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LUYE PHARMA GROUP LTD.

绿叶制药集团有限公司

(Incorporated in the Bermuda with limited liability)

(Stock Code: 02186)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Revenue increased by RMB361.7 million or 24.3% to RMB1,850.8 million, as compared to the six months ended 30 June 2016.
- EBITDA increased by RMB8.8 million or 1.6% to RMB576.4 million, as compared to the six months ended 30 June 2016. Normalised EBITDA* increased by RMB81.9 million or 14.4% to RMB649.5 million as compared to the six months ended 30 June 2016.
- Gross profit increased by RMB167.4 million or 13.3% to RMB1,426.4 million, as compared to the six months ended 30 June 2016, and gross profit margin reached 77.1%.
- Net profit decreased by RMB35.2 million or 8.3% to RMB387.9 million, as compared to the six months ended 30 June 2016. Normalised net profit* increased by RMB37.9 million or 9.0% to RMB461.0 million as compared to the six months ended 30 June 2016.
- Profit attributable to shareholders decreased by RMB39.2 million or 9.2% to RMB385.4 million, as compared to the six months ended 30 June 2016. Normalised profit attributable to shareholders* increased by RMB33.9 million or 8.0% to RMB458.5 million as compared to the six months ended 30 June 2016.
- Earnings per share was RMB11.74 cents compared to RMB12.78 cents for the six months ended 30 June 2016.
- The Board declared an interim dividend of RMB0.029 (equivalent to HK\$0.033) per share for the six months ended 30 June 2017.

* Normalised EBITDA, normalised net profit and normalised profit attributable to shareholders is defined as the EBITDA, net profit and profit attributable to shareholders for the period excluding the equity-settled share award scheme expense, one-off inventories amortisation and acquisition incurred expenses arising from the acquisition of new business in Europe by the Group at the end of last year.

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 2017, together with the comparative figures for the corresponding period of 2016, as follows:

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
	<i>Notes</i>	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)
REVENUE	5	1,850,782	1,489,075
Cost of sales		<u>(424,408)</u>	<u>(230,099)</u>
Gross profit		1,426,374	1,258,976
Other income and gains	5	92,593	78,940
Selling and distribution expenses		(657,872)	(608,037)
Administrative expenses		(220,486)	(119,937)
Other expenses		(157,431)	(107,275)
Finance costs	7	(22,387)	(13,333)
Share of profit of an associate		<u>379</u>	<u>1,548</u>
PROFIT BEFORE TAX	6	461,170	490,882
Income tax expense	8	<u>(73,314)</u>	<u>(67,791)</u>
PROFIT FOR THE PERIOD		<u><u>387,856</u></u>	<u><u>423,091</u></u>
Attributable to:			
Owners of the parent		385,377	424,569
Non-controlling interests		<u>2,479</u>	<u>(1,478)</u>
		<u><u>387,856</u></u>	<u><u>423,091</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	<i>10</i>		
Basic (RMB)			
— For profit for the period		<u><u>11.74 cents</u></u>	<u><u>12.78 cents</u></u>
Diluted (RMB)			
— For profit for the period		<u><u>11.74 cents</u></u>	<u><u>12.78 cents</u></u>

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>387,856</u>	<u>423,091</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Fair value change on available-for-sale investments	(1,034)	(486)
Exchange differences on translation of foreign operations	<u>22,063</u>	<u>3,827</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	<u>21,029</u>	<u>3,341</u>
Other comprehensive income for the period, net of tax	<u>21,029</u>	<u>3,341</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>408,885</u></u>	<u><u>426,432</u></u>
Attributable to:		
Owners of the parent	406,406	427,910
Non-controlling interests	<u>2,479</u>	<u>(1,478)</u>
	<u><u>408,885</u></u>	<u><u>426,432</u></u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 June 2017	31 December 2016
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	1,858,051	1,701,739
Advance payments for property, plant and equipment		73,910	44,303
Prepaid land lease payments		226,471	223,505
Goodwill		1,032,244	995,921
Other intangible assets		859,033	855,676
Investment in an associate		6,297	5,840
Available-for-sale investments	<i>12</i>	2,697	2,646
Deferred tax assets		<u>94,194</u>	<u>93,760</u>
Total non-current assets		<u>4,152,897</u>	<u>3,923,390</u>
CURRENT ASSETS			
Inventories		440,335	452,670
Trade and notes receivables	<i>13</i>	1,369,871	1,415,009
Prepayments, deposits and other receivables	<i>14</i>	1,104,779	183,521
Due from related parties	<i>17(b)</i>	1,207	1,393
Available-for-sale investments	<i>12</i>	849,282	1,473,284
Pledged time deposits		833,079	482,467
Time deposit with original maturity of over three months		642,626	876,338
Cash and cash equivalents		<u>1,433,588</u>	<u>397,775</u>
Total current assets		<u>6,674,767</u>	<u>5,282,457</u>
CURRENT LIABILITIES			
Trade and notes payables	<i>15</i>	110,972	116,142
Other payables and accruals		412,709	449,037
Interest-bearing loans and borrowings	<i>16</i>	3,185,578	1,623,741
Government grants		52,374	56,778
Tax payable		117,718	128,270
Due to related parties	<i>17(b)</i>	808	808
Dividends payable		<u>116,285</u>	<u>—</u>
Total current liabilities		<u>3,996,444</u>	<u>2,374,776</u>
NET CURRENT ASSETS		<u>2,678,323</u>	<u>2,907,681</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,831,220</u>	<u>6,831,071</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		As at	
		30 June	31 December
	<i>Note</i>	2017	2016
		RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	<i>16</i>	307	372
Government grants		123,906	121,595
Deferred revenue		30,517	25,668
Deferred tax liabilities		104,627	121,435
		<u>259,357</u>	<u>269,070</u>
Total non-current liabilities			
		<u>259,357</u>	<u>269,070</u>
Net assets		<u>6,571,863</u>	<u>6,562,001</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		427,269	427,269
Share premium		2,936,817	2,936,817
Reserves		3,071,840	3,064,457
		<u>6,435,926</u>	<u>6,428,543</u>
Non-controlling interests		135,937	133,458
		<u>135,937</u>	<u>133,458</u>
Total equity		<u>6,571,863</u>	<u>6,562,001</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of Luye Pharma Group Ltd. (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2017 were approved and authorised by the Board on 28 August 2017.

The Company was incorporated in the 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 (the “**Stock Exchange**”).

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

The interim condensed consolidated financial statements for the six months ended 30 June 2017 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 for the year ended 31 December 2016.

The interim condensed consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investments 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.

3. 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 financial statements for the year ended 31 December 2016, except for the adoption of the following revised standards effective as of 1 January 2017.

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 included in <i>Annual Improvements 2014–2016 Cycle</i>	<i>Disclosure of Interests in Other Entities</i>

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

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

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 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 expense 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 2017 (Unaudited)

	Oncology drugs	Cardio- vascular system drugs	Alimentary tract and metabolism drugs	Central nervous system drugs	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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>

For the six months ended 30 June 2016 (Unaudited)

	Oncology drugs <i>RMB'000</i>	Cardio- vascular system drugs <i>RMB'000</i>	Alimentary tract and metabolism drugs <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue					
Sales to external customers	<u>888,430</u>	<u>306,804</u>	<u>250,923</u>	<u>42,918</u>	<u>1,489,075</u>
Total revenue	<u>888,430</u>	<u>306,804</u>	<u>250,923</u>	<u>42,918</u>	<u>1,489,075</u>
Segment results	<u>435,139</u>	<u>115,699</u>	<u>91,605</u>	<u>8,496</u>	<u>650,939</u>
Other income and gains					78,940
Administrative expenses					(119,937)
Other expenses					(107,275)
Finance costs					(13,333)
Share of profit of an associate					<u>1,548</u>
Profit before tax					<u>490,882</u>

5. 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	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Sale of drugs	<u>1,850,782</u>	<u>1,489,075</u>
Other income and gains		
Bank interest income	13,127	18,387
Government grants	42,191	32,501
Investment income	33,664	26,774
Others	<u>3,611</u>	<u>1,278</u>
	<u>92,593</u>	<u>78,940</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation of items of property, plant and equipment	71,146	49,017
Amortisation of other intangible assets	18,526	11,680
Amortisation of prepaid land lease payments	3,124	2,635
Operating lease expenses	10,444	9,619
Auditor's remuneration	1,680	1,680
Research and development costs	125,660	83,981
Cost of inventories sold	424,408	230,099
Foreign exchange loss, net	28,383	21,944
Equity-settled share award scheme expense	1,175	—
Loss on disposal of non-current assets	712	430

7. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank loans	22,371	13,317
Finance charges payable under a hire purchase contract	16	16

8. 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	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
Income tax charge	89,351	86,691
Under provision in prior years	1,049	82
Deferred tax	(17,086)	(18,982)
Total tax charge for the period	<u>73,314</u>	<u>67,791</u>

9. DIVIDENDS

On 28 August 2017, the Company declared an interim dividend of RMB0.029 (equivalent to HK\$0.033) per share (equivalent to totaling approximately RMB96,344,000) for the six months ended 30 June 2017 (the six months ended 30 June 2016: RMB0.032 (equivalent to HK\$0.037) 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 3,282,113,358 (the six months ended 30 June 2016: 3,321,073,843) 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	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent	<u>385,377</u>	<u>424,569</u>
	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
<i>Shares</i>		
Weighted average number of ordinary shares in issue during the period	3,282,113,358	3,321,073,843
Effect of dilution — weighted average number of ordinary shares under the share award scheme	<u>551,354</u>	<u>—</u>
	<u>3,282,664,712</u>	<u>3,321,073,843</u>

11. PROPERTY, PLANT AND EQUIPMENT

	30 June 2017	31 December 2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Carrying amount at beginning of period	1,701,739	1,196,262
Additions	209,695	295,762
Acquisition of subsidiaries	—	318,837
Depreciation provided during the period	(71,146)	(105,803)
Exchange realignment	18,729	(1,305)
Disposals	<u>(966)</u>	<u>(2,014)</u>
Carrying amount at end of period	<u>1,858,051</u>	<u>1,701,739</u>

As at 30 June 2017, the Group was applying for certificates of ownership for certain properties with a net book value of RMB1,732,000 (31 December 2016: RMB1,773,000). 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.

12. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Current		
Investment in bank financial products, at fair value	<u>849,282</u>	<u>1,473,284</u>
Non-current		
Listed equity investment, at fair value	2,197	2,146
Unlisted investment, at cost	<u>500</u>	<u>500</u>
	<u>2,697</u>	<u>2,646</u>

Current available-for-sale investments are structured financial products issued by banks with expected interest rates ranging from 2.85% to 5.10% per annum with a maturity period within ten months in the People's Republic of China (the "PRC"). The principals are all protected. The fair values of the financial products approximate to their costs plus expected interest.

Non-current available-for-sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon date.

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

The fair value of unlisted investment cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for the investment, and (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The investment was stated at cost less any impairment losses.

As at 30 June 2017, investment in bank financial products of RMB495,000,000 (31 December 2016: RMB570,000,000) was pledged to secure intra-group notes payable.

As at 30 June 2017, investment in bank financial products of RMB115,000,000 (31 December 2016: Nil) was pledged to secure a short-term loan of EUR37,000,000 (31 December 2016: Nil) (note 16).

13. TRADE AND NOTES RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables	730,161	954,469
Notes receivable	<u>640,914</u>	<u>462,370</u>
	1,371,075	1,416,839
Less: Impairment of trade receivables	<u>(1,204)</u>	<u>(1,830)</u>
	<u>1,369,871</u>	<u>1,415,009</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 aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Less than 3 months	608,265	781,114
Between 3 and 6 months	91,648	100,586
Between 6 and 12 months	28,087	69,941
Between 1 and 2 years	874	1,091
Over 2 years	<u>1,287</u>	<u>1,737</u>
	<u>730,161</u>	<u>954,469</u>

As at 30 June 2017, the Group has pledged notes receivable of RMB17,386,000 (31 December 2016: RMB1,600,000) to secure intra-group notes receivable of RMB17,386,000 (31 December 2016: RMB1,600,000).

As at 30 June 2017, the Group has pledged notes receivable of RMB3,340,000 (31 December 2016: RMB13,505,000) to secure notes payable of RMB3,340,000 (31 December 2016: RMB13,505,000) (note 15).

As at 30 June 2017, the Group has pledged notes receivable of RMB32,930,000 (31 December 2016: RMB20,663,000) to secure short-term loans of RMB65,000,000 (31 December 2016: EUR37,000,000) (note 16).

As at 30 June 2017, the Group has pledged intra-group notes receivable of RMB245,000,000 (31 December 2016: Nil) to secure short-term loans of RMB48,000,000 and EUR47,000,000 (31 December 2016: Nil) (note 16).

The notes receivable are due within six months.

As at 30 June 2017, 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 RMB100,611,000 (31 December 2016: RMB73,725,000) (the “**Endorsement**”). The Endorsed Notes have a maturity from one to six months as at 30 June 2017. 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 RMB69,110,000 (31 December 2016: RMB39,163,000) (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 RMB31,501,000 as at 30 June 2017 (31 December 2016: RMB34,562,000) 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.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2017	31 December 2016
	RMB’000	RMB’000
	(Unaudited)	(Audited)
Entrusted loan receivables	850,000	—
Other receivables	183,929	133,424
Prepaid income tax	9,469	1,297
Prepaid other tax	25,889	22,723
Prepayments	38,492	29,077
	1,107,779	186,521
Less: Impairment of other receivables	(3,000)	(3,000)
	1,104,779	183,521

The four entrusted loan receivables are unsecured, repayable within three months from the statement of financial position date, and bear interest from 8% to 10% per annum. In August 2017, the Group has fully received the entrusted loans.

15. TRADE AND NOTES PAYABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade payables	87,048	102,637
Notes payable	23,924	13,505
	<u>110,972</u>	<u>116,142</u>

An aged 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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Less than 3 months	80,839	85,792
Between 3 and 6 months	24,052	26,463
Between 6 and 12 months	4,484	2,300
Between 1 and 2 years	996	1,297
Over 2 years	601	290
	<u>110,972</u>	<u>116,142</u>

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

As at 30 June 2017, notes payable of RMB3,340,000 (31 December 2016: RMB13,505,000) were secured by the Group's notes receivable with a carrying amount of RMB3,340,000 (31 December 2016: RMB13,505,000) (note 13).

As at 30 June 2017, notes payable of RMB20,584,000 (31 December 2016: Nil) were secured by the Group's time deposits with a carrying amount of RMB17,434,000 (31 December 2016: Nil).

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

16. INTEREST-BEARING LOANS AND BORROWINGS

As at 30 June 2017

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB80,000,000 bank loan	3.48	14 July 2017	80,000
RMB30,000,000 bank loan	3.70	16 July 2017	30,000
RMB58,000,000 bank loan	3.70	16 July 2017	58,000
RMB250,000,000 bank loan	3.70	16 July 2017	250,000
RMB70,000,000 bank loan	3.70	17 July 2017	70,000
RMB130,000,000 bank loan	3.70	19 July 2017	130,000
RMB31,562,851 bank loan	3.92	19 September 2017	31,563
RMB68,437,149 bank loan	3.92	19 September 2017	68,437
RMB42,177,438 bank loan	4.30	20 November 2017	42,177
RMB57,822,562 bank loan	4.30	20 November 2017	57,823
RMB48,000,000 bank loan	4.35	11 December 2017	48,000
RMB17,000,000 bank loan	4.35	12 December 2017	17,000
RMB50,000,000 bank loan	4.35	8 June 2018	50,000
RMB50,000,000 bank loan	4.35	8 June 2018	50,000
EUR23,000,000 bank loan	0.50	14 July 2017	178,241
EUR26,000,000 bank loan	0.53	15 August 2017	201,490
EUR10,000,000 bank loan	0.70	28 August 2017	77,496
EUR33,500,000 bank loan	1-Month LIBOR+0.8	24 July 2017	259,612
EUR37,000,000 bank loan	3-Month LIBOR+0.8	20 July 2017	286,735
EUR23,500,000 bank loan	1.50	24 July 2017	182,116
EUR24,000,000 bank loan	1.85	25 July 2017	185,990
EUR37,000,000 bank loan	3-Month EURIBOR+0.7	19 October 2017	286,735
EUR49,000,000 bank loan	6-Month EURIBOR+0.95	20 April 2018	379,730
EUR10,000,000 bank loan	1.05	17 May 2018	77,496
HK\$100,000,000 bank loan	3-Month HIBOR+0.7	7 August 2017	86,790
Finance lease payables, current portion	2.2	30 June 2018	147
			<u>3,185,578</u>
Non-current			
Finance lease payables	2.2	1 July 2018– 30 August 2020	307
			<u><u>3,185,885</u></u>

As at 31 December 2016

	Effective interest rate (%)	Maturity	<i>RMB'000</i>
Current			
Bank loans — secured			
RMB80,000,000 bank loan	3.48	22 March 2017	80,000
RMB100,000,000 bank loan	3.48	24 June 2017	100,000
RMB11,979,806 bank loan	3.70	24 June 2017	11,980
RMB250,000,000 bank loan	3.70	23 October 2017	250,000
EUR33,500,000 bank loan	3-Month LIBOR+0.7	24 June 2017	244,778
EUR23,000,000 bank loan	1.00	23 January 2017	168,056
EUR10,000,000 bank loan	0.70	28 February 2017	73,068
EUR37,000,000 bank loan	3-Month LIBOR+0.8	20 July 2017	270,352
EUR24,000,000 bank loan	1.85	25 July 2017	175,363
Discounted notes receivable	2.79	1 February 2017	100,000
	2.70	26 January 2017	150,000
Finance lease payables, current portion	2.2	31 December 2017	<u>144</u>
			<u>1,623,741</u>
Non-current			
Finance lease payables	2.2	1 January 2018– 30 August 2020	<u>372</u>
			<u><u>1,624,113</u></u>

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

- (i) the pledge of certain of the Group's time deposits of RMB747,245,000 (31 December 2016: RMB456,341,000);
- (ii) the pledge of certain of the Group's notes receivable of RMB32,930,000 (31 December 2016: RMB20,663,000) (note 13);
- (iii) the pledge of certain of the Group's intra-group notes receivable of RMB245,000,000 (31 December 2016: Nil) (note 13); and
- (iv) the pledge of certain of the Group's available-for-sale investments of RMB115,000,000 (31 December 2016: Nil) (note 12).

17. 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 2017 and 2016:

	Notes	For the six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Sales of products to Steward Cross	(i)	3,311	3,844
Sales of inventories to Shandong Boan	(ii)	—	1,439
Purchase of building from Lujian Real Estate	(iii)	<u>5,710</u>	<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 sales to Shandong Boan were made on terms equivalent to those that prevail in arm's length transaction.
- (iii) The purchase of building from Lujian Real Estate was made on terms equivalent to those that prevail in arm's length transaction.
- (b) Outstanding balances with related parties:

The Group had the following significant balances with its related parties as at 30 June 2017 and 31 December 2016:

- (i) Due from related parties

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Steward Cross	<u>1,207</u>	<u>1,393</u>

- (ii) Due to related parties

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Shandong Boan	<u>808</u>	<u>808</u>

18. 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 of the Company 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 the rules of the Scheme, the Scheme shall be valid and effective for a term of ten years commencing on the 10 January 2017 (the “**Adoption Date**”).

The Scheme shall be administered by the Board 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 shall 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 an amount to the Trustee by way of settlement or otherwise contributed by the Company or other member of the Group as directed by the Board. 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 the Stock Exchange specifying the timing of purchase, maximum amount of funds to be used and the range of prices within which such shares are to be purchased.

The Board 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; and (ii) such date of early termination as determined by the Board 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.

The following Awarded Shares were outstanding under the Scheme during the period:

	Number of shares purchased for the Scheme	Number of awarded shares
As at 1 January 2017	—	—
Purchased and withheld	<u>66,418,500</u>	<u>17,724,000</u>
As at 30 June 2017	<u><u>66,418,500</u></u>	<u><u>17,724,000</u></u>
Exercisable as at 30 June 2017	<u><u>—</u></u>	<u><u>—</u></u>

During the period, a share award expense of RMB1,175,000 was charged to the interim condensed consolidated statement of profit or loss (the six months ended 30 June 2016: Nil), of which an amount of RMB80,000 was included in the directors’ remuneration (the six months ended 30 June 2016: Nil).

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 (the "PRC" or "China"), the United States (the "U.S."), Europe and other countries or districts, namely oncology, cardiovascular system, alimentary tract and metabolism and central nervous system ("CNS"). The Group's product portfolio consists of 34 products and centers around 6 key products, 5 of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases, diabetes and central nervous system diseases. During the six months ended 30 June 2017, the Group's sales of innovative pharmaceutical products maintained a stable growth momentum as the Group further deepened its market penetration and expanded the market share of its key products. The Group recorded a stable revenue growth of 24.3% in the first half of 2017 as compared to that of 2016.

Market Positioning

The Group's key products are competitively positioned in one of its four key therapeutic areas and have gained top-ranking market shares measured by revenue. According to QUINTILES IMS HOLDINGS ("IMS"), oncology-related pharmaceutical products constituted the third largest market in China for pharmaceutical products in the first half of 2017. The Group's portfolio of oncology products includes Lipusu, the best-selling pharmaceutical product for cancer treatment in China in the first half of 2017 according to IMS, 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. IMS data showed that cardiovascular system-related pharmaceutical products constituted the second largest market for pharmaceutical products in the PRC in the first half of 2017. According to IMS, 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 domestically manufactured vasoprotective pharmaceutical products in China in the first half of 2017, respectively. According to IMS, alimentary tract and metabolism-related pharmaceutical products constituted the largest market for pharmaceutical products in the PRC in the first half of 2017. According to IMS, the Group was the third largest domestic pharmaceutical manufacturer of oral diabetic medications in China in the first half of 2017 by revenue. For overseas, the Group's products are mainly positioned in central nervous system therapeutic area, including rivastigmine, fentanyl and buprenorphine patches.

For the six months ended 30 June 2017, the Group's revenue from sales of oncology products, alimentary tract and metabolism products, central nervous system products and other products increased to RMB936.1 million, RMB352.7 million, RMB229.7 million and RMB47.6 million, respectively, representing a growth rate of 5.4%, 40.6%, N.A (Newly acquired business in last quarter of 2016) and 11.0%, while cardiovascular system products decreased by 7.2% to RMB284.7 million as compared to the six months ended 30 June 2016 for the respective therapeutic areas.

Key Products

The Company believes that the Group's 6 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 IMS, the market for oncology pharmaceutical products in the PRC was RMB35.6 billion in the first half of 2017 and by revenue, Lipusu was the most popular pharmaceutical product for cancer treatment in China in the first half of 2017, as well as the most popular paclitaxel product in China in the first half of 2017 with a market share of approximately 57.2%. As at 30 June 2017, 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 2017. 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 2017. According to IMS, the market for pharmaceutical products indicated for the treatment of hypercholesterolaemia and lowering of blood cholesterol triglycerides and low density lipoprotein cholesterol in China was estimated to be approximately RMB6.8 billion in the first half of 2017. According to IMS, Xuezhikang ranked as the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in the first half of 2017.

Maitongna[®] (麥通納[®])

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral oedema and oedema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IMS, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB1.2 billion in the first half of 2017. Maitongna was the best-selling sodium aescinate product in China in the first half of 2017 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in the first half of 2017, according to IMS, with a market share of approximately 69.9% in the first half of 2017.

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 2017. According to IMS, the market for acarbose products in China was estimated to be approximately RMB1.8 billion in the first half of 2017 and Bei Xi ranked as the third most popular acarbose product in China with a market share of approximately 7.9% in the first half of 2017.

Rivastigmine Transdermal Patches (the “Rivastigmine Patch”)

The Rivastigmine Patch is rivastigmine in transdermal patches form approved by the U.S. Food and Drug Administration (“FDA”) and is indicated for mild to moderate dementia of the Alzheimer’s type and dementia due to Parkinson’s disease. According to IMS, Rivastigmine Patch’s volume market share in the first half of 2017 is approximately 46.3% in the U.S. and 18.5% in European Union countries (28.5% in EU5 countries namely the United Kingdom, France, Germany, Italy, Spain), and such market share had increased as compare of to that of 2016.

Research and Development (“R&D”)

The Group’s R&D activities are organised around four platforms — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. 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 2017, the Group’s R&D team consisted of approximately 350 employees, including approximately 60 Ph.D. degree holders and approximately 150 Master’s degree holders in medical, pharmaceutical and other related areas. As at 30 June 2017, the Group had been granted over 250 patents and had over 40 pending patent applications in the PRC, as well as over 390 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 expanding into the CNS therapeutic area. As at 30 June 2017, the Group had a pipeline of 27 PRC product candidates in various stages of development. These candidates included 11 oncology products, 4 cardiovascular and metabolism products, as well as 12 CNS products. In the first half of 2017, 2 oncology products of the Group successfully applied for Investigation New Drug.

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., 1 product candidate has completed its clinical stage and 4 candidate products are in different clinical stages. In Europe, 1 product candidate has obtained approval in Germany to commence clinical trials. 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 February 2017, the Group has obtained the approval from the CFDA to commence the development of Buprenorphine Transdermal Patches in the PRC. The product has been marketed in a number of countries including the United Kingdom, Germany and Spain. Leveraging on the expertise in transdermal patches of Luye Pharma AG's R&D platform, the Group will also seek to register the product in the U.S., Japan and South Korea.

In March 2017, the Group has obtained the approval from the Federal Institute for Drugs and Medical Devices in Germany to commence clinical trials for Rivastigmine Multi-day Transdermal Patch for the treatment of Alzheimer's disease. In addition to Germany, the Group also plans to register this product in the U.S., Japan, China and other countries.

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 2017. The Group's sales, marketing and distribution functions are conducted through over 60 sales support offices, over 1,300 sales and marketing personnel, a network of approximately 1,050 distributors that collectively enabled the Group to sell its products to over 12,100 hospitals, which comprised approximately 1,600 Class III hospitals, approximately 3,510 Class II hospitals and approximately 6,990 Class I and other hospitals and medical institutions in the PRC in the first half of 2017. The Group believes that its sales and marketing model and 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.

For overseas, the Group has established in-house sales teams in both Singapore and Malaysia. The Group has sales partnerships with more than 20 partners throughout the world, covering more than 20 countries including the U.S., Europe and other countries or districts.

In February 2017, the Ministry of Human Resources and Social Security of the PRC released the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance Catalogue (2017 Version) (the "**Insurance Catalogue**"). Among the Group's products, (i) three products were added to the Insurance Catalogue, including Sidinuo, Okai and Sailimai (Montmorillonite tablets); (ii) five products were removed or relaxed from previous reimbursement restrictions, including Xuezhikang, CMNa, Sailimai (Montmorillonite Powder), Beitangning and Saitan; and (iii) Bei Xi has been elevated from Class B to Class A in the Insurance Catalogue. The Company believes that such changes will be beneficial to the Group's sales in the long run.

Merger and Acquisition

The Group acquired the transdermal drug delivery systems (“**TDS**”) business through the acquisition of Luye Pharma AG (formerly known as Acino AG) and Luye Supply AG (formerly known as Acino Supply AG). The acquisition was completed in November 2016.

The TDS business includes the business of developing, producing and distributing therapeutic systems for drug release and related products, and providing related services, which in particular include the transdermal systems and implants. The acquired target possesses strong know-how in difficult-to-make formulations, applying the highest quality standards and has a proven R&D and successful product launch track record. Its robust product pipeline also offers potential to deliver multiple products into the markets over the next few years.

In February 2017, the Group has obtained the approval from the CFDA to commence the development of Buprenorphine Transdermal Patches in the PRC. The product was marketed in a number of countries including the United Kingdom, Germany and Spain. Leveraging on the expertise in transdermal patches of Luye Pharma AG’s R&D platform, the Group will also seek to register the product in the U.S., Japan and South Korea.

The Group entered into two equity transfer agreements dated 4 August 2017 in respect of the acquisition of two biological antibody products, which are under research and development, namely LY01008 and LY06006, and their respective technologies, data and all rights attaching to the products including but not limited to the clinical trials approval from Shandong Boan Biological Technology Co., Ltd., for a total consideration of RMB450 million, which is payable by stages (the “**Acquisition**”). The Board believes that the Acquisition is important for the Group to develop its own biological antibodies in order to remain competitive and maintain a long-term sustainable growth. Please refer to the Company’s announcement dated 4 August 2017 for detailed information.

Outlook

Due to policy and market factors, the Chinese pharmaceutical industry’s remains a low growth rate in the first half of 2017. According to IMS, the growth rate of the Chinese pharmaceutical market was 3.8% in the first half of 2017, compared to 8.1% in that of 2016.

Since it is a highly competitive industry, inevitably all the pharmaceutical companies in the PRC are facing intense competition. Furthermore, the industry is highly constrained by the government policy, which may cause great uncertainty for the pharmaceutical companies’ developments. In recent years, policies such as tendering and reimbursement are posing great impacts on the industry.

For the second half of 2017, 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, for the first half of 2017 the Group has obtained the approval from the CFDA to commence the development of Buprenorphine Transdermal Patches. While overseas, the Group has obtained the approval from the Federal Institute for Drugs and Medical Devices in Germany to commence clinical trials for Rivastigmine Multi-day Transdermal Patch for the treatment of Alzheimer's disease.

For R&D, the Group has established a transdermal drug delivery systems platform based on Luye Pharma AG's R&D platform. The platform has enabled the Group to obtain the approval from the CFDA to commence the development of Buprenorphine Transdermal Patches. In addition, the Group has obtained the approval from the Federal Institute for Drugs and Medical Devices in Germany to commence clinical trials for Rivastigmine Multi-day Transdermal Patch for the treatment of Alzheimer's disease.

In order to enrich portfolio, the Company agreed to buy two biological antibody products, which are under research and development, being LY01008 and LY06006, and their respective technologies, data and all rights attaching to the products including but not limited to the clinical trials approval from Shandong Boan Biological Technology Co., Ltd., for a total consideration of RMB450 million, which is payable by stages. The Company believes that it is important for the Group to develop its own biological antibodies in order to remain competitive and maintain a long-term sustainable growth.

For sales and distribution, the Insurance Catalogue (2017 Version) was released by the Ministry of Human Resources and Social Security of the PRC in February 2017. Among the Group's products, three have been newly added to the Insurance Catalogue, including Sidinuo, Okai and Sailimai; five have been removed or relaxed from previous reimbursement restrictions, including Xuezhikang, CMNa, Sailimai, Beitangning and Saitan; Beixi has been elevated from Class B to Class A in the Insurance Catalogue. The Company believes that such changes will be beneficial to the Group's sales in the long run.

For overseas, the Group has consolidated Luye Supply AG's sales and business development teams. With the help of sales and business development teams in Asia and the U.S., the Group is targeting to enhance Luye Supply AG's sales power as well as extend its sales channels, which the Group believes will significantly increase the Group's global sales capabilities. 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.

In May 2017, the Board also announced that Bank of Communications Trustee Limited, the trustee of the Company's Luye Pharma Share Award Scheme (the "**Scheme**"), had purchased an aggregate of 66,418,500 ordinary shares of the Company, representing approximately 2% of the issued share capital of the Company for the Scheme. Please refer to the Company's announcement dated 31 May 2017 for detailed information. The purpose of the Scheme is to recognise contributions by certain employees of

the Group 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. As at 30 June 2017, the Board has granted to the selected employees an aggregate of 17,861,000 shares of the Company under the Scheme and 17,724,000 awarded shares were accepted by selected employees.

Management of the Group is confident that, with the Group's 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 growth.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2017, the Group's revenue amounted to approximately RMB1,850.8 million, as compared to RMB1,489.1 million for the six months ended 30 June 2016, representing an increase of approximately RMB361.7 million, or 24.3%. The increase is mainly attributable to the sales growth of the Group's key products and revenue contribution from our newly acquired business in Europe in the last quarter of 2016.

For the six months ended 30 June 2017, the Group's revenue from sales of oncology products increased to RMB936.1 million, as compared to RMB888.4 million for the six months ended 30 June 2016, representing an increase of approximately RMB47.7 million, or 5.4%, primarily attributable to the increase in sales volume of various oncology products of the Group.

For the six months ended 30 June 2017, revenue from sales of cardiovascular system products decreased to RMB284.7 million, as compared to RMB306.8 million for the six months ended 30 June 2016, representing a decrease of approximately RMB22.1 million, or 7.2%, primarily attributable to the decrease in sales volume of various cardiovascular system products of the Group and drop in the average selling price of some of the products.

For the six months ended 30 June 2017, revenue from sales of alimentary tract and metabolism products increased to RMB352.7 million, as compared to RMB250.9 million for the six months ended 30 June 2016, representing an increase of approximately RMB101.8 million, or 40.6%, 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 2017, revenue from sales of central nervous system products increased by RMB229.7 million, as compared to nil for the six months ended 30 June 2016, representing an increase of approximately RMB229.7 million, primarily attributable to newly acquired business in Europe in the last quarter of 2016.

For the six months ended 30 June 2017, revenue from sales of other products increased to RMB47.6 million, as compared to RMB42.9 million for the six months ended 30 June 2016, representing an increase of approximately RMB4.7 million, or 11.0%, 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 RMB230.1 million for the six months ended 30 June 2016 to approximately RMB424.4 million for the six months ended 30 June 2017, which accounted for approximately 22.9% of the Group's total revenue for the same period. The Group's increase in cost of sales was mainly due to one-off amortisation of inventory, expenses incurred for the acquisition of new business in Europe and increase in sales volumes for the six months ended 30 June 2017, as compared to the same period in 2016.

Gross Profit

For the six months ended 30 June 2017, the Group's gross profit increased to RMB1,426.4 million, as compared to RMB1,259.0 million for the six months ended 30 June 2016, representing an increase of approximately RMB167.4 million, or 13.3%. The increase in the Group's gross profit was broadly in line with its revenue growth and contribution from our newly acquired business in Europe. The Group's gross profit margin decreased to 77.1% for the six months ended 30 June 2017 from 84.5% for the corresponding period of 2016. The lower margin mainly attributes to one-off amortisation of inventory cost derived from the acquisition of new business in Europe and higher revenue contribution from our 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 2017, the Group's other income and gains increased to RMB92.6 million, as compared to RMB78.9 million for the six months ended 30 June 2016, representing an increase of approximately RMB13.7 million. The increase is mainly attributable to higher government grant recognised and higher investment income earned during the period. The increase is offset by lower bank interest income during the six months ended 30 June 2017, as compared to the corresponding period of 2016.

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 2017, the Group's selling and distribution expenses amounted to RMB657.9 million, as compared to RMB608.0 million for the six months ended 30 June 2016, representing an increase of RMB49.9 million, or 8.2%. The increase was mainly attributable to increased promotional activities for the Group's products and a slight increase in staff cost. On the other hand, as a percentage of revenue the Group's selling and

distribution expenses decreased from 40.8% for the six months ended 30 June 2016 to 35.5% for the six months ended 30 June 2017, primarily as a result of the lower selling and distribution expense margin to revenue for our newly acquired business in Europe at the end of last year.

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 2017, the Group's administrative expenses amounted to approximately RMB220.5 million, as compared to RMB119.9 million for the six months ended 30 June 2016, representing an increase of approximately RMB100.6 million, or 83.9%. The increase mainly due to higher staff cost, general operating cost and one-off consulting expenses incurred during the six months ended 30 June 2017 from our newly 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 2017, the Group's other expenses amounted to approximately RMB157.4 million, as compared to RMB107.3 million for the six months ended 30 June 2016, representing an increase of approximately RMB50.1 million, or 46.7%. The increase was mainly due to increase in R&D costs during the period.

Finance Costs

For the six months ended 30 June 2017, the Group's finance costs amounted to RMB22.4 million, as compared to RMB13.3 million for the six months ended 30 June 2016, representing an increase of approximately RMB9.1 million, or 68.4%. The increase was mainly due to the higher level of monthly average outstanding bank borrowings during the six months ended 30 June 2017 as compared to the corresponding period of 2016.

Income Tax Expense

For the six months ended 30 June 2017, the Group's income tax expense amounted to RMB73.3 million, as compared to RMB67.8 million for the six months ended 30 June 2016, representing an increase of RMB5.5 million, or 8.1%. The effective tax rate for the six months ended 30 June 2017 is 15.9% and the corresponding period of 2016 was 13.8%, the higher effective tax rate mainly due to higher tax contribution in our newly acquired Europe business.

Net Profit

The Group's net profit for the six months ended 30 June 2017 was approximately RMB387.9 million, as compared to RMB423.1 million for the six months ended 30 June 2016, representing an decrease of approximately RMB35.2 million, or 8.3%.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Net Current Assets

As at 30 June 2017, the Group had net current assets of approximately RMB2,678.3 million, as compared to approximately RMB2,907.7 million as at 31 December 2016. The current ratio of the Group decreased slightly to approximately 1.7 as at 30 June 2017 from approximately 2.2 as at 31 December 2016. 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 2017, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB3,185.9 million, as compared to approximately RMB1,624.1 million as at 31 December 2016. Amongst the loans and borrowings, approximately RMB3,185.6 million are repayable within one year, and approximately RMB0.3 million are repayable after one year. The increase in loans and borrowings is mainly for the working capital of the Group. The bank loans were secured by the Group's time deposits, available-for-sale investments and notes receivable.

Gearing Ratio

As at 30 June 2017, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, increased to 48.5% from 24.8% as at 31 December 2016. The increase was primarily due to an increase in the Group's total borrowings resulting from additional loans taken during the period.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the Company's IPO (after deducting the underwriting fees and related expenses) amounted to HK\$3,845 million, which was applied in the manner consistent with that set out in the Company's prospectus dated 26 June 2014.

As at 28 August 2017, the Group had fully utilised net proceeds received by the Company from the IPO. Set out below is a summary of the utilisation of the net proceeds:

Use of proceeds (HK\$'MM)	Expected amount	%	Utilised amount as at 28 August 2017	%
To expand the Group's portfolio of pharmaceuticals products	769.0	20.0	769.0	20.0
For R&D	769.0	20.0	769.0	20.0
For selective acquisition of domestic or international companies	769.0	20.0	769.0	20.0
To fund capital expenditure projects to increase production capabilities	769.0	20.0	769.0	20.0
To expand sales and marketing networks	192.2	5.0	192.2	5.0
To partially repay borrowings under U.S. Dollar secured loan	192.2	5.0	192.2	5.0
For working capital and general corporate purposes	384.6	10.0	384.6	10.0

SIGNIFICANT INVESTMENTS HELD

During the six months ended 30 June 2017, 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 INTERIM PERIOD

Save as the Acquisition disclosed above, the Group did not have any significant subsequent events after the interim period ended 30 June 2017.

INTERIM DIVIDEND

The Board declared the payment of an interim dividend of RMB0.029 (equivalent to HK\$0.033) per share for the six months ended 30 June 2017 (the six months ended 30 June 2016: RMB0.032 (equivalent to HK\$0.037)), totaling approximately RMB96,344,000, to the shareholders of the Company whose names appear on the Company's register of shareholders on 11 October 2017. The interim dividend is expected to be paid on or around 8 November 2017.

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 9 October 2017 to 11 October 2017, 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 6 October 2017.

CORPORATE GOVERNANCE PRACTICES

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

During the six month ended 30 June 2017, 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 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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 2017.

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 2017 and recommended the same to the Board for adoption.

In addition, the independent auditor of the Company, Ernst & Young, has reviewed the unaudited interim results for the six months ended 30 June 2017 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 2017 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) and the Company (<http://www.luye.cn>), and the 2017 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, 28 August 2017

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.