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:

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

*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.

## 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 COVID-19 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 research and development ("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.

## **Key Products**

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

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

Lipusu is the Group's proprietary formulation of paclitaxel using an innovative liposome injection delivery vehicle and a chemotherapy treatment of certain types of cancer. According to IQVIA, the market for oncology pharmaceutical products in the PRC was 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*<sup>®</sup> (希美納<sup>®</sup>)**

CMNa is sodium glycididazole, a proprietary compound that the Group prepares in injectable form and is indicated for use in connection with radiotherapy for certain solid tumours. It is a Class I New Chemical Drug and the only NMPA approved sensitiser for cancer radiotherapy in China. According to the NMPA, CMNa was the only glycididazole product available for sale in the first half of 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*<sup>®</sup> (血脂康<sup>®</sup>)**

Xuezhikang is the Group's proprietary natural medicine derived from red yeast rice indicated for hypercholesterolaemia and, according to the NMPA, the Group was the only Xuezhikang manufacturer in China as of 30 June 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***<sup>®</sup> (麥通納<sup>®</sup>)

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral edema and edema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IQVIA, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB1.5 billion in the first half of 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***<sup>®</sup> (貝希<sup>®</sup>)

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to the NMPA, the Group was the only manufacturer of acarbose in capsule form in the first half of 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.

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

Seroquel (quetiapine fumarate, immediate release, IR) and Seroquel XR (extended release formulation) are atypical 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 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. 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.

***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 China Center for Drug Evaluation of National Medical Products Administration ("CDE, NMPA"). 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<sup>®</sup>) 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<sup>®</sup>) 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 small-molecule 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.

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<sup>™</sup>) for the treatment of adult patients with metastatic Small Cell Lung Cancer who suffered from relapse, after platinum-based chemotherapy. Besides, Lurbinectedin has also been submitted NDAs 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 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, 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 expect that the successful tender will significantly increase its market share and facilitate the product's entry into new provincial markets.

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<sup>®</sup> and Seroquel XR<sup>®</sup> 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<sup>®</sup> and Seroquel XR<sup>®</sup> in Brazil and Mexico; and granted Alvogen Korea Co., Ltd. the exclusive distribution and marketing rights for Seroquel<sup>®</sup> and Seroquel XR<sup>®</sup> 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.

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.

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; the clinical trial application of LY03014 and LY01017 has been approved by CDE; the IND application of LY01616, LY03013 and LY01018 have been formally accepted by CDE. 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.

## **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%, which 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.

## **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.

## **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 borrowings is 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 announcement, 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.

### **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.

## **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.

## **SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD**

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

## **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.

## **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. 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 2020.

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Company has repurchased a total of 20,000,000 Shares during the six months ended 30 June 2020 and they were cancelled on 16 April 2020 and 24 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.

**PUBLICATION OF THE INTERIM RESULTS AND 2020 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

This interim results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<http://www.luye.cn>), and the 2020 interim report containing all the information required by the Listing Rules will be despatched to the shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 27 August 2020

*As at the date of this announcement, the executive Directors of the Company are Mr. LIU Dian Bo, Mr. YUAN Hui Xian, Mr. YANG Rong Bing 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.*